

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. \* SR 2022 - \* 31

Amendment No. (req. for Amendments \*) 2

Filing by NYSE Arca, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934  
Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

### Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposal to amend Rule 6.64P-O

### Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Kathleen Last Name \* Murphy

Title \* Senior Counsel, NYSE Group Inc.

E-mail \* Kathleen.Murphy@ice.com

Telephone \* (212) 656-4841 Fax (212) 656-8101

### Signature

Pursuant to the requirements of the Securities Exchange of 1934, NYSE Arca, Inc. has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 10/27/2022

(Title \*)

By David De Gregorio

Associate General Counsel

(Name \*)

David De Gregorio

Digitally signed by David De Gregorio  
Date: 2022.10.27 11:42:11 -04'00'

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information \***

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SEC Sub of Am. 2 NYSE Arca 19b4 o

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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Ex. 1 SEC Sub of Am. 2 NYSE Arca 1

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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Ex. 4 SEC Sub of Am. 2 NYSE Arca 1

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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Ex. 5 SEC Sub of Am. 2 NYSE Arca 1

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

- (a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) proposes to amend Rule 6.64P-O (Auction Process). This Amendment No. 2 supersedes and replaces Amendment No. 1 to the original filing in its entirety.<sup>3</sup>

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1, and the text of the proposed rule change is attached as Exhibit 5.

- (b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

Senior management has approved the proposed rule change pursuant to authority delegated to it by the Board of the Exchange. No further action by the Board of Directors or the membership of the Exchange is required. Therefore, the Exchange’s internal procedures with respect to the proposed change are complete.

The person on the Exchange staff prepared to respond to questions and comments on the proposed rule change is:

Kathleen Murphy  
Senior Counsel  
NYSE Group, Inc.  
(212) 656-4841

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

- (a) Purpose

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

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

<sup>3</sup> On October 25, 2022, the Exchange filed Amendment No. 1 to SR-NYSEArca-2022-31, which replaced and superseded the original filing in its entirety. On October 27, 2022, the Exchange filed Amendment No. 2 to SR-NYSEArca-2022-31, which replaced and superseded in its entirety both Amendment No. 1 and the original filing.

The Exchange proposes to modify Rule 6.64P-O regarding the automated process for both opening and reopening trading in a series on the Exchange on Pillar as set forth below.<sup>4</sup> This Amendment No. 2 supersedes and replaces Amendment No. 1 to the original filing in its entirety.<sup>5</sup>

#### Current Pillar Auction Process

Rule 6.64P-O(d) sets forth the Auction Process.<sup>6</sup> Per Rule 6.64P-O(d)(1), once the Exchange receives the Auction Trigger for a series,<sup>7</sup> the Auction Process begins and the Exchange sends a Rotational Quote<sup>8</sup> to both OPRA and proprietary data feeds indicating that the Exchange is in the process of transitioning from a pre-open state to continuous trading for that series.

Per Rule 6.64P-O(d)(2), once a Rotational Quote has been sent, the Exchange conducts an Auction,<sup>9</sup> provided “there is both a Legal Width Quote and, if applicable, Market Maker quotes with a non-zero offer in the series” within the Opening Timer(s), per Rule

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<sup>4</sup> Rule 6.64P-O (the “Pillar Rule”) covers the opening and reopening of option series, which process is identical on the Pillar trading platform. As such, the Exchange will simply refer to the “opening” of a series herein. The Exchange completed its migration to Pillar on July 28, 2022, as announced here: <https://www.nyse.com/trader-update/history#110000440092>.

<sup>5</sup> This Amendment No. 2 updates information regarding the Exchange’s completed migration to Pillar and substantively modifies the original filing as follows: (i) proposing additional discretion for the Exchange to establish what constitutes a Legal Width Quote during the Auction Process (ii) adopting a defined term of “initial Auction Process time period”; (iii) adopting functionality to cancel, rather than execute in the Auction, certain Limit Orders after the “initial Auction Process time period” has elapsed; (iv) providing the Exchange discretion to modify by Trader Update the timing for dissemination of Auction Imbalance Information; and (v) removing the specified values for time periods that the Exchange has discretion to modify by Trader Update (i.e., MMQ Opening Timers).

