

recoup for certain of its connectivity costs, while continuing to offer competitive rates to NOM Participants.

With respect to the OTTO Port and SQF Port Fees, the increase in the port fees from \$600 to \$750 is greater. These ports are utilized by NOM Market Makers in connection with marking markets. NOM Market Makers utilize the OTTO and SQF ports, which ports require a greater throughput as compared to the other ports mentioned herein. The Exchange expends greater resources to provide the OTTO and SQF ports, which is the reason for the increased fee as compared to other ports. The increased Port Fees reflect the increased costs that the Exchange bears with respect to maintaining ports. The Exchange does not believe these fee increases create an undue burden on competition. Moreover, the Exchange believes that its fee increases are competitive with similar fees at other options exchanges.<sup>17</sup>

*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**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>18</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is 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 to determine whether the proposed rule should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2015-027 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-NASDAQ-2015-027. 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 a.m. and 3 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-NASDAQ-2015-027 and should be submitted on or before April 27, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Brent J. Fields,**

*Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-74618; File No. SR-Phlx-2015-29]

**Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Proposed Rule Change To Amend and Restate Certain Rules That Govern the NASDAQ OMX PSX**

March 31, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 20, 2015, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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**

PHLX proposes to amend and restate certain rules that govern NASDAQ OMX PSX ("PSX") in order to provide a clearer and more detailed description of certain aspects of its functionality. The text of the proposed rule change is available at [nasdaq.cchwallstreet.com](http://nasdaq.cchwallstreet.com), at the Exchange's principal office, 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, Phlx 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. Phlx has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

**1. Purpose**

The Exchange proposes to amend and restate certain Exchange rules that govern PSX in order to provide a clearer and more detailed description of certain

<sup>17</sup> See note 15.

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>19</sup> 17 CFR 200.30-3(a)(12).

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

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

aspects of its functionality. The proposed rule change is responsive to the request of Commission Chair White that each self-regulatory organization (“SRO”) conduct a comprehensive review of each order type offered to members, and how it operates in practice.<sup>3</sup> The Exchange believes that its current rules and other public disclosures provide a comprehensive description of the operation of PSX, so that members and the investing public have an accurate understanding of its market structure. Nevertheless, the Exchange has concluded that a restatement of certain rules will further enhance their clarity. In particular, the Exchange believes that providing additional examples of order type operation in the rule text will promote greater understanding of the Exchange’s market structure. In addition, the Exchange notes that certain functionality added to its market in past years has been described as an “order type” but would be more precisely described as an attribute that may be added to a particular order. Accordingly, the restated rules will distinguish between “Order Types” and “Order Attributes,” while providing a full description of the Order Attributes that may be attached to particular Order Types. Except where specifically stated otherwise, all proposed rules are restatements of existing rules and therefore do not reflect substantive changes in the rule text or in the operation of PSX.

#### General Framework for Rule Restatement

At present, most of the rules governing Order Types and Order Attributes are found in Rule 3301 (Definitions). The Exchange is proposing to thoroughly amend Rule 3301. The Exchange is also proposing to remove definitions pertaining to Order Types and Order Attributes and adopt them as separate new Rules 3301A (Order Types) and 3302B (Order Attributes). While the Exchange is also proposing certain conforming changes to other rules, in subsequent proposed rule changes the Exchange plans to restate the remainder of the rules numbered 3302 through 3316 so that they appear sequentially following Rule 3301B.

#### Definitions

Amended Rule 3301 will adopt revised definitions applicable to the

<sup>3</sup> See Mary Jo White, Chair, Commission, Speech at the Sandler O’Neill & Partners, L.P. Global Exchange and Brokerage Conference (June 5, 2014), available at <http://www.sec.gov/News/Speech/Detail/Speech/1370542004312>.

Rule 3200 and 3300 Series of the Exchange rules:<sup>4</sup>

- The terms “Best Bid”, “Best Offer”, “National Best Bid and National Best Offer”, “Protected Bid”, “Protected Offer”, “Protected Quotation”, and “Intermarket Sweep Order” shall have the meanings assigned to them under Rule 600 under SEC Regulation NMS;<sup>5,6</sup> [sic] provided, however, that the terms “Best Bid”, “Best Offer”, “Protected Bid”, “Protected Offer”, and “Protected Quotation” shall, unless otherwise stated, refer to the bid, offer, or quotation of a market center other than PSX. The term “NBBO” shall mean the “National Best Bid and National Best Offer”.

- The term “PSX,” or “System”, which defines the components of the securities execution and trade reporting system owned and operated by the Exchange, is being modified to state that the System includes a montage for “Quotes” and “Orders”, referred to as the “PSX Book”, that collects and ranks all Quotes and Orders submitted by “Participants”.<sup>7</sup> The definition is further being modified to make it clear that data feeds made available with respect to the System disseminate depth-of-book data regarding Quotes and “Displayed” Orders<sup>8</sup> and also such additional information about Quotes, Orders, and transactions within the System as shall be reflected in the Exchange Rules.

- The term “Quote” is being modified to make it clear that a Quote is an Order with Attribution (as defined in Rule 3301B) entered by a Market Maker or Equities ECN for display (price and size) next to the Participant’s MPID in the PSX Book. Accordingly, all Quotes are also Orders.

- The definition of the term “Order” is being amended to mean an instruction to trade a specified number of shares in a specified System

<sup>4</sup> Other definitions in current Rule 3301 are being superseded by descriptions of Order Types and Order Attributes in Rules 3301A and 3301B, or are being eliminated because they are no longer used. In addition, Rule 3305 (Order Entry Parameters) is being deleted because the material contained therein is superseded by proposed Rules 3301A and 3301B.

<sup>5</sup> 17 CFR 242.600.

<sup>6</sup> 17 CFR 242.600.

<sup>7</sup> The modified definitions of “Quotes” and “Orders” are described below. The term “Participant”, which is being amended only to add a clarifying reference to Regulation NMS and to Market Makers, means an entity that fulfills the obligations contained in Rule 3211 regarding participation in the System, and includes Equities ECNs, Market Makers, and Order Entry Firms.

<sup>8</sup> As provided in proposed Rule 3301B, a Displayed Order is an Order with a Display Order Attribute that allows its price and size to be disseminated to Participants.

Security<sup>9</sup> submitted to the System by a Participant. An “Order Type” is a standardized set of instructions associated with an Order that define how it will behave with respect to pricing, execution, and/or posting to the PSX Book when submitted to the Exchange. An “Order Attribute” is a further set of variable instructions that may be associated with an Order to further define how it will behave with respect to pricing, execution, and/or posting to the PSX Book when submitted to the Exchange. The available Order Types and Order Attributes, and the Order Attributes that may be associated with particular Order Types, are described in Rules 3301A and 3301B.

- The term “ET” means Eastern Standard Time or Eastern Daylight Time, as applicable.

- The term “Market Hours” is being defined to mean the period of time beginning at 9:30 a.m. ET and ending at 4 p.m. ET (or such earlier time as may be designated by the Exchange on a day when PSX closes early). The term “System Hours” means the period of time beginning at 8 a.m. ET and ending at 5 p.m. ET (or such earlier time as may be designated by the Exchange on a day when PSX closes early). The term “Pre-Market Hours” means the period of time beginning at 8 a.m. ET and ending immediately prior to the commencement of Market Hours. The term “Post-Market Hours” means the period of time beginning immediately after the end of Market Hours and ending at 5 p.m. ET.<sup>10</sup>

- The term “marketable” with respect to an Order to buy (sell) means that, at the time it is entered into the System, the Order is priced at the current Best Offer or higher (at the current Best Bid or lower).

- The term “market participant identifier” or “MPID” means a unique four-letter mnemonic assigned to each Participant in the System. A Participant may have one or more than one MPID.

- The term “minimum price increment” means \$0.01 in the case of a System Security priced at \$1 or more per share, and \$0.0001 in the case of a System Security priced at less than \$1 per share.

- The definition of the term “System Book Feed”, which means a data feed

<sup>9</sup> The definition of a “System Security,” which is not being modified, includes “any NMS stock, as defined in SEC Rule 600 except securities specifically excluded from trading via a list of excluded securities posted on [www.nasdaqtrader.com](http://www.nasdaqtrader.com).”

<sup>10</sup> The proposed definition further notes that in certain contexts, times cited in the Exchange Rules may be approximate.

for System Securities, is being amended to clarify that it is the data feed generally known as the PSX TotalView ITCH feed.

#### Order Types

Proposed Rule 3301A provides that Participants may express their trading interest in PSX by entering Orders. PSX offers a range of Order Types that behave in the manner specified for each particular Order Type. Each Order Type may be assigned certain Order Attributes that further define its behavior. All Order Types and Order Attributes operate in a manner that is reasonably designed to comply with the requirements of Rules 610 and 611 under Regulation NMS. Specifically, Orders are reasonably designed to prevent trade-throughs of Protected Quotations to the extent required by Rule 611 under Regulation NMS, and to prevent the display of quotations that lock or cross Protected Quotations to the extent required by Rule 610 under Regulation NMS.<sup>11</sup> Each Order must designate whether it is to effect a buy, a long sale, a short sale, or an exempt short sale.

Proposed Rule 3301A further provides that the Exchange maintains several communications protocols for Participants to use in entering Orders and sending other messages to the System:

- OUCH is an Exchange proprietary protocol.
  - RASH is an Exchange proprietary protocol.
  - FLITE is an Exchange proprietary protocol.
  - FIX is a non-proprietary protocol.
- Except where otherwise stated, all protocols are available for all Order Types and Order Attributes.

Upon entry, an Order is processed to determine whether it may execute against any contra-side Orders on the PSX Book in accordance with the parameters applicable to the Order Type and Order Attributes selected by the Participant and in accordance with the priority for Orders on the PSX Book as provided in Rule 3307. Thus, for

<sup>11</sup> It should be noted that Rule 3213(e), the Exchange's rule with respect to locked and crossed markets, as adopted pursuant to Rule 610(d) under Regulation NMS and approved by the Commission, applies only during Market Hours (approved in Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633 (September 16, 2010) (SR-Phlx-2010-79)). Note also that Rule 600 under Regulation NMS defines a "trade-through" as "the purchase or sale of an NMS stock during regular trading hours, either as principal or agent, at a price that is lower than a protected bid or higher than a protected offer." "Regular trading hours" are defined, in pertinent part, as "the time between 9:30 a.m. and 4 p.m. Eastern Time." 17 CFR 242.600.

example, a "Price to Comply Order" would be evaluated for potential execution in accordance with different criteria than a "Post-Only Order."<sup>12</sup> In addition, the Order may have its price adjusted in accordance with applicable parameters and may be routed to other market centers for potential execution if designated as "Routable."<sup>13</sup> The Order may then be posted to the PSX Book if consistent with the parameters of the Order Type and Order Attributes selected by the Participant. For example, an Order with a "Time-in-Force" of "Immediate or Cancel" would not be posted.<sup>14</sup>

Thereafter, as detailed in proposed Rules 3301A and 3301B, and current Rule 3315 (Order Routing), there are numerous circumstances in which the Order on the PSX Book may be modified and receive a new timestamp. The sole instances in which the modification of an Order on the PSX Book will not result in a new timestamp are: (i) A decrease in the size of the Order due to execution or modification by the Participant or by the System, and (ii) a redesignation of a sell Order as a long sale, a short sale, or an exempt short sale.<sup>15</sup> Whenever an Order receives a new timestamp for any reason, it is processed by the System as a new Order with respect to potential execution against Orders on the PSX Book, price adjustment, routing, reposting to the PSX Book, and subsequent execution against incoming Orders, except where otherwise stated. Thus, for example, if an Order with a "Pegging" Order Attribute had its price changed due to a change in the NBBO,<sup>16</sup> it would be processed by the System as a new Order with respect to potential execution,

<sup>12</sup> These Order Types are described below and in proposed Rule 3301A.

<sup>13</sup> The Routing Order Attribute is described below, in proposed Rule 3301B, and in current Rule 3315.

<sup>14</sup> Available Times-in-Force are described below and in proposed Rule 3301B.

<sup>15</sup> Accordingly, there are no circumstances in which an Order that was previously entered but not displayed on the PSX Book would be displayed without also receiving a new timestamp, and thus no possibility for a Participant to "jump the queue" with respect to other Orders.

The Exchange is amending Rule 3306 to make it clear that the redesignation of a sell Order as a long sale, short sale, or exempt short sale can be done only with respect to Orders entered through OUCH or FLITE; Orders entered through RASH or FIX would have to be cancelled and reentered to change their designation. Similarly, Rule 3306 is being amended to clarify that modification of an Order by the Participant to decrease its size is not possible with respect to a Pegged Order (including a Discretionary Order that is Pegged). Such an Order would have to be cancelled and reentered by the Participant to reduce its size.

<sup>16</sup> The Pegging Order Attribute adjusts the price of the Order based on changes in the NBBO and is described below and in proposed Rule 3301B.

price adjustment, routing, reposting to the PSX Book, and subsequent execution against incoming Orders. An exception to the general rule is noted in Rule 3301B(h) with respect to Orders with "Reserve Size"<sup>17</sup> that have a Routing Order Attribute; such Orders are not routed if reentered due to a replenishment of the Order's Displayed Size.

