



REGULATORY BULLETIN

NYSE Amex Options RB-16-02

February 19, 2016

TO: NYSE AMEX OPTIONS ATP HOLDERS & ATP FIRMS

FROM: NYSE REGULATION

SUBJECT: RULES OF PRIORITY AND ORDER PROTECTION IN OPEN OUTCRY TRADING

NYSE Regulation is issuing this bulletin to remind ATP Holders of certain rules and procedures that must be followed when trading in open outcry on the Options Floor. This bulletin addresses rules pertaining to order announcement, order priority and order protection, and will cover the proper procedures that must be followed in order to help to ensure compliance with these rules. ATP Holders are encouraged to review relevant rules and previously issued regulatory guidance referenced in this bulletin.

Priority and Order Allocation Procedures – Open Outcry (Rule 963NY)

When executing trades in open outcry, ATP Holders must comply with the rules of priority. Specifically, as outlined in Rule 963NY, open outcry orders must yield priority to all better-priced orders in the Consolidated Book and any equal-priced Customer orders in the Consolidated Book.

Rule 963NY provides that where two or more bids (offers) for the same option contract represent the best price and one such bid (offer) is for the account of a Customer displayed on the Consolidated Book, such Customer bid (offer) shall have priority over any other bid (offer) in the Trading Crowd. Generally speaking, this means that ATP Holders may not trade at, or through, the price of any priority interest on the Consolidated Book without satisfying such interest.

Priority is established at the time an open outcry order is executed, as determined by the time an order is released in Liquid Point¹ by the Trading Official (“TO timestamp”) signifying that a consummated trade has taken place, subject to the limited exceptions (discussed later). Floor Brokers should be aware that any trade negotiations involving members of the trading crowd or communications with their firm’s desk or off-floor customers should be finalized prior to requesting a Trading Official to release their order. Once a Trading Official releases an order, thus signifying that an execution has taken place, any priority interest present on the Consolidated Book at the time of the TO timestamp must then be honored.

¹ Floor Broker Workstation or BLAZE terminal, collectively “Liquid Point”.

Floor Brokers may inquire with the Trading Official at the post as to the amount of any priority interest in the Consolidated Book prior to executing an order; however this information is for advisory purposes only and is provided on a best efforts basis. Floor Brokers are required to clear all priority interest actually present at the time of the TO timestamp, regardless of whether that number is less than or greater than the amount indicated by the Trading Official at the time of the Floor Broker's inquiry.

Floor Brokers may seek to satisfy their obligation to clear priority interest in a few ways. Floor Brokers may use Liquid Point to send a Clear-the-Book ("CTB") order for the full size of the initiating order, at the same price as the priority interest in the Consolidated Book that they need to clear, and on the appropriate side of the market. By sending a CTB order contemporaneous with the execution of a trade in open outcry, the CTB order will trade with only those contracts that had priority as of the time of the trade, based on the TO timestamp.

There may be times when using the CTB order is not possible or appropriate. For example, if a Floor Broker is executing an order where (s)he is buying at the same price as the Exchange Best Bid, a CTB order will default to an order to buy and cannot be changed to an order to sell, in order to satisfy the priority interest represented within the Exchange best bid.

Trading Officials may release an order using CTB override² in certain situations where it is warranted, such as when there is a system or other issue that prevented the Trading Official from releasing the order contemporaneous with the open outcry trade at which time there was no priority interest at the execution price(s). There may also be instances where a Floor Broker may request to have an order released with an override of CTB functionality. In such instances, the broker must always continue to comply with the rules of priority as if (s)he was using CTB functionality. Compliance with the rules of priority in these situations may be achieved if the Floor Broker, or employee of a Floor Brokerage firm, were to contemporaneously route an Intermarket Sweep Order ("ISO")³, to the Exchange for the full size of his or her order, at the same price as the priority interest in the Consolidated Book that they need to clear and on the appropriate side of the market. Any delays in the routing of an order intended to clear priority interest would be considered a violation of a Floor Broker's obligation to comply with the terms of Rule 963NY. All instances involving CTB overrides involving priority orders are documented and are subject to regulatory review. Floor Brokerage firms must maintain records of all orders sent to the Exchange to satisfy priority interest on the Consolidated Book.⁴ Record retention requirements apply regardless of whether an order was actually executed.

Split Price Priority

Rule 963NY(f) provides that the minimum order size required to achieve priority over any priority interest in the Consolidated Book is 100 contracts. For example, if an ATP Holder, executing a 100 contract order, buys 50 or more option contracts at a price, the ATP Holder has priority in purchasing up to the equivalent number of option contracts at the next lower price provided the ATP Holder's bid is made promptly and both purchases represent the contra side of the transaction with the same order or offer at both prices. If the BBO is \$1.00 bid, offered at \$1.10 10 x 50, where the \$1.00 bid for 10 contracts represents priority interest, an ATP Holder with an order to buy 100 contracts who also has an order to sell 100 contracts, may execute the order

² An order released by a Trading Official using CTB override will not generate a CTB order.