<sup>6</sup> “Auction Process” refers to the process that begins when the Exchange receives an Auction Trigger for a series and ends when the Auction is conducted. See Rule 6.64P-O(a)(5).

<sup>7</sup> “Auction Trigger” refers to the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin. See Rule 6.64P-O(a)(7).

<sup>8</sup> “Rotational Quote” refers to the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins and such Rotational Quote will be updated (for price and size) during the Auction Process. See Rule 6.64P-O(a)(13).

<sup>9</sup> “Auction” refers to the opening or reopening of a series for trading either with or without a trade. See Rule 6.64P-O(a)(1).

6.64P-O(d)(3).<sup>10</sup> The Exchange deems the Legal Width Quote requirement satisfied if the Calculated NBBO (described below) for the series is uncrossed, contains a non-zero offer, and has a spread that does not exceed a maximum differential that is determined by the Exchange on a class basis and announced by Trader Update.<sup>11</sup> The Calculated NBBO is comprised of the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process.<sup>12</sup> A Calculated NBBO does not require both Market Maker quotes and ABBO to be present, and may be composed of Market Maker quotes only, of the ABBO only, or a combination thereof.

If the foregoing requirements are met (i.e., per Rule 6.64P-O(d)(2)), the Exchange will conduct an Auction that will either result in a trade or in a quote depending on whether there is (or is not) Matched Volume<sup>13</sup> that can trade at or within the Auction Collars.<sup>14</sup> If there is Matched Volume that can trade at or within the Auction Collars, the Auction will result in a trade at the Indicative Match Price.<sup>15</sup> However, if there is no Matched Volume that can trade at or within the Auction Collars, the Auction Process will instead result in a quote and the Exchange transitions to continuous trading as set forth in Rule 6.64P-

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<sup>10</sup> See Rule 6.64P-O(d)(2). Rule 6.64P-O(d)(3) specifies the parameters of the Opening MMQ Timers, which are designed to encourage (but not require) any Market Maker(s) assigned to an option series to submit Legal Width Quotes in connection with the Auction Process. The Exchange proposes a non-substantive change of “30” to “thirty” regarding the Opening MMQ Timer(s), which would add clarity and internal consistency to the rule. See proposed Rule 6.64P-O(d)(3).

<sup>11</sup> See Rule 6.64P-O(a)(10)(A)-(C). The maximum spread differential for a given series or class of options may be modified by a Trading Official. See Rule 6.64P-O(a)(10)(C).

<sup>12</sup> See Rule 6.64P-O(a)(8) (defining Calculated NBBO).

<sup>13</sup> “Matched Volume” refers to the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders. See Rule 6.64P-O(a)(11). An Imbalance Offset Order (“IO Order”) is a Limit Order that is to be traded only in an Auction. See Rule 6.62P-O(c)(3).

<sup>14</sup> “Auction Collar” refers to the price collar thresholds for the Indicative Match Price for an Auction, with the upper Auction Collar being the offer of the Legal Width Quote and the lower Auction Collar being the bid of the Legal Width Quote, provided that if the bid of the Legal Width Quote is zero, the lower Auction Collar will be one MPV above zero for the series. And, if there is no Legal Width Quote, the Auction Collars will be published in the Auction Imbalance Information as zero. See Rule 6.64P-O(a)(2).

<sup>15</sup> See Rule 6.64P-O(d)(2)(A). “Indicative Match Price” refers to the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders and excluding IO Orders, subject to the Auction Collars. If there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars. See Rule 6.64P-O(a)(9).

O(f).<sup>16</sup>

Finally, per Rule 6.64P-O(d)(4), unless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process (inclusive of the thirty-second Opening MMQ Timer(s)), if there is no Legal Width Quote, the Exchange will not conduct an Auction, even if there is Matched Volume, i.e., the series will not open (hereinafter referred to as the “initial Auction Process time period,” as described further below). After the initial Auction Process time period, if there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer, the Exchange will first cancel any Market Orders and MOO Orders and then transition the option series to continuous trading per Rule 6.64P-O(f).<sup>17</sup> The Exchange, however, will not open a series and such series will remain unopened until the earlier of (i) a Legal Width Quote is established and an Auction can be conducted; (ii) the series can be opened as provided for in paragraph (d)(4)(A) (i.e., there is no Matched Volume and the Calculated NBBO is uncrossed and has a non-zero offer); (iii) the series is halted; or (iv) the end of Core Trading Hours.<sup>18</sup> In other words, a series that does not meet the requirements of Rule 6.64P-O(d)(4)(A) may be delayed in opening until one of the conditions set forth in Rule 6.64P-O(d)(4)(B) occur.