In addition, the proposed rule notes that all Orders are also subject to cancellation and/or repricing and reentry onto the PSX Book in the circumstances described in Rule 3100(a)(5) (providing for compliance with Plan to Address Extraordinary Market Volatility) and Rule 3303 (providing for compliance with Regulation SHO). In all circumstances where an Order is repriced pursuant to those provisions, it is processed by the System as a new Order with respect to potential execution against Orders on the PSX Book, price adjustment, routing, reposting to the PSX Book, and subsequent execution against incoming Orders. If multiple Orders at a given price are repriced, the Order in which they are reentered is random, based on the respective processing time for each such Order;<sup>18</sup> provided, however, that in the case of Price to Comply Orders and Post-Only Orders that have their prices adjusted upon entry because they lock a Protected Quotation but that are subsequently displayed at their original entered limit price as provided in Rules 4702(b)(1)(B) and (4)(B),<sup>19</sup> they are processed in accordance with the time priority under which they were previously ranked on the PSX Book. If an Order is repriced and/or reentered 10,000 times for any reason, the Order will be cancelled. This restriction is designed to conserve System resources by limiting the persistence of Orders that update repeatedly without any reasonable prospect of execution.

Proposed Rule 3301A further describes the behavior of each Order Type. Except where otherwise stated, each Order Type is available to all Participants, although certain Order Types and Order Attributes may require the use of a specific protocol. As a result, a Participant would be required to use that protocol in order to use Order Types and Order Attributes

<sup>17</sup> The Reserve Size Order Attribute is described below and in Rule 3301B.

<sup>18</sup> This is the case because when Orders are repriced, multiple instructions to reprice are sent simultaneously through multiple System gateways in order to modify the Orders as quickly as possible and thereby minimize the possibility that they will be disadvantaged vis-à-vis newly entered Orders.

<sup>19</sup> Governing handling of Price to Comply and Post-Only Orders when formerly unavailable price levels become available.

available through it. Moreover, a small number of Order Types and Order Attributes are available only to registered Market Makers in the security for which they are registered.

#### Price to Comply Order

The Price to Comply Order is an Order Type designed to comply with Rule 610(d) under Regulation NMS by having its price and display characteristics adjusted to avoid the display of quotations that lock or cross any Protected Quotation in a System Security during Market Hours. The Price to Comply Order is also designed to provide potential price improvement. PSX does not have a "plain vanilla" limit order that attempts to execute at its limit price and is then posted at its price or rejected if it cannot be posted; rather, the Price to Comply Order, with its price and display adjustment features, is one of the primary Order Types used by Participants to access and display liquidity in the System. The price and display adjustment features of the Order Type enhance efficiency and investor protection by offering an Order Type that first attempts to access available liquidity and then to post the remainder of the Order at prices that are designed to maximize their opportunities for execution.

When a Price to Comply Order is entered, the Price to Comply Order will be executed against previously posted Orders on the PSX Book that are priced equal to or better than the price of the Price to Comply Order, up to the full amount of such previously posted Orders, unless such executions would trade through a Protected Quotation. Any portion of the Order that cannot be executed in this manner will be posted on the PSX Book (and/or routed if it has been designated as Routable).<sup>20</sup>

During Market Hours, the price at which a Price to Comply Order is posted is determined in the following manner. If the entered limit price of the Price to Comply Order would lock or cross a Protected Quotation and the Price to Comply Order could not execute against an Order on the PSX 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 PSX Book at a price one minimum price increment lower than the 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 PSX Book with a non-displayed price equal to the current Best Offer (for a Price to Comply Order to buy) or to the current Best Bid

(for a Price to Comply Order to sell). The posted Order will then be available for execution at its non-displayed price, thus providing opportunities for price improvement to incoming Orders.

For example, if a Price to Comply Order to buy at \$11 would lock a Protected Offer of \$11, the Price to Comply Order will be ranked at a non-displayed price of \$11 but will be displayed at \$10.99. An incoming Order to sell at a price of \$11 or lower would execute against the Price to Comply Order at \$11.<sup>21</sup>

During Pre-Market Hours and Post-Market Hours, a Price to Comply Order will be ranked and displayed at its entered limit price without adjustment. This is the case because PSX's rule with respect to locked and crossed markets, as adopted pursuant to Rule 610(d) under Regulation NMS and approved by the Commission, applies only during Market Hours.<sup>22</sup>

Depending on the protocol used to enter a Price to Comply Order, Participants have different options with respect to adjustment of the Price to Comply Order following its initial entry and posting to the PSX Book. Specifically, if a Price to Comply Order is entered through RASH or FIX, during Market Hours the price of the Price to Comply Order will be adjusted in the following manner after initial entry and posting to the PSX Book (unless the Order is assigned a Routing Order Attribute that would cause it to be routed to another market center rather than remaining on the PSX Book):

- If the entered limit price of the Price to Comply Order locked or crossed a Protected Quotation and the NBBO changes, the displayed and non-displayed price of the Price to Comply Order will be adjusted repeatedly in accordance with changes to the NBBO; provided, however, that if the quotation of another market center moves in a manner that would lock or cross the displayed price of a Price to Comply Order, the prices of the Price to Comply Order will not be adjusted. For example, if a Price to Comply Order to buy at \$11.02 would cross a Protected Offer of \$11, the Order will be ranked at a non-displayed price of \$11 but will be displayed at \$10.99. If the Best Offer then moves to \$11.01, the displayed price will be changed to \$11 and the Order will be ranked at a non-displayed price of \$11.01. However, if another

<sup>21</sup> Unless the incoming Order was an Order Type that was not immediately executable, in which case the incoming Order would behave in the manner specified for that Order Type. For example, as discussed below, a Post-Only Order to sell priced at \$11 would be repriced and posted at \$11.01.

<sup>22</sup> See *supra* n. 10.

market center then displays an offer of \$11 (thereby locking the previously displayed price of the Price to Comply Order, notwithstanding Rule 610(d) under Regulation NMS), the price of the Price to Comply Order will not be changed.<sup>23</sup> The Order may be repriced repeatedly until such time as the Price to Comply Order is able to be ranked and displayed at its original entered limit price (\$11.02 in the example). The Price to Comply Order receives a new timestamp each time its price is changed.

- If the original entered limit price of the Price to Comply Order would no longer lock or cross a Protected Quotation, the Price to Comply Order will be ranked and displayed at that price and will receive a new timestamp, and will not thereafter be adjusted under this provision.<sup>24</sup>

If a Price to Comply Order is entered through OUCH or FLITE, during Market Hours the price of the Price to Comply Order may be adjusted in the following manner after initial entry and posting to the PSX Book:

- If the entered limit price of the Price to Comply Order crossed a Protected Quotation and the NBBO changes so that the Price to Comply Order could be displayed at a price at or closer to its entered limit price without locking or crossing a Protected Quotation, the Price to Comply Order may either remain on the PSX Book unchanged or may be cancelled back to the Participant, depending on its choice. For example, if a Price to Comply Order to buy at \$11.02 would cross a Protected Offer of \$11, the Order will be ranked at a non-displayed price of \$11 but will be displayed at \$10.99. If the Best Offer changes to \$11.01, the Order will not be repriced, but rather will either remain with a displayed price of \$10.99 but ranked at a non-displayed price of \$11 or be cancelled back to the Participant, depending on its choice. A Participant's choice with regard to maintaining the Price to Comply Order or cancelling it is set in advance for each port through which the Participant enters Orders.

- If the entered limit price of the Price to Comply Order locked a Protected Quotation, the price of the Price to Comply Order will be adjusted after initial entry only as follows. If the

<sup>23</sup> This means that, in general, the price of the Price to Comply Order will move toward, but not away from, its original entered limit price. Because a Price to Comply Order is removed from the PSX Book while it is being repriced, however, it is possible that the Order's price will move away from its original entered limit price in the case of a "race condition" where the NBBO changes again while the Order is not on the PSX Book.

<sup>24</sup> Thus, the price of the Order will not move beyond its limit price.

<sup>20</sup> See Rules 3301B(f) and 3315.

entered limit price would no longer lock a Protected Quotation, the Price to Comply Order may either remain on the PSX Book unchanged, may be cancelled back to the Participant, or may be ranked and displayed at its original entered limit price, depending on the Participant's choice. For example, if a Price to Comply Order to buy at \$11 would lock a Protected Offer of \$11, the Price to Comply Order will be ranked at a non-displayed price of \$11 but will be displayed at \$10.99. If the Best Offer changes to \$11.01, the Price to Comply Order may either remain with a displayed price of \$10.99 but ranked at a non-displayed price of \$11, be cancelled back to the Participant, or be ranked and displayed at \$11, depending on the Participant's choice. A Participant's choice with regard to maintaining the Price to Comply Order, cancelling it, or allowing it to be displayed is set in advance for each port through which the Participant enters Orders. If the Price to Comply Order is ranked and displayed at its original entered limit price, it will receive a new timestamp and will not thereafter be adjusted under this provision.<sup>25</sup>

With regard to the foregoing options, it is important to emphasize that the Price to Comply Order receives a new timestamp whenever its price is changed, and also receives a new timestamp if the Price to Comply Order would no longer lock a Protected Quotation and is therefore displayed at its original entered limit price. Thus, there are no circumstances under which a Price to Comply Order that originally locked or crossed a Protected Quotation would "jump the queue" and be displayed at its original entered limit price while retaining its original time priority. In fact, as discussed throughout this filing, PSX does not offer any functionality that enables a Participant to "jump the queue" by displaying a previously entered non-displayed Orders without also receiving a new timestamp.<sup>26</sup>

The following Order Attributes may be assigned to a Price to Comply Order. The effect of each Order Attribute is discussed in detail below with respect to proposed new Rule 3301B.

- **Price.** As described above, the price of the Order may be adjusted to avoid locking or crossing a Protected Quotation, and may include a displayed price as well as a non-displayed price.
- **Size.**

<sup>25</sup> Thus, the price of the Order will not move beyond its limit price.

<sup>26</sup> As a result, it is possible that a new Order that is entered while previously booked Orders are being repriced may be placed on the PSX Book ahead of them.

- **Reserve Size** (available through RASH and FIX only).

- **A Time-in-Force other than "Immediate or Cancel" ("IOC").**<sup>27</sup>
- **Designation as an "ISO".** In accordance with Regulation NMS, a Price to Comply Order designated as an ISO would be processed at its entered limit price, since such a designation reflects a representation by the Participant that it has simultaneously routed one or more additional limit orders, as necessary, to execute against the full displayed size of any Protected Quotations that the Price to Comply Order would lock or cross.

- **Routing** (available through RASH and FIX only).
- **"Primary Pegging" and "Market Pegging"** (available through RASH and FIX only).

- **"Discretion"** (available through RASH and FIX only).<sup>28</sup>

- **Display.** A Price to Comply Order is always displayed, although, as provided above, it may also have a non-displayed price and/or Reserve Size.

#### Price to Display Order

A "Price to Display Order" is an Order Type designed to comply with Rule 610(d) under Regulation NMS by avoiding the display of quotations that lock or cross any Protected Quotation in a System Security during Market Hours. Price to Display Orders are available solely to Participants that are Market Makers for System Securities and are always attributable.<sup>29</sup> Like a Price to Comply Order, a Price to Display Order is another form of priced Order that first accesses available liquidity and then posts remaining shares, with price adjustment features similar to those of the Price to Comply Order that provide a means to post displayed Orders at prices that are designed to maximize their opportunities for execution.

When a Price to Display Order is entered, if its entered limit price would lock or cross a Protected Quotation, the Price to Display Order will be repriced

<sup>27</sup> As discussed below, IOC is a Time-in-Force under which an Order is evaluated to determine if it is marketable, with unexecuted shares cancelled. A Price to Comply Order entered with a Time-in-Force of IOC would be accepted but would be processed as a Non-Displayed Order with a Time-in-Force of IOC.

<sup>28</sup> Primary Pegging, Market Pegging, and Discretion are discussed below and in proposed Rule 3301B.

<sup>29</sup> As described below and in proposed Rule 3301B, Attribution is an Order Attribute that allows for display of the price and size of an Order next to a Market Maker's MPID. In the current rule, the Price to Display Order is referred to as the "Price to Comply Post Order." The fact that this Order Type is attributable and available only to registered Market Makers reflects a substantive clarification to the language of the existing rule.

to one minimum price increment lower than the current Best Offer (for a Price to Display Order to buy) or higher than the current Best Bid (for a Price to Display Order to sell). For example, if a Price to Display Order to buy at \$11 would cross a Protected Offer of \$10.99, the Price to Display Order will be repriced to \$10.98. The Price to Display Order (whether repriced or not repriced) will then be executed against previously posted Orders on the PSX Book that are priced equal to or better than the adjusted price of the Price to Display Order, up to the full amount of such previously posted Orders, unless such executions would trade through a Protected Quotation. Any portion of the Order that cannot be executed in this manner will be posted on the PSX Book (and/or routed if it has been designated as Routable).<sup>30</sup>

During Market Hours, the price at which a Price to Display Order is displayed and ranked on the PSX Book will be its entered limit price if the Price to Display Order was not repriced upon entry, or the adjusted price if the Price to Comply Order was repriced upon entry, such that the price will not lock or cross a Protected Quotation. During Pre-Market Hours and Post-Market Hours, a Price to Display Order will be displayed and ranked at its entered limit price without adjustment.

As is the case with a Price to Comply Order, a Price to Display Order may be adjusted after initial entry.<sup>31</sup> Specifically, if a Price to Display Order is entered through RASH or FIX, during Market Hours the Price to Display Order may be adjusted in the following manner after initial entry and posting to the PSX Book (unless the Order is assigned a Routing Order Attribute that would cause it to be routed to another market center rather than remaining on the PSX Book):

- If the entered limit price of the Price to Display Order locked or crossed a Protected Quotation and the NBBO changes, the price of the Order will be adjusted repeatedly in accordance with changes to the NBBO; provided, however, that if the quotation of another market center moves in a manner that would lock or cross the price of a Price to Display Order, the price of the Price to Display Order will not be adjusted.<sup>32</sup>

<sup>30</sup> See Rules 3301B(f) and 3315.

<sup>31</sup> These adjustments reflect a substantive clarification to the language of the existing rule.