³ See NYSE Amex Rule 990NY(8) - Intermarket Sweep Orders

⁴ See NYSE Amex Rule 956NY(a) - Record of Orders

by trading 50 contracts at \$1.05 and 50 contracts at \$1.00. This transaction would allow the ATP Holder to take priority over the priority interest that was bidding \$1.00 for 10 contracts. If instead, the ATP Holder proceeded by executing the order by trading 10 contracts at \$1.05 and 90 contracts at \$1.00, the ATP Holder would be required to satisfy the priority interest that was bidding \$1.00 for 10 contracts before executing the remaining 80 contracts at \$1.00.

Complex Order Priority

Rule 963NY(d) provides a limited exception to standard rules of priority when executing Complex Orders in open outcry. Complex Orders, as defined in Rule 900.3NY(e), may be executed at a net debit or credit price without yielding priority to equal priced Customer bids (offers) for the individual leg markets in the Consolidated Book, provided that at least one options leg of the order betters the corresponding Customer market in the Consolidated Book for that series by at least \$0.01. Individual legs of a Complex Order, or the option leg of a Stock/Option Order, may never trade at a price that is inferior to any leg market comprising the Complex BBO.

CTB orders are not generated for complex executions; therefore Floor Brokers should send an ISO order(s), for the appropriate size, and side of the market and at the same price as the priority interest in the relevant leg(s) markets in the Consolidated Book that they need to clear.

ATP Holders are also reminded that Complex Orders executed in open outcry must yield priority to all better-priced Electronic Complex Orders and in addition, all same-price Customer Electronic Complex Orders, for the same complex order strategy that may be present in the Consolidated Book at the time of execution. Floor Brokers should determine whether there are any equal or better-priced Electronic Complex Orders by referencing the complex order table displayed in Liquid Point prior to requesting that a Trading Official release their order. Once a Trading Official releases a Complex Order, thus signifying that an execution has taken place, all better-priced Electronic Complex Orders, and all equal-priced Customer Electronic Complex Orders present at the time of the TO timestamp must then be satisfied. Upon release of the order, Floor Brokers should contemporaneously route an Electronic Complex Order to the Exchange for the appropriate size and side of the market and at the same price as any Electronic Complex Order(s) in the Consolidated Book, that they need to clear. Any delays in the routing of an order intended to clear priority interest will be considered a violation of a Floor Broker's obligation to comply with the terms of Rule 963NY.

Multi-Legged Orders and Stock/Option Order Priority

ATP Holders are reminded that orders involving multiple legs that do not meet the definition of a Complex Order, as defined in Rule 900.3NY(e), and Stock/Option orders, as defined in Rule 900.3NY(h), do not have priority over equal priced priority interest in the Consolidated Book.

Order Protection and Avoidance of NBBO Trade-Throughs

ATP Holders must comply with the Exchange rules and the terms of the Options Order Protection and Locked/Crossed Market Plan ("Linkage Plan") by honoring any better-priced Protected Quotes. The Linkage Plan,⁵ as codified in Exchange Rules 990NY and 991NY provides that ATP Holders shall not effect trade-throughs of a Protected Bid or Offer

⁵ See <http://www.sec.gov/rules/sro/nms/nmsarchive/nms2007.shtml#4-546>

(collectively, a “Protected Quote”), except pursuant to an applicable exception.⁶ A Protected Quote is defined as a bid or offer in an options series that (a) is disseminated pursuant to the OPRA Plan and (b) is the best bid or best offer, respectively, displayed by an eligible exchange. Once a Trading Official releases an order, thus signifying that an execution has taken place, all better-priced Protected Quotes present at the time of the TO timestamp must be satisfied, unless an exemption applies. It is the Floor Broker’s responsibility to ascertain whether there are any better-priced Protected Quotes in the market at the time of execution, and whether an exemption applies. In order to help ensure that Floor Brokers fulfill their obligation to avoid trade-throughs, an ISO should be routed to each exchange displaying a better-priced Protected Quote, for the full size of the Protected Quote, contemporaneous with the execution of the order on NYSE Amex. Floor Brokers should note that simply sending an order to a third party router for the aggregate size of all better-priced Protected Quote(s) may not satisfy the requirements for the trade-through exemption. In order to ensure compliance with the terms of the ISO trade-through exemption, ATP Holders may send individual ISOs, or use other means they deem appropriate to ensure that ISOs are sent for the full size of each Protected Quote, to each eligible exchange.

Limited Exceptions to TO Timestamp

The Exchange is aware that in certain limited circumstances the TO Timestamp may not reflect market conditions at the precise time that an open outcry execution occurred. This may be the case when there are “race conditions” in connection with the Trading Official releasing the order, rapidly flickering quotations, periods of heightened market activity or systems issues affecting the release of an order. Under these limited conditions, Floor Brokers would be required to yield priority to only those orders that were present at the actual time of execution, as determined by the Trading Official at the post. Where these situations are known, the Trading Official will document the actual market conditions that were present at the time of execution.

Relevant NYSE Amex Options Rules

Rule 956NY Record of Orders
Rule 961NY Manner of Bidding and Offering
Rule 963NY Priority and Order Allocation Procedures — Open Outcry
Rule 991NY Order Protection and Avoidance of Trade-Throughs

Contact Information

For questions regarding the bulletin and rules governing floor trading, please contact Tom Matteo at (212) 656-6349 or Glenn Gsell at (415) 318-1936.

⁶ See NYSE Amex Rule 991NY(b) - Exceptions to Trade-Through Liability.