#### Proposed Change to Auction Process

First, the Exchange proposes to codify existing rule text (contained in paragraph (d)(4) of the Rule) into the defined phrase the “initial Auction Process time period” in proposed Rule 6.64P-O(a)(5)(i).<sup>19</sup> As proposed, the initial Auction Process time period would mean, “an Exchange-determined time period after the commencement of the Auction Process as specified by Trader Update.”<sup>20</sup> Given that the Exchange has discretion to modify the “ninety second” time period referenced in Rule 6.64P-O(d)(4) -- and has modified this time period since adopting the Pillar Rule -- the Exchange proposes to remove reference to a specific time period, which would add clarity and transparency to the Auction Process.<sup>21</sup> Consistent with this change, the Exchange likewise proposes to

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<sup>16</sup> See Rule 6.64P-O(d)(2)(B).

<sup>17</sup> See Rule 6.64P-O(d)(4)(A).

<sup>18</sup> See Rule 6.64P-O(d)(4)(B).

<sup>19</sup> See Rule 6.64P-O(d)(4) (providing that “[u]nless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process . . .” and “[n]inety seconds after the Auction Process begins:”). Consistent with the proposed defined term of “initial Auction Process time period,” the Exchange proposes to remove the references to ninety (90) seconds.

<sup>20</sup> See proposed Rule 6.64P-O(a)(5)(i) (defining “initial Auction Process time period”).

<sup>21</sup> On August 19, 2002, the Exchange announced by Trader Update that, effective August 22, 2022, “the Exchange will reduce the time period after the start of the Auction Process when the Exchange may open a series on a quote without requiring a Legal Width Quote

modify Rule 6.64P-O(d)(3), to remove reference to “30 seconds” which is the default value for the length of each MMQ Opening Timer, “[u]nless otherwise specified by Trader Update.”<sup>22</sup> Given that the Exchange has modified this time period since adopting the Pillar Rule, the Exchange believes that removing reference to a specific time period would add clarity and transparency to the Auction Process.<sup>23</sup>

Next, the Exchange proposes to modify Rule 6.64P-O(a)(10)(C) to clarify the Exchange’s discretion to determine the presence of a Legal Width Quote. Rule 6.64P-O(a)(10)(C) provides that, to be deemed a Legal Width Quote, the spread of the Calculated NBBO may not exceed a maximum differential that is determined by the Exchange on a class basis and announced by Trader Update (herein referred to as the “Maximum Calculated NBBO Spread”).<sup>24</sup> The Exchange proposes to clarify that the Exchange has authority to modify the Maximum Calculated NBBO Spread during the Auction Process and that any such modifications (like the Exchange-determined Maximum Calculated NBBO Spread) would likewise be announced by Trader Update.<sup>25</sup> This proposed clarification, which is consistent with its existing authority under Rule 6.64P-O(a)(10), would add specificity and transparency to the Auction Process to the benefit of all market participants. The Exchange notes that other options exchanges likewise specify that their discretion to modify the opening parameters for each option series applies during the opening auction process and likewise includes the requirement that each such change is announced to their market participants.<sup>26</sup>

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(provided there is no crossing interest) to 15 seconds, from the current 90 seconds,” available here: <https://www.nyse.com/trader-update/history#110000462552> (the “Opening Timer Update”).

<sup>22</sup> See proposed Rule 6.64P-O(d)(3) (providing that “[e]ach Opening MMQ Timer will be an Exchange-determined period that is announced by Trader Update”).