<sup>32</sup> This means that, in general, the price of the Price to Display Order will move toward, but not away from, its original entered limit price. Because a Price to Display Order is removed from the PSX Book while it is being repriced, however, it is possible that the Order's price will move away from its original entered limit price in the case of a "race

For example, if a Price to Display Order to buy at \$11.02 would cross a Protected Offer of \$11, the Order will be displayed and ranked at \$10.99. If the Best Offer then moves to \$11.01, the displayed/ranked price will be changed to \$11. However, if another market center then displays an offer of \$11 (thereby locking the previously displayed price of the Price to Display Order, notwithstanding Rule 610(d) under Regulation NMS), the price of the Price to Display Order will not be changed. The Order may be repriced repeatedly until such time as the Price to Display Order is able to be displayed and ranked at its original entered limit price (\$11.02 in the example). The Price to Display Order receives a new timestamp each time its price is changed.

- If the original entered limit price of the Price to Display Order would no longer lock or cross a Protected Quotation, the Price to Display Order will be displayed and ranked at that price and will receive a new timestamp, and will not thereafter be adjusted under this provision.<sup>33</sup>

If a Price to Display Order is entered through OUCH or FLITE, during Market Hours the Price to Display Order may be adjusted in the following manner after initial entry and posting to the PSX Book:

- If the entered limit price of the Price to Display Order locked or crossed a Protected Quotation and the NBBO changes so that the Price to Display Order could be ranked and displayed at a price at or closer to its original entered limit price without locking or crossing a Protected Quotation, the Price to Display Order may either remain on the PSX Book unchanged or may be cancelled back to the Participant, depending on the Participant's choice. For example, if a Price to Display Order to buy at \$11.02 would cross a Protected Offer of \$11, the Order will be ranked and displayed at \$10.99. If the Best Offer changes to \$11.01, the Price to Display Order will not be repriced, but rather will either remain at its current price or be cancelled back to the Participant, depending on its choice. A Participant's choice with regard to maintaining the Price to Display Order or cancelling it is set in advance for each port through which the Participant enters Orders.

The following Order Attributes may be assigned to a Price to Display Order:

- Price. As described above, the price of the Order may be adjusted to avoid

condition" where the NBBO changes again while the Order is not on the PSX Book.

<sup>33</sup> Thus, the price of the Order will not move beyond its limit price.

locking or crossing a Protected Quotation.

- Size.
- Reserve Size (available through RASH and FIX only).
- A Time-in-Force other than IOC.<sup>34</sup>
- Designation as an ISO. In accordance with Regulation NMS, a Price to Display Order designated as an ISO would be processed at its entered limit price, since such a designation reflects a representation by the Participant that it has simultaneously routed one or more additional limit orders, as necessary, to execute against the full displayed size of any Protected Quotations that the Price to Display Order would lock or cross.
- Routing (available through RASH and FIX only).<sup>35</sup>
- Primary Pegging and Market Pegging (available through RASH and FIX only).
- Discretion (available through RASH and FIX only).
- Attribution. All Price to Display Orders are Attributable Orders.
- Display. A Price to Display Order is always displayed (but may also have Reserve Size).

#### Non-Displayed Order

A "Non-Displayed Order" is an Order Type that is not displayed to other Participants, but nevertheless remains available for potential execution against incoming Orders until executed in full or cancelled. Thus, the Order Type provides a means by which Participants may access and/or offer liquidity without signaling to other Participants the extent of their trading interest. The Order may also serve to provide price improvement vis-à-vis the NBBO. Under Regulation NMS, a Non-Displayed Order may lock a Protected Quotation and may be traded-through by other market centers.<sup>36</sup> In addition to the Non-

<sup>34</sup> A Price to Display Order entered with a Time-in-Force of IOC would be processed as a Non-Displayed Order with a Time-in-Force of IOC.

<sup>35</sup> The availability of routing for Price to Display Orders reflects a substantive clarification to the language of the existing rule.

<sup>36</sup> Rule 611 requires exchanges to adopt rules that "require . . . members reasonably to avoid . . . [d]isplaying quotations that lock or cross any protected quotations" (emphasis added). Similarly, under Rule 600, a Non-Displayed Order is not a Protected Quotation because it is not displayed. Accordingly, the definition of trade-through does not apply to a transaction at a price that is worse than the price of a Non-Displayed Order. Thus, in opting to use a Non-Displayed Order, a Participant must balance the benefits of not disclosing its trading intentions against the loss of trade-through protection. However, because a Non-Displayed Order may not itself trade-through a Protected Quotation, as described below, the System protects against such trade-throughs by repricing and/or cancelling Non-Displayed Orders that cross or are crossed by a Protected Quotation.

Displayed Order Type, there are other Order Types that are not displayed on the PSX Book. Thus, "Non-Display" is both a specific Order Type and an Order Attribute of certain other Order Types.

When a Non-Displayed Order is entered, the Non-Displayed Order will be executed against previously posted Orders on the PSX Book that are priced equal to or better than the price of the Non-Displayed Order, up to the full amount of such previously posted Orders, unless such executions would trade through a Protected Quotation. Any portion of the Non-Displayed Order that cannot be executed in this manner will be posted to the PSX Book (unless the Non-Displayed Order has a Time-in-Force of IOC) and/or routed if it has been designated as Routable.<sup>37</sup>

During Market Hours, the price at which a Non-Displayed Order is posted is determined in the following manner. If the entered limit price of the Non-Displayed Order would lock a Protected Quotation, the Non-Displayed Order will be placed on the PSX Book at the locking price. If the Non-Displayed Order would cross a Protected Quotation, the Non-Displayed Order will be repriced to a price that would lock the Protected Quotation and will be placed on the PSX Book at that price.<sup>38</sup> For example, if a Non-Displayed Order to buy at \$11 would cross a Protected Offer of \$10.99, the Non-Displayed Order will be repriced and posted at \$10.99. A Non-Displayed Order to buy at \$10.99 would also be posted at \$10.99. During Pre-Market Hours and Post-Market Hours, a Non-Displayed Order will be posted at its entered limit price without adjustment.

As is the case with a Price to Comply Order, a Non-Displayed Order may be adjusted after initial entry.<sup>39</sup> Specifically, if a Non-Displayed Order is entered through RASH or FIX, during Market Hours the Non-Displayed Order may be adjusted in the following manner after initial entry and posting to the PSX Book (unless the Order is assigned a Routing Order Attribute that would cause it to be routed to another market center rather than remaining on the PSX Book):

- If the original entered limit price of a Non-Displayed Order is higher than the Best Offer (for an Order to buy) or lower than the Best Bid (for an Order to sell) and the NBBO moves toward the original entered limit price of the Non-Displayed Order, the price of the Non-

<sup>37</sup> See Rules 3301B(f) and 3315.

<sup>38</sup> Repricing the crossing Non-Displayed Order helps ensure that the Non-Displayed Order will not trade-through the Protected Quotation.

<sup>39</sup> These adjustments reflect a substantive clarification to the language of the existing rule.

Displayed Order will be adjusted repeatedly in accordance with changes to the NBBO. For example, if a Non-Displayed Order to buy at \$11.02 would cross a Protected Offer of \$11, the Non-Displayed Order will be priced and posted at \$11. If the Best Offer then changes to \$11.01, the price of the Non-Displayed Order will be changed to \$11.01. The Order may be repriced repeatedly in this manner, receiving a new timestamp each time its price is changed, until the Non-Displayed Order is posted at its original entered limit price.<sup>40</sup> The Non-Displayed Order will not thereafter be repriced under this provision, except as provided below with respect to crossing a Protected Quotation.

- If, after being posted to the PSX Book, the NBBO changes so that the Non-Displayed Order would cross a Protected Quotation, the Non-Displayed Order will be repriced at a price that would lock the new NBBO and receive a new timestamp.<sup>41</sup> For example, if a Non-Displayed Order to buy at \$11 would lock a Protected Offer of \$11, the Non-Displayed Order will be posted at \$11. If the Best Offer then changes to \$10.99, the Non-Displayed Order will be repriced at \$10.99, receiving a new timestamp. The Non-Displayed Order may be repriced and receive a new timestamp repeatedly.

If a Non-Displayed Order is entered through OUCH or FLITE, during Market Hours the Non-Displayed Order may be adjusted in the following manner after initial entry and posting to the PSX Book:

- If the original entered limit price of the Non-Displayed Order locked or crossed a Protected Quotation and the NBBO changes so that the Non-Displayed Order could be posted at a price at or closer to its original entered limit price without crossing a Protected Quotation, the Non-Displayed Order may either remain on the PSX Book unchanged or may be cancelled back to the Participant, depending on its choice. For example, if a Non-Displayed Order to buy at \$11.02 would cross a Protected Offer of \$11, the Order will be priced at \$11. If the Best Offer changes to \$11.01, the Order will not be repriced, but rather will either remain at its current \$11 price or be cancelled back to the Participant, depending on its choice. A Participant's choice with regard to maintaining the Non-Displayed Order or

cancelling it is set in advance for each port through which the Participant enters Orders.

- If, after a Non-Displayed Order is posted to the PSX Book, the NBBO changes so that the Non-Displayed Order would cross a Protected Quotation, the Non-Displayed Order will be cancelled back to the Participant. For example, if a Non-Displayed Order to buy at \$11 would lock a Protected Offer of \$11, the Non-Displayed Order will be posted at \$11. If the Best Offer then changes to \$10.99, the Non-Displayed Order will be cancelled back to the Participant.

- If a Non-Displayed Order entered through OUCH or FLITE is assigned a Midpoint Pegging Order Attribute,<sup>42</sup> and if, after being posted to the PSX Book, the NBBO changes so that the Non-Displayed Order is no longer at the Midpoint between the NBBO, the Non-Displayed Order will be cancelled back to the Participant. In addition, if a Non-Displayed Order entered through OUCH or FLITE is assigned a Midpoint Pegging Attribute and also has a limit price that is lower than the midpoint between the NBBO for an Order to buy (higher than the midpoint between the NBBO for an Order to sell), the Order will nevertheless be accepted at its limit price and will be cancelled if the midpoint between the NBBO moves lower than (higher than) the price of an Order to buy (sell).

The following Order Attributes may be assigned to a Non-Displayed Order:

- Price. As described above, the price of the Order may be adjusted to avoid crossing a Protected Quotation.
- Size.
- "Minimum Quantity".<sup>43</sup>
- Time-in-Force.
- Designation as an ISO. In

accordance with Regulation NMS, a Non-Displayed Order designated as an ISO would be processed at its entered limit price, since such a designation reflects a representation by the Participant that it has simultaneously routed one or more additional limit orders, as necessary, to execute against the full displayed size of any Protected Quotations that the Non-Displayed Order would cross. As discussed above, a Non-Displayed Order would be accepted at a price that locked a Protected Quotation, even if the Order

was not designated as an ISO, because the non-displayed nature of the Order allows it to lock a Protected Quotation under Regulation NMS. Accordingly, the System would not interpret receipt of a Non-Displayed Order marked ISO that locked a Protected Quotation as the basis for determining that the Protected Quotation had been executed for purposes of accepting additional Orders at that price level.<sup>44</sup>

- Routing (available through RASH and FIX only).
- Primary Pegging and Market Pegging (available through RASH and FIX only).
- Pegging to the Midpoint.<sup>45</sup>
- Discretion (available through RASH and FIX only).

#### Post-Only Orders

A "Post-Only Order" is an Order Type designed to have its price adjusted as needed to post to the PSX Book in compliance with Rule 610(d) under Regulation NMS by avoiding the display of quotations that lock or cross any Protected Quotation in a System Security during Market Hours, or to execute against locking or crossing quotations in circumstances where economically beneficial to the Participant entering the Post-Only Order. Post-Only Orders are always displayed, although as discussed below, they may also have a non-displayed price in circumstances similar to a Price to Comply Order. Post-Only Orders are thus designed to allow Participants to help control their trading costs, while also "provid[ing] displayed liquidity to the market and thereby contribut[ing] to public price discovery—an objective that is fully consistent with the Act."<sup>46</sup> In addition, under some circumstances, Post-Only Orders provide price improvement.

During Market Hours, a Post-Only Order is evaluated at the time of entry with respect to locking or crossing other Orders on the PSX Book, Protected

<sup>44</sup> For example, if a Non-Displayed Order to buy at \$11 would lock the price of a Protected Offer at \$11, the Non-Displayed Order could be posted at \$11 regardless of whether it was marked as an ISO. Accordingly, even if the Non-Displayed Order was marked as an ISO, the System would not accept a Displayed Order priced at \$11 unless (i) the Displayed Order was itself marked as an ISO, or (ii) market data received by the System demonstrated that the Protected Offer had been removed.

<sup>45</sup> Pegging to the Midpoint is described below and in proposed Rule 3301B. The full functionality of Midpoint Pegging is available through RASH and FIX, and more limited functionality is available through OUCH and FLITE.

<sup>46</sup> Securities Exchange Act Release No. 73333 (October 9, 2014), 79 FR 62223 (October 16, 2014) (SR-NYSE-2014-32 and SR-NYSEMKT-2014-56) (hereinafter "SR-NYSE-2014-32 Approval Order") (approving "Add Liquidity Only" modifier that operates in a manner similar to Post-Only Order).

<sup>40</sup> Note that because the Order receives a new timestamp, it is processed like a new Order when it is repriced.

<sup>41</sup> *Id.* As noted above, the cancellation of a Non-Displayed Order in this circumstance helps ensure that the Non-Displayed Order will not trade through a Protected Quotation.

<sup>42</sup> Midpoint Pegging is described below and in proposed Rule 3301B. Specifically, an Order with the Midpoint Pegging Attribute that is entered through OUCH or FLITE is priced upon entry but is not repriced based on changes to the NBBO. Accordingly, the Order is cancelled if it is no longer at the midpoint between the NBBO.

<sup>43</sup> The Minimum Quantity Order Attribute is described below and in proposed Rule 3301B.

Quotations, and potential execution as follows:<sup>47</sup>

- If a Post-Only Order would lock or cross a Protected Quotation, the price of the Order will first be adjusted. If the Order is Attributable, its adjusted price will be one minimum price increment lower than the current Best Offer (for bids) or higher than the current Best Bid (for offers). If the Order is not Attributable, its adjusted price will be equal to the current Best Offer (for bids) or the current Best Bid (for offers). However, the Order will not post or execute until the Order, as adjusted, is evaluated with respect to Orders on the PSX Book.

- If the adjusted price of the Post-Only Order would not lock or cross an Order on the PSX Book, the Order will be posted in the same manner as a Price to Comply Order (if it is not Attributable) or a Price to Display Order (if it is Attributable). Specifically, if the Post-Only Order is not Attributable, it will be displayed on the PSX Book at a price one minimum price increment lower than the current Best Offer (for bids) or higher than the current Best Bid (for offers) but will be ranked on the PSX Book with a non-displayed price equal to the current Best Offer (for bids) or to the current Best Bid (for offers). For example, if a Post-Only Order to buy at \$11 would lock a Protected Offer of \$11, the Order will be ranked at a non-displayed price of \$11 but will be displayed at \$10.99. If the Post-Only Order is Attributable, it will be ranked and displayed on the PSX Book at a price one minimum increment lower than the current Best Offer (for bids) or higher than the current Best Bid (for offers). Thus, in the preceding example, the Post-Only Order to buy would be ranked and displayed at \$10.99.

- If the adjusted price of the Post-Only Order would lock or cross an Order on the PSX Book, the Post Only Order will be repriced, ranked, and displayed at one minimum price increment below the current best-priced Order to sell on the PSX Book (for bids) or above the current best-priced Order to buy on the PSX Book (for offers); provided, however, the Post-Only Order will execute if (i) it is priced below \$1.00 and the value of price improvement associated with executing against an Order on the PSX 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 PSX 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 PSX Book (as measured against the original limit price of the Order) equals or exceeds \$0.01 per share. For example, if a Participant entered a Non-Attributable Post-Only Order to buy at \$11.01, another market center is displaying a Protected Offer at \$11, and there is a Non-Displayed Order on the PSX Book to sell at \$11, the adjusted price of the Post-Only Order will be \$11. However, because the Post-Only Order would be executable against the Non-Displayed Order on the PSX Book and would receive \$0.01 price improvement (as measured against the original \$11.01 price of the Post-Only Order), the Post-Only Order would execute.

- If the Post-Only Order would not lock or cross a Protected Quotation but would lock or cross an Order on the PSX Book, the Post Only Order will be repriced, ranked, and displayed at one minimum price increment below the current best-priced Order to sell on the PSX Book (for bids) or above the current best-priced Order to buy on the PSX Book (for offers); provided, however, the Post-Only Order will execute if (i) it is priced below \$1.00 and the value of price improvement associated with executing against an Order on the PSX 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 PSX 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 PSX Book equals or exceeds \$0.01 per share. For example, if a Participant entered a Post-Only Order to buy at \$11.02, the Best Offer was \$11.04, and there was a Non-Displayed Order on the PSX Book to sell at \$11.02, the Post-Only Order would be ranked and displayed at \$11.01. However, if a Participant entered a Post-Only Order to buy at \$11.03, the Order would execute against the Order on the PSX Book at \$11.02, receiving \$0.01 per share price improvement.<sup>48</sup>

- If a Post-Only Order is entered with a Time-in-Force of IOC, the price of an Order to buy (sell) will be repriced to the lower of (higher of) (i) one minimum price increment below (above) the price of the Order or (ii) the current Best Offer (Best Bid). The Order will execute against any Order on the PSX Book with a price equal to or better than the adjusted price of the Post-Only Order. If the Post-Only Order cannot execute, it will be cancelled. For example, if a Post-Only Order to buy at \$11 with a Time-in-Force of IOC was entered and the current Best Offer was \$11.01, the Order would be repriced to \$10.99; however, if the Best Offer was \$10.98, the Order would be repriced to \$10.98.<sup>49</sup>

- If a Post-Only Order would not lock or cross an Order on the PSX Book or any Protected Quotation, it will be posted on the PSX Book at its entered limit price.

During Pre-Market and Post-Market Hours, a Post-Only Order will be processed in a manner identical to Market Hours with respect to locking or crossing Orders on the PSX Book, but will not have its price adjusted with respect to locking or crossing the quotations of other market centers.

If a Post-Only Order is entered through RASH or FIX, during System Hours the Post-Only Order may be adjusted in the following manner after initial entry and posting to the PSX Book:<sup>50</sup>

- If the original entered limit price of the Post-Only Order is not being displayed, the displayed (and non-displayed price, if any) of the Order will be adjusted repeatedly in accordance with changes to the NBBO or the best price on the PSX Book, as applicable; provided, however, that if the quotation of another market center moves in a manner that would lock or cross the displayed price of a Post-Only Order, the price(s) of the Post-Only Order will not be adjusted.<sup>51</sup> For example, if a Non-

on the PSX Book with the Participant also committing to execute against such Orders or display and potentially provide liquidity at the Exchange's best price.

<sup>49</sup> This functionality reflects the overall purpose of the Post-Only Order, which is not to post to the PSX Book in all circumstances, but rather to assist Participants in controlling execution costs by allowing consideration of price improvement, fees, and rebates in the handling of the Order. Thus, entering a Post-Only Order with a Time-in-Force of IOC allows a Participant to stipulate that an Order will execute only if it receives price improvement.

<sup>50</sup> These adjustments reflect a substantive clarification to the language of the existing rule.

<sup>51</sup> This means that, in general, the price of the Post-Only Order will move toward, but not away from, its original entered limit price. Because a Post-Only Order is removed from the PSX Book while it is being repriced, however, it is possible

<sup>47</sup> Details regarding the processing of a Post-Only Order that locks or crosses both a Protected Quotation and an Order on the PSX Book; the potential execution of a Post-Only Order priced at more than \$1 per share; and the processing of a Post-Only Order with a Time-in-Force of IOC reflect substantive clarifications to the language of the existing rule.

<sup>48</sup> Thus, in circumstances where a Post-Only Order would lock or cross an Order on the PSX Book, the Post-Only Order will either execute or post and offer displayed liquidity. A Post-Only Order is not cancelled back to the Participant that entered it if it cannot post at its original price. Thus, the Order Type does not provide a means to ascertain the existence of locking or crossing Orders

Attributable Post-Only Order to buy at \$11.02 would cross a Protected Offer of \$11, the Order will be ranked at a non-displayed price of \$11 but will be displayed at \$10.99. If the Best Offer then moves to \$11.01, the displayed price will be changed to \$11 and the non-displayed price at which the Order is ranked will be changed to \$11.01. However, if another market center then displays an offer of \$11 (thereby locking the previously displayed price of the Post-Only Order, notwithstanding Rule 610(d) under Regulation NMS), the price of the Post-Only Order will not be changed. The Order may be repriced repeatedly until such time as the Post-Only Order is able to be displayed at its original entered limit price (\$11.02 in the example). The Post-Only Order receives a new timestamp each time its price is changed. If the original entered limit price of the Post-Only Order would no longer lock or cross a Protected Quotation or an Order on the PSX Book, the Post-Only Order will be ranked and displayed at that price and will receive a new timestamp, and will not thereafter be adjusted under this provision.<sup>52</sup>

If a Post-Only Order is entered through OUCH or FLITE, the Post-Only Order may be adjusted in the following manner after initial entry and posting to the PSX Book:<sup>53</sup>

- During Market Hours, if the original entered limit price of the Post-Only Order locked or crossed a Protected Quotation, the Post-Only Order may be adjusted after initial entry in the same manner as a Price to Comply Order (or a Price to Display Order, if it is Attributable). Thus, in the case of a Non-Attributable Post-Only Order that crossed a Protected Quotation, if the NBBO changed so that the Post-Only Order could be ranked and displayed at a price at or closer to its original entered limit price without locking or crossing a Protected Quotation, the Post-Only Order may either remain on the PSX Book unchanged or may be cancelled back to the Participant, depending on its choice. In the case of a Non-Attributable Post-Only Order that locked a Protected Quotation, if the limit price would no longer lock a Protected Quotation, the Post-Only Order may either remain on the PSX Book unchanged, may be cancelled back to the Participant, or may be ranked and displayed at its

that the Order's price will move away from its original entered limit price in the case of a "race condition" where the NBBO changes again while the Order is not on the PSX Book.

<sup>52</sup> Thus, the price of the Order will not move beyond its limit price.

<sup>53</sup> These adjustments reflect a substantive clarification to the language of the existing rule.

original entered limit price, depending on the Participant's choice, and will not thereafter be adjusted under this provision.<sup>54</sup> If the Post-Only Order is displayed at its original entered limit price, it will receive a new timestamp. Finally, in the case of an Attributable Post-Only Order that locked or crossed a Protected Quotation, if the NBBO changed so that the Post-Only Order could be ranked and displayed at a price at or closer to its original entered limit price without locking or crossing a Protected Quotation, the Post-Only Order may either remain on the PSX Book unchanged or may be cancelled back to the Participant, depending on the Participant's choice. A Participant's choice with regard to adjustment of Post-Only Orders is set in advance for each port through which the Participant enters Orders.

- During System Hours, if the original entered limit price of the Post-Only Order locked or crossed an Order on the PSX Book and the PSX Book changes so that the original entered limit price would no longer lock or cross an Order on the PSX Book, the Post-Only Order may either remain on the PSX Book unchanged or may be cancelled back to the Participant, depending on the Participant's choice. For example, if a Post-Only Order to buy at \$11 would lock an Order on the PSX Book priced at \$11, the Post-Only Order will be ranked and displayed at \$10.99. If the Order at \$11 is cancelled or executed, the Post-Only Order may either remain with a displayed price of \$10.99 or be cancelled back to the Participant, depending on the Participant's choice. A Participant's choice with regard to maintaining the Post-Only Order or cancelling it is set in advance for each port through which the Participant enters Orders.

The following Order Attributes may be assigned to a Post-Only Order:

- Price. As described above, the price of the Order may be adjusted to avoid locking or crossing a Protected Quotation, and may include a displayed price as well as a non-displayed price.

- Size.
- Time-in-Force.
- Designation as an ISO. In accordance with Regulation NMS, a Post-Only Order designated as an ISO that locked or crossed a Protected Quotation would be processed at its entered limit price, since such a designation reflects a representation by the Participant that it has simultaneously routed one or more additional limit orders, as necessary, to

<sup>54</sup> Thus, the price of the Order will not move beyond its limit price.

execute against the full displayed size of any Protected Quotations that the Post-Only Order would lock or cross.<sup>55</sup> However, as described above, a Post-Only Order designated as an ISO that locked or crossed an Order on the PSX Book would either execute at time of entry or would have its price adjusted prior to posting. Accordingly, the System would not interpret receipt of a Post-Only Order marked ISO that had its price adjusted prior to posting as the basis for determining that any Protected Quotation at the Order's original entered limit price level had been executed for purposes of accepting additional Orders at that price level.<sup>56</sup> However, if the Post-Only Order is ranked and displayed at its adjusted price, the System would consider the adjusted price level to be open for purposes of accepting additional Orders at that price level. For example, assume that there is a Protected Offer at \$11 and a Participant enters a Post-Only Order marked ISO to buy at \$11. If there are no Orders to sell at \$11 on the PSX Book, the Order to buy will be displayed and ranked at \$11, since the designation of the Order as an ISO reflects the Participant's representation that it has routed one or more additional limit orders, as necessary, to execute against the full displayed size of any Protected Quotations that the Post-Only Order would lock or cross. However, if there was also an Order to sell at \$11 on the PSX Book, the Post-Only Order will be repriced, ranked, and displayed at \$10.99. In that case, the mere fact that the Post-Only Order was designated as an ISO would not allow the Exchange to conclude that the \$11 price level was "open" for receiving orders to buy at that price; the \$11 price level would be considered open only if market data received by the System demonstrated that the Protected Offer at \$11 had been removed or if a subsequent Displayed Order marked ISO was received and ranked at that price.

- Attribution.

<sup>55</sup> In the SR-NYSE-2014-32 Approval Order, the Commission affirmed that exchanges may adopt rules allowing market participants to "ship and post" (i.e., to ship limit orders, as necessary, to remove Protected Quotations while posting an order at the formerly locking price). The Commission further determined that a Day Order with an "Access Liquidity Only" (similar to a Post-Only Order) modifier could be marked as an ISO. Of course, as required by its obligations as a self-regulatory organization, the Exchange maintains an active regulatory surveillance and enforcement program to verify that Participants are not improperly designating Orders as ISOs.

<sup>56</sup> The price level would be considered open if a subsequent Displayed Order marked ISO was received at that price or if market data received by the System demonstrated that the Protected Quotation had been removed.

- Display. A Post-Only Order is always displayed, although as provided above, may also have a non-displayed price.

#### Market Maker Peg Order

A “Market Maker Peg Order” is an Order Type designed to allow a Market Maker to maintain a continuous two-sided quotation at a price that is compliant with the quotation requirements for Market Makers set forth in Rule 3213(a)(2).<sup>57</sup> The price of the Market Maker Peg Order is set with reference to a “Reference Price” in order to keep the price of the Market Maker Peg Order within a bounded price range. A Market Maker Peg Order may be entered through RASH or FIX only. A Market Maker Peg Order must be entered with a limit price beyond which the Order may not be priced. The Reference Price for a Market Maker Peg Order to buy (sell) is the then-current Best Bid (Best Offer) (including PSX), or if no such Best Bid or Best Offer, the most recent reported last-sale eligible trade from the responsible single plan processor for that day, or if none, the previous closing price of the security as adjusted to reflect any corporate actions (e.g., dividends or stock splits) in the security.