<sup>23</sup> See Opening Timer Trader Update, *supra* note 21 (announcing that, effective August 22, 2022, each Opening MMQ Timer will be reduced to 5 seconds, from the current value of 30 seconds). The Exchange proposes the non-substantive change to re-organize the existing text for clarity purposes (i.e., moving the clause “[e]ach opening MMQ Timer” to the beginning of the proposed rule). See *id.*

<sup>24</sup> See Rule 6.64P-O(a)(10)(C) (which also provides a Trading Official may establish maximum differentials for one or more series or classes of options, which differ from those established by the Exchange). To qualify as a Legal Width Quote, the Calculated NBBO must also be uncrossed and must contain a non-zero offer, which requirements are not being modified by this rule change. See Rule 6.64P-O(a)(10)(A)-(B).

<sup>25</sup> See proposed Rule 6.64P-O(a)(10)(C). See Rule 6.64P-O(a)(10)(A)-(B).

<sup>26</sup> See, e.g., Cboe Options Exchange, Inc. (“Cboe”) Rule 5.31(a) (definitions of Maximum Composite Width and Opening Collar, each of which the exchange “may modify during the opening auction process (which modifications the Exchange disseminates to all subscribers to the Exchange’s data feeds that deliver opening auction updates)”); Cboe EDGX Options Exchange, Inc. (“EDGX”) Rule 21.7(a) (same); Cboe BZX Options

The Exchange proposes to modify Rule 6.64P-O(d)(4) to provide that, after the initial Auction Process time period has elapsed, the Exchange may open a series when the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer (the “wide Calculated NBBO”) provided the Exchange first cancels certain interest.<sup>27</sup> Specifically, before the Exchange can open a series, with a quote, and transition to continuous trading (per Rule 6.64P-O(f)) based on a wide Calculated NBBO, the Exchange must first cancel Market Orders, MOO Orders, and Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price.<sup>28</sup> The Exchange believes that the proposed cancellation of such executable Limit Orders would help prevent executions at potentially extreme prices. Consistent with this change, the Exchange proposes to add a caveat to Rule 6.64P-O(d)(2)(A) -- which provides for the trading of certain executable interest at the Indicative Match Price -- to make clear that the trading behavior set forth in this provision is subject to proposed Rule 6.64P-O(d)(4).<sup>29</sup> Although the functionality set forth in Rule 6.64P-O(d) is designed to allow the affected series to open on a quote (and not a trade), the Exchange acknowledges the possibility that such series may open on a trade because orders or quotes may arrive as the Exchange is evaluating trading interest and whether such interest qualifies as a Legal Width Quote.<sup>30</sup>

The proposed cancellation of Market Orders and MOO Orders before opening a series is consistent with the current Pillar Rule and thus would continue to protect Market Orders and MOO Orders from being executed before transitioning to continuous trading, per

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Exchange, Inc. (“BZX”) Rule 21.7(a) (definitions of Maximum Composite Width and Opening Collar); Cboe C2 Exchange Inc. (“C2”) Rule 6.11(a) (same)).

<sup>27</sup> See proposed Rule 6.64P-O(d)(4). Consistent with the proposed definition of the “initial Auction Process time period” and its use in the proposed rule, the Exchange proposes to delete reference to “ninety seconds” regarding the Auction Process. See id.

<sup>28</sup> See proposed Rule 6.64P-O(d)(4). The Exchange proposes to re-locate the text regarding the potential race condition resulting in a trade from Rule 6.64P-O(d)(4)(A) to proposed Rule 6.64P-O(d)(4) and to replace reference to “Auction” with “Auction Process” for the sake of clarity as well as to delete current paragraph (d)(4)(A) of the Pillar Rule as obsolete because the text describing the wide Calculated NBBO is contained in proposed Rule 6.64P-O(d)(4) and the transition to continuous trading is no longer dependent upon the presence of Matched Volume under the proposed functionality. See id.

<sup>29</sup> See proposed Rule 6.64P-O(d)(2)(A). As is the case today -- which behavior remains unchanged by proposed Rule 6.64P-O(d), the Exchange will open on a quote and transition to continuous trading (per Rule 6.64P-O(f)) in the absence of executable interest (i.e., there is no Matched Volume that can trade at or within the Auction Collars). See Rule 6.64P-O(d)(2)(B).