Upon entry, the price of a Market Maker Peg Order to buy (sell) is automatically set by the System at the Designated Percentage (as defined in Rule 3213) away from the Reference Price in order to comply with the quotation requirements for Market Makers set forth in Rule 3213(a)(2). For example, if the Best Bid is \$10 and the Designated Percentage for the security is 8%, the price of a Market Maker Peg Order to buy would be \$9.20. If the limit price of the Order is not within the Designated Percentage, the Order will be sent back to the Participant.

Once a Market Maker Peg Order has posted to the PSX Book, its price is adjusted if needed as the Reference Price changes. Specifically, if as a result of a change to the Reference Price, the difference between the price of the Market Maker Peg Order and the Reference Price reaches the Defined Limit (as defined in Rule 3213), the price of a Market Maker Peg Order to buy (sell) will be adjusted to the Designated Percentage away from the Reference Price. In the foregoing example, if the Defined Limit is 9.5% and the Best Bid increased to \$10.17, such that the price of the Market Maker

Peg Order would be more than 9.5% away, the Order will be repriced to \$9.35, or 8% away from the Best Bid. Note that calculated prices of less than the minimum increment will be rounded in a manner that ensures that the posted price will be set at a level that complies with the percentages stipulated by this rule. If the limit price of the Order is outside the Defined Limit, the Order will be sent back to the Participant.

Similarly, if as a result of a change to the Reference Price, the price of a Market Maker Peg Order to buy (sell) is within one minimum price variation more than (less than) a price that is 4% less than (more than) the Reference Price, rounded up (down), then the price of the Market Maker Peg Order to buy (sell) will be adjusted to the Designated Percentage away from the Reference Price. For example, if the Best Bid is \$10 and the Designated Percentage for the security is 8%, the price of a Market Maker Peg Order to buy would initially be \$9.20. If the Best Bid then moved to \$9.57, such that the price of the Market Maker Peg Order would be a minimum of \$0.01 more than a price that is 4% less than the Best Bid, rounded up (i.e.  $\$9.57 - (\$9.57 \times 0.04) = \$9.1872$ , rounding up to \$9.19), the Order will be repriced to \$8.81, or 8% away from the Best Bid.

A Market Maker may enter a Market Maker Peg Order with a more aggressive offset than the Designated Percentage, but such an offset will be expressed as a price difference from the Reference Price. Such a Market Maker Peg Order will be repriced in the same manner as a Price to Display Order with Attribution and Primary Pegging. As a result, the price of the Order will be adjusted whenever the price to which the Order is pegged is changed.

A new timestamp is created for a Market Maker Peg Order each time that its price is adjusted. In the absence of a Reference Price, a Market Maker Peg Order will be cancelled or rejected. If, after entry, a Market Maker Peg Order is priced based on a Reference Price other than the NBBO and such Market Maker Peg Order is established as the Best Bid or Best Offer, the Market Maker Peg Order will not be subsequently adjusted in accordance with this rule until a new Reference Price is established. If a Market Maker Peg Order is repriced 1,000 times, it will be cancelled. This restriction is designed to conserve System resources by limiting the persistence of Orders that update repeatedly without any reasonable prospect of execution.

Notwithstanding the availability of Market Maker Peg Order functionality, a

Market Maker remains responsible for entering, monitoring, and resubmitting, as applicable, quotations that meet the requirements of Rule 3213.

The following Order Attributes may be assigned to a Market Maker Peg Order:

- Price. As discussed above, the price of Market Maker Peg Order is established by the PSX based on the Reference Price, the Designated Percentage (or a narrower offset established by the Market Maker), the Defined Limit, and the 4% minimum difference from the Reference Price.

- Size.
- A Time-in-Force other than IOC or “Good-till-Cancelled”.
- If the Market Maker designates a more aggressive offset, Primary Pegging is required.
- Attribution. All Market Maker Peg Orders are Attributable.
- Display. Market Maker Peg Orders are always Displayed.

#### Order Attributes

Proposed Rule 3301A lists the Order Attributes that may be assigned to specific Order Types. Proposed Rule 3301B details the parameters of each Order Attribute.

#### Time-in-Force

The “Time-in-Force” assigned to an Order means the period of time that PSX will hold the Order for potential execution. Participants specify an Order’s Time-in-Force by designating a time at which the Order will become active and a time at which the Order will cease to be active. The available times for activating Orders are:

- The time of the Order’s receipt by the System;
- the beginning of Market Hours;
- the end of Market Hours;
- the resumption of trading, in the case of a security that is the subject of a trading halt.

The available times for deactivating Orders are:

- “Immediate” (i.e., immediately after determining whether the Order is marketable);
- the end of Market Hours;
- the end of System Hours;
- one year after entry; or
- a specific time identified by the Participant; provided, however, that an Order specifying an expire time beyond the current trading day will be cancelled at the end of the current trading day.

Notwithstanding the Time-in-Force originally designated for an Order, a Participant may always cancel an Order after it is entered.

The following Times in Force are referenced elsewhere in PSX’s Rules by the designations noted below:

<sup>57</sup> As with other Order Types, the Market Maker Peg Order must be an Order either to buy or to sell; thus, at least two Orders would be required to maintain a two-sided quotation.

- An Order that is designated to deactivate immediately after determining whether the Order is marketable may be referred to as having a Time in Force of “Immediate or Cancel” or “IOC”. Any Order with a Time-in-Force of IOC entered between 9:30 a.m. ET and 4 p.m. ET may be referred to as having a Time-in-Force of “Market Hours Immediate or Cancel” or “MIOC”. An Order with a Time-in-Force of IOC that is entered at any time between 8 a.m. ET and 5 p.m. ET may be referred to as having a Time-in-Force of “System Hours Immediate or Cancel” or “SIOC”.

- An Order that is designated to deactivate at 8 p.m. may be referred to as having a Time in Force of “System Hours Day” or “SDAY”.

- An Order that is designated to deactivate one year after entry may be referred to as a “Good-till-Cancelled” or “GTC” Order. If a GTC Order is designated as eligible for execution during Market Hours only, it may be referred to as having a Time in Force of “Market Hours Good-till-Cancelled” or “MGTC”. If a GTC is designated as eligible for execution during System Hours, it may be referred to as having a Time in Force of “System Hours Good-till-Cancelled” or “SGTC”.

- An Order that is designated to deactivate at the time specified in advance by the entering Participant may be referred to as having a Time-in-Force of “System Hours Expire Time” or “SHEX”.

- An Order that is designated to activate at any time during Market Hours and deactivate at 4 p.m. ET may be referred to as having a Time-in-Force of “Market Hours Day” or “MDAY”. An Order entered with a Time-in-Force of MDAY after 4 p.m. ET will be accepted but given a Time-in-Force of IOC.

- An Order that is designated to activate when entered and deactivate at 4 p.m. ET may be referred to as having a Time in Force of “Good-till-Market Close” or “GTMC”. GTMC Orders entered after 4 p.m. ET will be treated as having a Time-in-Force of SIOC.

#### Size

Except as otherwise provided, an Order may be entered in any whole share size between one share and 999,999 shares. Orders for fractional shares are not permitted. The following terms may be used to describe particular Order sizes:

- “normal unit of trading” or “round lot” means the size generally employed by traders when trading a particular security, which is 100 shares in most instances;

- “mixed lot” means a size of more than one normal unit of trading but not a multiple thereof; and

- “odd lot” means a size of less than one normal unit of trading.

#### Price

With limited exceptions, all Orders must have a price, such that they will execute only if the price available is equal to or better than the price of the Order. The maximum price that the System will accept is \$199,999.99. Certain Orders have a price that is determined by the System based on the NBBO or other reference prices, rather than by the Participant. As described below with respect to the Pegging Order Attribute, an Order may have a price that is pegged to the opposite side of the market, in which case the Order will behave like a “market order” or “unpriced order” (*i.e.*, an Order that executes against accessible liquidity on the opposite side of the market, regardless of its price).

#### Pegging

Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO; provided, however, that if PSX is the sole market center at the Best Bid or Best Offer (as applicable), then the price of any Displayed Order with Pegging will be set with reference to the highest bid or lowest offer disseminated by a market center other than PSX.<sup>58</sup> An Order with a Pegging Order Attribute may be referred to as a “Pegged Order.” The price to which an Order is pegged is referred to as the Inside Quotation, the Inside Bid, or the Inside Offer, as appropriate. There are three varieties of Pegging:

- Primary Pegging means Pegging with reference to the Inside Quotation on the same side of the market. For example, if the Inside Bid was \$11, an Order to buy with Primary Pegging would be priced at \$11.

- Market Pegging means Pegging with reference to the Inside Quotation on the opposite side of the market. For example, if the Inside Offer was \$11.06, an Order to buy with Market Pegging would be priced at \$11.06.

- Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer (the “Midpoint”). Thus, if the Inside Bid was \$11 and the Inside Offer was \$11.06, an Order with Midpoint Pegging would be priced at \$11.03. An Order with Midpoint Pegging is not displayed. An

Order with Midpoint Pegging may be executed in sub-pennies if necessary to obtain a midpoint price.

Pegging is available only during Market Hours. An Order with Pegging may specify a limit price beyond which they Order may not be executed; provided, however, that if an Order has been assigned a Pegging Order Attribute and a Discretion Order Attribute, the Order may execute at any price within the discretionary price range, even if beyond the limit price specified with respect to the Pegging Order Attribute. If an Order with Pegging is priced at its limit price, the price of the Order may nevertheless be changed to a less aggressive price based on changes to the Inside Quotation.<sup>59</sup> In addition, an Order with Primary Pegging or Market Pegging may specify an Offset Amount, such that the price of the Order will vary from the Inside Quotation by the selected Offset Amount. The Offset Amount may be either aggressive or passive. Thus, for example, if a Participant entered an Order to buy with Primary Pegging and a passive Offset Amount of \$0.05 and the Inside Bid was \$11, the Order would be priced at \$10.95. If the Participant selected an aggressive Offset Amount of \$0.02, however, the Order would be priced at \$11.02. An Order with Primary Pegging and an Offset Amount will not be Displayed, unless the Order is Attributable. An Order with Midpoint Pegging will not be Displayed. An Order with Market Pegging and no Offset behaves as a “market order” with respect to any liquidity on the PSX Book at the Inside Quotation on the opposite side of the market because it is immediately executable at that price. If, at the time of entry, there is no price to which a Pegged Order can be pegged, the Order will be rejected. In the case of an Order with Midpoint Pegging, if the Inside Bid and Inside Offer are locked, the Order will be priced at the locking price, if the Inside Bid and Inside Offer are crossed, the Order will nevertheless be priced at the midpoint between the Inside Bid and Inside Offer, and if there is no Inside Bid and/or Inside Offer, the Order will be rejected.

Primary Pegging and Market Pegging are available through RASH or FIX only. An Order entered through OUCH or FLITE with Midpoint Pegging will have its price set upon initial entry to the Midpoint, unless the Order has a limit

<sup>58</sup> This is the case because otherwise the Pegged Order would become pegged to itself if it set the NBBO.

<sup>59</sup> For example, if an Order to buy with Primary Pegging is entered with a limit price of \$11.05 at a time when the Inside Bid is \$11, the initial price of the Order will be \$11. If, thereafter, the Inside Bid changes to \$11.05, \$11.06, and \$11.04, the price of the Order at such times will be \$11.05, \$11.05, and \$11.04.

price that is lower than the Midpoint for an Order to buy (higher than the Midpoint for an Order to sell), in which case the Order will be ranked on the PSX Book at its limit price. Thereafter, if the NBBO changes so that the Midpoint is lower than (higher than) the price of an Order to buy (sell), the Pegged Order will be cancelled back to the Participant.

An Order entered through RASH or FIX with Pegging will have its price set upon initial entry and will thereafter have its price reset in accordance with changes to the relevant Inside Quotation. An Order with Pegging receives a new timestamp whenever its price is updated and therefore will be evaluated with respect to possible execution (and routing, if it has been assigned a Routing Order Attribute) in the same manner as a newly entered Order. If the price to which an Order is pegged is not available, the Order will be rejected.

Pegging functionality allows a Participant to have the System adjust the price of the Order continually in order to keep the price within defined parameters. Thus, the System performs price adjustments that would otherwise be performed by the Participant through cancellation and reentry of Orders. The fact that a new timestamp is created for a Pegged Order whenever it has its price adjusted allows the Order to seek additional execution opportunities and ensures that the Order does not “jump the queue” with respect to any Orders that were previously at the Pegged Order’s new price level.

If an Order with Primary Pegging is updated 1,000 times, it will be cancelled; if an Order with other forms of Pegging is updated 10,000 times, it will be cancelled. This restriction is designed to conserve System resources by limiting the persistence of Orders that update repeatedly without any reasonable prospect of execution.

#### Minimum Quantity

Minimum Quantity is an Order Attribute that allows a Participant to provide that an Order will not execute unless a specified minimum quantity of shares can be obtained. Thus, the functionality serves to allow a Participant that may wish to buy or sell a large amount of a security to avoid signaling its trading interest unless it can purchase a certain minimum amount. An Order with a Minimum Quantity Order Attribute may be referred to as a “Minimum Quantity Order.” For example, a Participant could enter an Order with a Size of 1000 shares and specify a Minimum Quantity of 500 shares. In that case, upon entry,

the System would determine whether there were posted Orders executable against the incoming Order with a size of at least 500 shares.<sup>60</sup> If there were not, the Order would post on the PSX Book in accordance with the characteristics of its underlying Order Type. Once posted to the PSX Book, the Minimum Quantity Order retains its Minimum Quantity Order Attribute, such that the Order may execute only against incoming Orders with a size of at least the minimum quantity condition. An Order that has a Minimum Quantity Order Attribute and that posts to the PSX Book will not be displayed.

Upon entry, an Order with a Minimum Quantity Order Attribute must have a size of at least one round lot. An Order entered through OUCH or FLITE may have a minimum quantity condition of any size of at least one round lot. An Order entered through RASH or FIX must have a minimum quantity of one round lot or any multiple thereof, and a mixed lot minimum quantity condition will be rounded down to the nearest round lot. In the event that the shares remaining in the size of an Order with a Minimum Quantity Order Attribute following a partial execution thereof are less than the minimum quantity specified by the Participant entering the Order, the minimum quantity value of the Order will be reduced to the number of shares remaining. An Order with a Minimum Quantity Order Attribute may not be displayed; if a Participant marks an Order with both a Minimum Quantity Order Attribute and a Display Order Attribute, the System will accept the Order but will give a Time-in-Force of IOC, regardless of the Time-in-Force marked by the Participant. An Order marked with a Minimum Quantity Order Attribute and a Routing Order Attribute will be rejected.

#### Routing

Routing is an Order Attribute that allows a Participant to designate an Order to employ one of several Routing Strategies offered by PSX, as described in Rule 3315; such an Order may be referred to as a “Routable Order.” Upon receipt of an Order with the Routing Order Attribute, the System will process the Order in accordance with the applicable Routing Strategy. In the case of a limited number of Routing Strategies, the Order will be sent directly to other market centers for

<sup>60</sup> As reflected in the proposed rule, the System currently allows an incoming Order with a Minimum Quantity to execute if one or more Orders on the PSX Book satisfy the Minimum Quantity condition.

potential execution. For most other Routing Strategies, the Order will attempt to access liquidity available on PSX in the manner specified for the underlying Order Type and will then be routed in accordance with the applicable Routing Strategy. Shares of the Order that cannot be executed are then returned to PSX, where they will (i) again attempt to access liquidity available on PSX and (ii) post to the PSX Book or be cancelled, depending on the Time-in-Force of the Order. Under certain Routing Strategies, the Order may be routed again if the System observes an accessible quotation of another market center, and returned to PSX again for potential execution and/or posting to the PSX Book.

In connection with the trading of securities governed by Regulation NMS, all Orders shall be routed for potential execution in compliance with Regulation NMS. Where appropriate, Routable Orders will be marked as Intermarket Sweep Orders.

#### Discretion

Discretion is an Order Attribute under which an Order has a non-displayed discretionary price range within which the entering Participant is willing to trade; such an Order may be referred to as a “Discretionary Order.”<sup>61</sup> Thus, an Order with Discretion has both a price (for example, buy at \$11) and a discretionary price range (for example, buy up to \$11.03). Depending on the Order Type used, the price may be displayed (for example, a Price to Display Order) or non-displayed (for example, a Non-Displayed Order). The discretionary price range is always non-displayed. In addition, it should be noted that the Discretion Order Attribute may be combined with the Pegging Order Attribute, in which case either the price of the Order or the discretionary price range or both may be pegged in the ways described in Rule 3301A(d) with respect to the Pegging Order Attribute. For example, an Order with Discretion to buy might be pegged to the Best Bid with a \$0.05 passive Offset and might have a discretionary price range pegged to the Best Bid with a \$0.02 passive Offset. In that case, if the Best Bid was \$11, the price of the Order would be \$10.95, with a discretionary price range up to \$10.98. If the Best Bid moved to \$10.99, the price of the Order would then be \$10.94, with a discretionary price range up to \$10.97. Alternatively, if the price of the Order was pegged but the discretionary price

<sup>61</sup> The proposed rule text reflects a substantive clarification to the existing description of Discretionary Orders.

range was not, the price of the Order would be \$10.94, but the discretionary price range would continue to range up to \$10.98. Likewise, if the discretionary price range was pegged but the price of the Order was not, the Order would remain priced at \$10.95 but with a discretionary price range of up to \$10.97. A Participant may also specify a limit price beyond which the discretionary price range may not extend.

Under the circumstances described below, the System processes an Order with Discretion by generating a Non-Displayed Order with a Time-in-Force of IOC (a "Discretionary IOC") that will attempt to access liquidity available within the discretionary price range. The Discretionary IOC will not be permitted to execute, however, if the price of the execution would trade through a Protected Quotation. If more than one Order with Discretion satisfies conditions that would cause the generation of a Discretionary IOC simultaneously, the order in which such Discretionary IOCs are presented for execution is random, based on the respective processing time for each such Order. Whenever a Discretionary IOC is generated, the underlying Order with Discretion will be withheld or removed from the PSX Book and will then be routed and/or placed on the PSX Book if the Discretionary IOC does not exhaust the full size of the underlying Order with Discretion, with its price determined by the underlying Order Type and Order Attributes selected by the Participant.<sup>62</sup> Because the circumstances under which a Discretionary IOC will be generated are dependent upon a range of factors, several specific scenarios are described below.

- If an Order has been assigned a Discretion Order Attribute, but has not been assigned a Routing Order Attribute, upon entry of the Order, the System will automatically generate a Discretionary IOC with a price equal to the highest price for an Order with Discretion to buy (lowest price for an Order with Discretion to sell) within the discretionary price range and a size equal to the full size of the underlying Order to determine if there are any Orders within the discretionary price range on the PSX Book. If the

Discretionary IOC does not exhaust the full size of the Order with Discretion, the remaining size of the Order with Discretion will post to the PSX Book in accordance with the parameters that apply to the underlying Order Type. Thus, for example, if a Participant enters a Price to Display Order to buy at \$11 with a discretionary price range of up to \$11.03, upon entry the System will generate a Discretionary IOC to buy priced at \$11.03. If there is an Order on the PSX Book to sell priced at \$11.02 and an execution at \$11.02 would not trade through a Protected Quotation, the Discretionary IOC will execute against the Order on the PSX Book, up to the full size of each Order. Any remaining size of the Price to Display Order would post to the PSX Book in accordance with its parameters.

- After the Order posts to the PSX Book, the System will examine whether at any time there is an Order on the PSX Book with a price in the discretionary price range against which the Order with Discretion could execute. In doing so, the System will examine all Orders (including Orders that are not Displayed). If the System observes such an Order, it will generate a Discretionary IOC with a price equal to the highest price for an Order to buy (lowest price for an Order to sell) within the discretionary price range and a size equal to the full size of the Order.

- If an Order that uses a passive routing strategy (*i.e.*, a strategy such as PSCN<sup>63</sup> that does not seek routing opportunities after posting to the PSX Book) has been assigned a Discretion Order Attribute but does not have a pegged discretionary price range, upon entry of the Order, the System will examine all Orders (including Orders that are not Displayed) on the PSX Book to determine if there is an Order on the PSX Book with a price in the discretionary price range against which the Order with Discretion could execute. If the System observes such an Order, it will generate a Discretionary IOC with a price equal to the price of the Order on the PSX Book and a size equal to the applicable size of the Order on the PSX Book. The System will also determine if there are any accessible quotations with prices that are within the discretionary price range at destinations on the applicable routing table for the selected routing strategy. If there are such quotations, the System will generate one or more Discretionary IOCs to route to such destinations, with a price and size that match the price and size of the market center's quotation. If

necessary to maximize execution opportunities and comply with Regulation NMS, the System's routing broker may mark such Discretionary IOCs as Intermarket Sweep Orders. If the Discretionary IOC(s) do not exhaust the full size of the Order with Discretion, the remaining size of the Order with Discretion will post to the PSX Book in accordance with the parameters that apply to the underlying Order Type. The System will then examine whether at any time there is an Order on the PSX Book with a price in the discretionary price range against which the Order with Discretion could execute. In doing so, the System will examine all Orders (including Orders that are not Displayed). If the System observes such an Order, it will generate a Discretionary IOC with a price equal to the price of the Order on the PSX Book and a size equal to the applicable size of the Order on the PSX Book.

- If an Order that uses a reactive routing strategy (*i.e.*, a strategy such as PSTG<sup>64</sup> that seeks routing opportunities after posting to the PSX Book) has been assigned a Discretion Order Attribute but does not have a pegged discretionary price range, upon entry of the Order, the System will examine all Orders (including Orders that are not Displayed) on the PSX Book to determine if there is an Order on the PSX Book with a price in the discretionary price range against which the Order with Discretion could execute. If the System observes such an Order, it will generate a Discretionary IOC with a price equal to the price of the Order on the PSX Book and a size equal to the applicable size of the Order on the PSX Book. The System will also determine if there are any accessible quotations with prices that are within the discretionary price range at destinations on the applicable routing table for the selected routing strategy. If there are such quotations, the System will generate one or more Discretionary IOCs to route to such destinations, with a price and size that match the price and size of the market center's quotation. If necessary to maximize execution opportunities and comply with Regulation NMS, the System may mark such Discretionary IOCs as Intermarket Sweep Orders. If the Discretionary IOC(s) do not exhaust the full size of the Order with Discretion, the remaining size of the Order with Discretion will post to the PSX Book in accordance with the parameters that apply to the underlying Order Type. The System will then examine whether at any time there

<sup>62</sup> It should be noted that a Discretionary IOC is deemed to be accessing liquidity for purposes of the Exchange's schedule of fees and rebates, unless one Discretionary IOC executes against another Discretionary IOC, in which case the Order that has reached the PSX Book first would be deemed to provide liquidity. See Rule 7018(d). Thus, a Participant may not use a Discretionary IOC to obtain a rebate for accessing previously posted liquidity.

<sup>63</sup> The PSCN routing strategy is described in Rule 3315.

<sup>64</sup> The PSTG routing strategy is described in Rule 3315.

is an Order on the PSX Book or an accessible quotation at another trading venue with a price in the discretionary price range against which the Order with Discretion could execute. In examining the PSX Book, the System will examine all Orders (including Orders that are not Displayed). If the System observes such an Order or quotation, it will generate a Discretionary IOC with a price equal to the price of such the Order or quotation and a size equal to the applicable size of the Order on the PSX Book or the displayed size of the quotation.

- If an Order that uses a passive routing strategy has been assigned a Discretion Order Attribute and does have a pegged discretionary price range, upon entry of the Order, the System will examine all Orders (including Orders that are not Displayed) on the PSX Book to determine if there is an Order on the PSX Book with a price in the discretionary price range against which the Order with Discretion could execute. If the System observes such an Order, it will generate a Discretionary IOC with a price equal to the price of the Order on the PSX Book and a size equal to the applicable size of the Order on the PSX Book. The System will also determine if there are any accessible quotations with prices that are within the discretionary price range at destinations on the applicable routing table for the selected routing strategy. If there are such quotations, the System will generate one or more Discretionary IOCs to route to such destinations, with a price and size that match the price and size of the market center's quotation. If necessary to maximize execution opportunities and comply with Regulation NMS, the System may mark such Discretionary IOCs as Intermarket Sweep Orders. If the Discretionary IOC(s) do not exhaust the full size of the Order with Discretion, the remaining size of the Order with Discretion will post to the PSX Book in accordance with the parameters that apply to the underlying Order Type. Thereafter, the Order will not generate further Discretionary IOCs unless the Order is updated in a manner that causes it to receive a new timestamp, in which case the Order will behave in the same manner as a newly entered Order.

- If an Order that uses a reactive routing strategy has been assigned a Discretion Order Attribute and does have a pegged discretionary price range, upon entry of the Order, the System will examine all Orders (including Orders that are not Displayed) on the PSX Book to determine if there is an Order on the PSX Book with a price in the discretionary price range against which

the Order with Discretion could execute. If the System observes such an Order, it will generate a Discretionary IOC with a price equal to the price of the Order on the PSX Book and a size equal to the applicable size of the Order on the PSX Book. The System will also determine if there are any accessible quotations with prices that are within the discretionary price range at destinations on the applicable routing table for the selected routing strategy. If there are such quotations, the System will generate one or more Discretionary IOCs to route to such destinations, with a price and size that match the price and size of the market center's quotation. If necessary to maximize execution opportunities and comply with Regulation NMS, the System may mark such Discretionary IOCs as Intermarket Sweep Orders. If the Discretionary IOC(s) do not exhaust the full size of the Order with Discretion, the remaining size of the Order with Discretion will post to the PSX Book in accordance with the parameters that apply to the underlying Order Type. The System will then examine whether at any time there is an Order on the PSX Book or an accessible quotation at another trading venue with a price in the discretionary price range against which the Order with Discretion could execute. In examining the PSX Book, the System will examine Displayed Orders but will not examine Non-Displayed Orders. If the System observes such an Order or quotation, it will generate a Discretionary IOC with a price equal to the price of such the Order or quotation and a size equal to the applicable size of the Order on the PSX Book or the displayed size of the quotation.

#### Reserve Size

Reserve Size is an Order Attribute that permits a Participant to stipulate that an Order Type that is displayed may have its displayed size replenished from additional non-displayed size. An Order with Reserve Size may be referred to as a "Reserve Order." At the time of entry, the displayed size of such an Order selected by the Participant must be one or more normal units of trading; an Order with a displayed size of a mixed lot will be rounded down to the nearest round lot. A Reserve Order with displayed size of an odd lot will be accepted but with the full size of the Order displayed. Reserve Size is not available for Orders that are not displayed; provided, however, that if a Participant enters Reserve Size for a Non-Displayed Order with a Time-in-Force of IOC, the full size of the Order, including Reserve Size, will be processed as a Non-Displayed Order.

Whenever a Participant enters an Order with Reserve Size, the System will process the Order as two Orders: a Displayed Order (with the characteristics of its selected Order Type) and a Non-Displayed Order. Upon entry, the full size of each such Order will be processed for potential execution in accordance with the parameters applicable to the Order Type. For example, a Participant might enter a Price to Display Order with 200 shares displayed and an additional 3,000 shares non-displayed. Upon entry, the Order would attempt to execute against available liquidity on the PSX Book, up to 3,200 shares. Thereafter, unexecuted portions of the Order would post to the PSX Book as a Displayed Price to Display Order and a Non-Displayed Order; provided, however, that if the remaining total size is less than the display size stipulated by the Participant, the Displayed Order will post without Reserve Size. Thus, if 3,050 shares executed upon entry, the Price to Display Order would post with a size of 150 shares and no Reserve Size.

When an Order with Reserve Size is posted, if there is an execution against the Displayed Order that causes its size to decrease below a normal unit of trading, another Displayed Order will be entered at the level stipulated by the Participant while the size of the Non-Displayed Order will be reduced by the same amount. Any remaining size of the original Displayed Order will remain on the PSX Book. The new Displayed Order will receive a new timestamp, but the Non-Displayed Order (and the original Displayed Order, if any) will not; although the new Displayed Order will be processed by the System as a new Order in most respects at that time, if it was designated as Routable, the System will not automatically route it upon reentry.<sup>65</sup> For example, if a Price to Comply Order with Reserve Size posted with a Displayed Size of 200 shares, along with a Non-Displayed Order of 3,000 and the 150 shares of the Displayed Order was executed, the remaining 50 shares of the original Price to Comply Order would remain, a new Price to Comply Order would post with a size of 200 shares and a new timestamp, and the Non-Displayed Order would be decremented to 2,800 shares.<sup>66</sup>

<sup>65</sup> Of course, if the Order uses a reactive routing strategy, such as PSTG, that routes out whenever the System observes a quotation against which the Order is marketable at another market center, the Order could be routed out at any time.

<sup>66</sup> Because the Displayed Order is reentered and the Non-Displayed Order is not, there are circumstances in which the Displayed Order may

A Participant may stipulate that the Displayed Order should be replenished to its original size. Alternatively, the Participant may stipulate that the original and subsequent displayed size will be an amount randomly determined based on factors selected by the Participant.<sup>67</sup> Specifically, the Participant would select both a theoretical displayed size and a range size, which may be any share amount less than the theoretical displayed size. The actual displayed size will then be determined by the System within a range in which the minimum size is the theoretical displayed size minus the range size, and the maximum size is (i) the minimum size plus (ii) an amount that is two times the range size minus one round lot. For example, if the theoretical displayed size is 600 shares and the range size is 500, the minimum displayed size will be 100 shares (600 – 500), and the maximum size will be 1,000 shares ((600 – 500) + ((2 × 500) – 100)).

When the Displayed Order with Reserve Size is executed and replenished, applicable market data disseminated by the Exchange will show the execution and decrementation of the Displayed Order, followed by replenishment of the Displayed Order. In all cases, if the remaining size of the Non-Displayed Order is less than the fixed or random amount stipulated by the Participant, the full remaining size of the Non-Displayed Order will be displayed and the Non-Displayed Order will be removed.

#### Attribution

Attribution is an Order Attribute that permits a Participant to designate that the price and size of the Order will be displayed next to the Participant's MPID in market data disseminated by PSX. An Order with Attribution is referred to as an "Attributable Order" and an Order without attribution is referred to as a "Non-Attributable Order."

#### Intermarket Sweep Order

Designation of an Order as an Intermarket Sweep Order, or ISO, is an Order Attribute that allows the Order to be executed within the System by Participants at multiple price levels without respect to Protected Quotations

receive a different price than the Non-Displayed Order. For example, if, upon reentry, a Price to Display Order would lock or cross a newly posted Protected Quotation, the price of the Order will be adjusted but its associated Non-Displayed Order would not be adjusted. In that circumstance, it would be possible for the better priced Non-Displayed Order to execute prior to the Price to Display Order.

<sup>67</sup>The ability to specify a random size reflects a substantive clarification of existing rules.

of other market centers within the meaning of Rule 600(b) under Regulation NMS. ISOs are immediately executable within the System against Orders against which they are marketable. An Order designated as an ISO may not be assigned a Routing Order Attribute.<sup>68</sup> In connection with the trading of securities governed by Regulation NMS, Intermarket Sweep Orders shall be executed exclusively within the System and the entering Participant shall be responsible for compliance with Rules 610 and 611 under Regulation NMS with respect to order protection and locked and crossed markets with respect to such Orders.

Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering Participant to execute against the full displayed size of any Protected Quotation with a price that is superior to the price of the Order identified as an Intermarket Sweep Order (as defined in Rule 600(b) under Regulation NMS). These additional routed orders must be identified as Intermarket Sweep Orders.

Upon receipt of an ISO, the System will consider the stated price of the ISO to be available for other Orders to be entered at that price, unless the ISO is not itself accepted at that price level (for example, a Post-Only Order that has its price adjusted to avoid executing against an Order on the PSX Book) or the ISO is not Displayed.<sup>69</sup>

In addition, as described with respect to various Order Types, such as the Price to Comply Order, Orders on the PSX Book that had their price adjusted may be eligible to be reentered at the stated price of the ISO. For example, if a Price to Comply Order to buy at \$11 would lock a Protected Offer at \$11, the Price to Comply Order will be posted with a non-displayed price of \$11 and a displayed price of \$10.99. If the System then receives an ISO to buy at \$11, the ISO will be posted at \$11 and the Price to Comply Order will be reentered at \$11 (if the Participant opted to have its Orders reentered). The respective priority of such reentered Orders will be maintained among multiple repriced Orders; however, other new Orders may also be received after receipt of the ISO but before the

<sup>68</sup> However, Orders that are assigned a Routing Order Attribute may be designated as ISOs by the Exchange when routed to other market centers to maximize their opportunities for execution.

<sup>69</sup> Thus, for example, a Non-Displayed Order with a Time-in-Force of IOC marked ISO could execute against Orders on the PSX Book. However, the price level of the Non-Displayed Order would be considered open for Orders to post only if applicable market data showed that the price level was available.

repricing of the Price to Comply Order is complete; accordingly, the priority of an Order on the PSX Book vis-à-vis a newly entered Order is not guaranteed.

#### Display

Display is an Order Attribute that allows the price and size of an Order to be displayed to market participants via market data feeds. All Orders that are Attributable are also displayed, but an Order may be displayed without being Attributable. As discussed in Rule 3301A, a Non-Displayed Order is a specific Order Type, but other Order Types may also be non-displayed if they are not assigned a Display Order Attribute; however, depending on context, all Orders that are not displayed may be referred to as "Non-Displayed Orders." An Order with a Display Order Attribute may be referred to as a "Displayed Order."

#### Statistics on Order Types Usage

Although the Exchange, like many exchanges, offers a wide range of possible combinations of Order Types and Order Attributes in order to provide options that support a range of legitimate trading strategies, the Exchange believes that an analysis of the extent of usage of particular Order Type permutations is important to promoting a deeper understanding of current market structure. Based on analysis of a month of data for the period from August 26, 2013 through September 29, 2013, the Exchange offers the following observations about the usage of different Order Types on its market:

- 19.53% of entered Order volume was Price to Comply Orders with no Order Attributes other than price and size. Such Orders were involved in 17.53% of execution volume.<sup>70</sup>
- 45.54% of entered Order volume was Post-Only Orders with no Order Attributes other than price and size. Such Orders were involved in 14.70% of execution volume.
- Non-Displayed Orders with a Time-in-Force of IOC and no special Order Attributes accounted for 2.11% of entered Order volume and 11.20% of execution volume. Non-Displayed Orders with a Time-in-Force of IOC marked as ISOs but with no other special Order Attributes accounted for 0.65% of entered Order volume and 34.66% of execution volume.

<sup>70</sup> Data about executions reflect both sides of a trade in instances where trades executed on the Exchange and one side of a trade in instances where a Routable Order executed at another market center. The data does not include information about Orders with a Time-in-Force of GTC to the extent that such Orders executed on a day after the day of their original entry.

- Non-Displayed Orders with a Time-in-Force longer than IOC but no special Order Attributes accounted for 3.78% of entered Order volume and 0.50% of execution volume.

- Post-Only Orders marked ISO but with no other special Order Attributes accounted for 13.66% of entered Order volume and 13.59% execution volume. Price to Comply Orders marked ISO but with no other special Order Attributes accounted for 4.01% of entered Order volume and 1.15% of execution volume.

- All other Order Type and Order Attribute combinations accounted for 14.72% of entered Order volume and 7.82% of execution volume.

Thus, while a range of combinations of Order Types and Order Attributes can exist on PSX, the Exchange believes that these data support the conclusion that many of these possible combinations are not used to any appreciable extent. Rather, the vast majority of Order entry and Order execution volume is attributable to a small number of simple combinations: IOC Orders designed to access posted liquidity and various forms of priced limit Orders designed to access available liquidity and thereafter post to the PSX Book to provide liquidity, which promote price discovery by offering displayed liquidity at a price that may narrow the bid/offer spread on PSX and/or provide price improvement to subsequent Orders. The inclusion of an ISO Order Attribute on Orders is done in full compliance with Regulation NMS and serves to provide notice to the Exchange that liquidity has been accessed liquidity on other markets at a given price level in order to allow it to post liquidity on PSX at that price. While the Exchange does not believe that its Order Type offerings are excessively complex, given the relatively limited usage of certain Order Types and Order Attributes, the Exchange is continuing to analyze whether changes may be made to eliminate any Order Types, Order Attributes, or permissible combinations in a manner that would further promote the goals of transparency and ease of use for Participants.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>71</sup> in general, and with Section 6(b)(5) of the Act<sup>72</sup> in particular, in that the proposal 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. The proposed rule change also is designed to support the principles of Section 11A(a)(1)<sup>73</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. In particular, the Exchange believes that the reorganized and enhanced descriptions of its Order Types, Order Attributes, and related System functionality will promote just and equitable principles of trade and perfect the mechanisms of a free and open market and the national market system by providing greater clarity concerning certain aspects of the System's operations. The Exchange further believes that the proposed rule change will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand. The Exchange further believes that the proposed rules, together with the presented statistics regarding Order Type and Order Attribute usage, will promote the efficient execution of investor transactions and further enhance public understanding of the Exchange's operations, and thereby strengthen investor confidence in the Exchange and in the national market system. In addition, the Exchange believes that additional specificity in its rules will promote a better understanding of the Exchange's operation, thereby facilitating fair competition among brokers and dealers and among exchange markets.

Most of the System functionality described in the proposed rule change has already been described in previous proposed rule changes by the Exchange and approved or permitted to take effect on an immediate basis by the Commission. However, the Exchange believes that the reiteration of several principles underlying its Order Types and Order Attributes might be helpful in promoting a fuller understanding of these rules' operation and their consistency with the Act.

The functionality underlying Price to Comply Orders and Price to Display Orders provides a means by which Participants may enter a displayed limit order in compliance with Regulation NMS without the Participant

definitively ascertaining whether the price of the Order would lock or cross a Protected Quotation. In the absence of the repricing functionality associated with the Order, PSX would need to reject the Order if it locked or crossed a Protected Quotation.

By accepting a Price to Comply Order with a locking, non-displayed price and displayed price that is one minimum increment inferior to the locking price, the Exchange allows this Order Type to achieve several purposes. First, the displayed price of the Order promotes price discovery by establishing a new NBBO or adding to liquidity available at the NBBO. Second, the non-displayed price of the Order allows the Order to provide price improvement when the Order is executed. A Price to Display Order similarly promotes price discovery by establishing a new NBBO or adding liquidity available at the NBBO. It also provides one of the Order Types through which a Market Maker may offer displayed liquidity that is attributable to its MPID. Notably, given the price adjustment functionality of the Order, it allows a Market Maker to offer attributable liquidity at the NBBO.

In addition, the repricing functionality associated with Price to Comply Orders and Price to Display Orders, whereby an Order that has been repriced by the System upon entry may be cancelled or reentered if a previously unavailable price level becomes available, promotes price discovery and provision of greater liquidity by facilitating the display of an Order at its chosen limit price. Because a reentered Order always receives a new timestamp, moreover, the functionality does not present fairness concerns that might arise if an Order that was not displayed became displayed at a different price level while retaining the timestamp that it received when originally entered.

The Non-Displayed Order provides a means by which Participants may access and/or offer liquidity without signaling to other Participants the extent of their trading interest. Moreover, because the Non-Displayed Order may lock a Protected Quotation, it provides a means by which a Participant may provide price improvement. For example, if the Best Bid was \$11 and the Best Offer was \$11.01, a Non-Displayed Order to buy at \$11.01 would provide \$0.01 price improvement to an incoming sell Order priced at the Best Bid.

In addition, the repricing functionality associated with Non-Displayed Order promotes provision of greater liquidity and eventual price discovery (via reporting of Order executions) because it facilitates the

<sup>71</sup> 15 U.S.C. 78f.

<sup>72</sup> 15 U.S.C. 78f(b)(5).

<sup>73</sup> 15 U.S.C. 78k-1(a)(1).

posting of a Non-Displayed Order at its chosen limit price. In addition, the functionality that cancels Non-Displayed Orders when crossed by a Protected Quotation helps to prevent trade-throughs by ensuring that a Non-Displayed Order will not execute at a price inferior to the Price of a Protected Quotation. Because a reentered Order always receives a new timestamp, moreover, the functionality does not present fairness concerns that might arise if an Order was able to move price while retaining an earlier timestamp.

The primary purpose of Post-Only Orders is to “provide displayed liquidity to the market and thereby contribute to public price discovery—an objective that is fully consistent with the Act.”<sup>74</sup> Under the prevailing “maker/taker” cost structure of most exchanges, the Post-Only Order also allows a Participant to control its trading costs by giving consideration to costs in determining whether the Order should execute upon entry. However, the manner in which the Post-Only Order operates ensures that a Post-Only Order that locks or crosses an Order on the PSX Book will either execute upon entry or post at a displayed price that potentially provides liquidity. Moreover, because a Post-Only Order does not cancel back to the Participant if it cannot post at its entered limit price, it does not provide a means to ascertain the existence of locking or crossing Orders without also reflecting a commitment to execute or post and display. Similarly, the functionality that allows a Post-Only Order to be marked IOC does not provide information regarding the existence of locking or crossing Orders on the PSX Book since the Order has its price adjusted automatically, without reference to the price of any other Orders other than Orders at the NBBO.

In addition, the processing of Post-Only Orders with respect to locking or crossing Protected Quotations serves the same purposes as the processing discussed above with respect to Price to Comply Orders and Price to Display Orders. By accepting a Non-Attributable Post-Only Order that locks or crosses a Protected Quotation with a locking, non-displayed price and displayed price that is one minimum increment inferior to the locking price, the Exchange allows the displayed price of the Order to promote price discovery by establishing a new NBBO or adding to liquidity available at the NBBO, while also allowing the non-displayed price of the Order to provide price improvement when the Order is executed. An

Attributable Post-Only Order similarly promotes price discovery by establishing a new NBBO or adding liquidity available at the NBBO.

The repricing functionality associated with Post-Only Orders, whereby an Order that has been repriced by the System upon entry may be cancelled or reentered if a previously unavailable price level becomes available, promotes price discovery and provision of greater liquidity by facilitating the display of an Order at its chosen limit price. Because a reentered Order always receives a new timestamp, moreover, the functionality does not present fairness concerns that might arise if an Order that was not displayed became displayed at a different price level while retaining the timestamp that it received when originally entered.

A Post-Only Order may be designated as an ISO and accepted at a price that locks or crosses a Protected Quotation, since such designation reflects a representation by the Participant that it has simultaneously routed one or more additional limit orders, as necessary, to execute against the full displayed size of any Protected Quotations that the Post-Only Order would lock or cross.<sup>75</sup> Because the Exchange maintains an active regulatory surveillance and enforcement program to verify that Participants are not improperly designating Orders as ISOs, the possibility for a Participant to systematically use a Post-Only Order marked ISO to occupy a price level while locking Protected Quotations is mitigated. Moreover, the System does not interpret a Post-Only Order that is marked ISO but that has its price adjusted prior to posting as the basis for accepting additional Orders at the Order’s limit price level, thereby providing further assurance against the use of an ISO designation for an improper purpose.

Market Maker Peg Orders allow a Market Maker to maintain a continuous two-sided quotation at a price that is compliant with the requirements for Market Makers set forth in Rule 4613(a)(2). Thus, the Order Type serves the function of ensuring that Market Makers offer Displayed and Attributable liquidity at prices that bear a reasonable relation to the NBBO. Of course, Market Makers may also provide liquidity at prices closer to the NBBO than those established by the Market Maker Peg Order, but the Order Type enables the Market Maker to provide a backstop of

liquidity at prices that are not unreasonably distant from the NBBO.

Several of the available Order Attributes merely provide means to designate the basic parameters of any Order: these include price, size, Time-in-Force, Attribution, and Display. The proposed rules clearly state limitations applicable to each of these parameters, such as available Times-in-Force and limitations on the permissible prices and sizes of Orders.

The Pegging Order Attribute allows a Participant to have the System adjust the price of the Order continually in order to keep the price within defined parameters. Thus, the System performs price adjustments that would otherwise be performed by the Participant through cancellation and reentry of Orders. The fact that a new timestamp is created for a Pegged Order whenever it has its price adjusted allows the Order to seek additional execution opportunities and ensures that the Order does not “jump the queue” with respect to any Orders that were previously at the Pegged Order’s new price level. Thus, while the Order Attribute may be seen as introducing additional complexity with respect to the operation of the Exchange, it is in effect merely a process for removing and entering Orders at new prices based on changed market conditions.

The Minimum Quantity Order Attribute allows a Participant that may wish to buy or sell a large amount of a security to avoid signaling its trading interest unless it can purchase a certain minimum amount. Thus, the Order Attribute supports the interest of institutional investors and others in being able to minimize the impact of their trading on the price of securities.

The Routing Order Attribute, which is thoroughly described in existing Rule 3315, provides an optional means by which a Participant may direct the Exchange to seek opportunities to execute an Order at other market centers. The System is designed to pursue execution opportunities on behalf of Participants in an aggressive manner by, in most instances, first obtaining shares available on the PSX Book, then routing to other market centers in accordance with the strategy designated by the Participant, then returning the PSX Book as if a new Order before posting to the PSX Book. In addition, to maximize execution opportunities, the System will, as appropriate and in accordance with Regulation NMS, designate a Routable Order as an Intermarket Sweep Order.

The Discretion Order Attribute allows a Participant to expand opportunities for an Order to access liquidity by

<sup>75</sup> See SR-NYSE-2014-32 Approval Order (affirming that exchanges may adopt rules allowing market participants to “ship and post”).

<sup>74</sup> SR-NYSE-2014-32 Approval Order.

allowing it to execute at any price within a specified range. Thus, while there is some complexity associated with the processing of Discretionary Orders, the Order Attribute merely allows the System to ascertain whether, under the conditions provided for in the rule, the Participant could access liquidity at a price within the range that the Participant has designated. If so, the Order Attribute generates an IOC Order to access the liquidity. Moreover, it should be noted that although in some circumstances, the System will examine Orders on the PSX Book that are not Displayed to ascertain the existence of execution opportunities, the System would convey information to the Participant regarding such Orders only by executing against them. Thus, the discretionary price range reflects an actionable commitment by the Participant to trade at prices in that range. As a result, the Order Attribute promotes price discovery through executions that occur in the price range. Finally, it should be noted that Discretionary IOCs access liquidity, and therefore the Order Attribute does not present an opportunity for a Participant to obtain a rebate with respect to executions against previously posted Orders.

The Reserve Size Order Attribute allows a Participant to display trading interest at a given price while also posting additional non-displayed trading interest. The functionality assists the Participant in managing this trading interest by eliminating the need for the Participant to enter additional size following the execution of the displayed trading interest. Thus, the functionality achieves a balance between promoting price discovery through displayed size and allowing a Participant to guard against price impact by hiding the full extent of its trading interest. The random reserve feature of the Order further assists a Participant in not revealing the extent of its trading interest because it diminishes the likelihood that other Participants will conclude that the Order is a Reserve Size Order if they repeatedly view it being replenished at the same size. Similarly, the manner in which the Exchange disseminates data regarding the execution and replenishment of a Reserve Size Order ensures that the process is indistinguishable to other Participants from the execution of an Order without Reserve Size followed by the entry of a new Order; this processing also ensures that only the displayed portion of the Reserve Size Order is treated as a Protected Quotation.

The Intermarket Sweep Order attribute is a function of Regulation

NMS, which provides for an Order to execute without respect to Protected Quotations if it is designated as an ISO and if one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any Protected Quotation with a price that is superior to the price of the Order identified as an ISO. As recently reaffirmed by the Commission, Regulation NMS allows such additional orders to be routed by an exchange or by the Participant that enters the ISO.<sup>76</sup> Accordingly, the exchange receiving an ISO may accept the receipt of the Order as a representation that the Participant entering it has satisfied its obligations; provided, however, that the exchange itself maintains a surveillance and enforcement program to verify that the Participant is not acting in violation of this requirement. For this reason, it is also consistent with the Act for a Participant to designate an Order with a Time-in-Force longer than IOC, or an Order with functionality such as the Post-Only Order, as an ISO.<sup>77</sup> Specifically, attaching an ISO designation to such Order reflects a representation that the Participant has determined that Protected Quotations at the price of the Order have been eliminated, such that the Order is entitled to post and provide liquidity. In the case of a Post-Only Order, however, if the Order's price is adjusted to avoid executing against an Order on the PSX Book, PSX will not consider the ISO designation in determining whether the Post-Only Order's limit price level is now open, since the Post-Only ISO itself is not actually posting at that price. Accordingly, in that circumstance the use of a Post-Only ISO cannot be used to open a price level to additional Orders unless the Exchange ascertains through market data provided by other exchanges that the price level actually is open.

#### *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. As previously stated, the Exchange is not proposing substantively to modify the operation of any of its current Order Types or Order Attributes or the operation of the System; rather, the proposed rule change is intended to provide more detail regarding the System's functionality. The proposed rule change is not designed to address

any competitive issues, but rather to provide additional specificity and transparency to Participants and the investing public regarding PSX's Order Types, Order Attributes, and System functionality. Since the Exchange does not propose substantively to modify the operation of Order Types, Order Attributes, or System functionality, the proposed changes will not impose any burden on competition.

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

Written comments were neither solicited nor 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-Phlx-2015-29 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-Phlx-2015-29. 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

<sup>76</sup> SR-NYSE-2014-32 Approval Order.

<sup>77</sup> *Id.*

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 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-Phlx-2015-29, and should be submitted on or before April 27, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>78</sup>

**Brent J. Fields,**  
Secretary.

[FR Doc. 2015-07751 Filed 4-3-15; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

### Proposed Collection; Comment Request

*Upon Written Request, Copies Available From:* Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE., Washington, DC 20549-2736.

#### Extension:

Rule 17f-6, SEC File No. 270-392, OMB Control No. 3235-0447.

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520), the Securities and Exchange Commission (the "Commission") is soliciting comments on the collection of information summarized below. The Commission plans to submit this existing collection of information to the Office of Management and Budget for extension and approval.

Rule 17f-6 (17 CFR 270.17f-6) under the Investment Company Act of 1940 (15 U.S.C. 80a) permits registered investment companies ("funds") to maintain assets (*i.e.*, margin) with

futures commission merchants ("FCMs") in connection with commodity transactions effected on both domestic and foreign exchanges. Prior to the rule's adoption, funds generally were required to maintain these assets in special accounts with a custodian bank.

The rule requires a written contract that contains certain provisions designed to ensure important safeguards and other benefits relating to the custody of fund assets by FCMs. To protect fund assets, the contract must require that FCMs comply with the segregation or secured amount requirements of the Commodity Exchange Act ("CEA") and the rules under that statute. The contract also must contain a requirement that FCMs obtain an acknowledgment from any clearing organization that the fund's assets are held on behalf of the FCM's customers according to CEA provisions.

Because rule 17f-6 does not impose any ongoing obligations on funds or FCMs, Commission staff estimates there are no costs related to *existing* contracts between funds and FCMs. This estimate does not include the time required by an FCM to comply with the rule's contract requirements because, to the extent that complying with the contract provisions could be considered "collections of information," the burden hours for compliance are already included in other PRA submissions.<sup>1</sup>

Thus, Commission staff estimates that any burden of the rule would be borne by funds and FCMs entering into *new* contracts pursuant to the rule. Commission staff estimates that approximately 291 fund complexes and 965 funds currently effect commodities transactions and could deposit margin with FCMs in connection with those transactions pursuant to rule 17f-6.<sup>2</sup> Staff further estimates that of this number, 29 fund complexes and 97 funds enter into new contracts with FCMs each year.<sup>3</sup>

<sup>1</sup> The rule requires a contract with the FCM to contain two provisions requiring the FCM to comply with existing requirements under the CEA and rules adopted thereunder. Thus, to the extent these provisions could be considered collections of information, the hours required for compliance would be included in the collection of information burden hours submitted by the CFTC for its rules.

<sup>2</sup> This estimate is based on the number of funds that reported on Form N-SAR from June 1, 2014–November 30, 2014, in response to items (b) through (j) of question 70, that they engaged in futures and commodity option transactions.

<sup>3</sup> These estimates are based on the assumption that 10% of fund complexes and funds enter into new FCM contracts each year. This assumption encompasses fund complexes and funds that enter into FCM contracts for the first time, as well as fund complexes and fund that change the FCM with whom they maintain margin accounts for commodities transactions.

Based on conversations with fund representatives, Commission staff understands that fund complexes typically enter into contracts with FCMs on behalf of all funds in the fund complex that engage in commodities transactions. Funds covered by the contract are typically listed in an attachment, which may be amended to encompass new funds. Commission staff estimates that the burden for a fund complex to enter into a contract with an FCM that contains the contract requirements of rule 17f-6 is one hour, and further estimates that the burden to add a fund to an existing contract between a fund complex and an FCM is 6 minutes.

Accordingly, Commission staff estimates that funds and FCMs spend 39 burden hours annually complying with the information collection requirements of rule 17f-6.<sup>4</sup> At \$380 per hour of professional (attorney) time, Commission staff estimates that the annual dollar cost for the 39 hours is \$14,820.<sup>5</sup> These estimates are made solely for the purposes of the Paperwork Reduction Act, and are not derived from a comprehensive or even a representative survey or study of the costs of Commission rules and forms.

Compliance with the collection of information requirements of the rule is necessary to obtain the benefit of relying on the rule. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Written comments are invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the Commission, including whether the information has practical utility; (b) the accuracy of the Commission's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days after this publication.

<sup>4</sup> This estimate is based upon the following calculation: (29 fund complexes × 1 hour) + (97 funds × 0.1 hours) = 39 hours.

<sup>5</sup> The \$380 per hour figure for an attorney is from SIFMA's *Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>78</sup> 17 CFR 200.30-3(a)(12).