<sup>30</sup> See proposed Rule 6.64P-O(d)(4) (regarding the potential race condition resulting in a trade).



paragraph (f) of the Pillar Rule when there is a wide Calculated NBBO.<sup>31</sup> The proposed cancellation of Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price, is new. The Indicative Match Price refers to the opening price for a series and represent the price at which the maximum number of contracts can be traded in an Auction. Thus, the proposal to cancel Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price when the Calculated NBBO is wider than the Legal Width Quote would allow the Exchange to help ensure that potentially executable Limit Orders would be cancelled rather than execute at potentially extreme prices before the Exchange transitions to continuous trading.<sup>32</sup> The Exchange believes that this proposed handling would likewise allow the Exchange to proceed with a timely opening of each series --which opening would have otherwise been delayed until market conditions changed per the current Pillar Rule.<sup>33</sup>

Because the proposed change to Rule 6.64P-O(d)(4) would allow any series that has not opened by the end of the initial Auction Process time period the ability to open on a quote based on a wide Calculated NBBO, the Exchange proposes to eliminate as unnecessary Rule 6.64P-O(d)(4)(B), which paragraph contemplates a series not being able to open because the Calculated NBBO is wider than -- and thus does not qualify as -- a Legal Width Quote. The Exchange believes these proposed conforming changes are necessary given that the proposed changes to Rule 6.64P-O(d)(4) render paragraph (d)(4)(B) of the Rule unnecessary.

In addition, the Exchange proposes to modify Rule 6.64P-O(c), which provides that “Auction Imbalance Information is updated at least every second until the Auction is conducted, unless there is no change to the information,” to authorize the Exchange to modify the time within which it updates this information and to announce any such changes by Trader Update.<sup>34</sup> Given the proposed change to allow the Exchange to open certain series after the initial Auction Process time period after first cancelling certain interest, the Exchange anticipates that it may not be necessary to update the Auction

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<sup>31</sup> See Rule 6.64P-O(d)(4)(A)(i) (providing that Market Orders and MOO Orders are cancelled “[a]ny time a series is opened or reopened when there is no Legal Width Quote”). The Exchange believes this proposed change is non-substantive as it simply relocates existing text in the more streamlined proposed rule.

<sup>32</sup> The Exchange notes that “[i]f there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars.” See Rule 6.64P-O(a)(9).

<sup>33</sup> See, e.g., Rule 6.64P-O(d)(4)(A) and (B). The Exchange notes that any Auction interest that is not cancelled in series that open per proposed Rule 6.64P-O(d)(4) would be handled in the same manner as all other Auction interest that is present when the Exchange transitions from the Auction Process to continuous trading per Rule 6.64P-O(f)(1)-(3).

<sup>34</sup> See proposed Rule 6.64P-O(c) (providing that “[u]nless otherwise provided by Trader Update, Auction Imbalance Information is updated at least every second until the Auction is conducted, unless there is no change to the information”).

Imbalance Information at least every second. The Exchange seeks flexibility in the frequency for imbalance publication as it plans to monitor the impact of the proposed change after which it will be in a position to better assess the appropriate frequency for publication of the Auction Imbalance Information. In addition, this proposed discretion, which is consistent with other options exchanges, would afford the Exchange flexibility, including to respond to market conditions.<sup>35</sup>

Finally, the Exchange also proposes to modify the requirements to open a series during the initial Auction Process time period for option series with two or more assigned Market Makers, per Rule 6.64P-O(d)(3)(C). Per Rule 6.64P-O(d)(3)(C)(i), if there are two or more Market Makers assigned to a series, the Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two assigned Market Makers have submitted a quote with a non-zero offer. Per Rule 6.64P-O(d)(3)(C)(ii), if at least two Market Makers assigned to a series have not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer, the Exchange will begin a second Opening MMQ Timer. The Exchange proposes to modify these provisions to provide that the Exchange would require that at least two quotes with non-zero offers be submitted during the Opening MMQ Timer, which quotes may be sent by one or more Market Makers.<sup>36</sup>

The Exchange believes that the proposed change continues to encourage (but not require) Market Makers to participate at the open, which may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open in a timely manner. The Exchange believes that expanding the opportunities for each Market Maker to enter the market -- whether by each Market Maker submitting one quote or a single Market Maker submitting two quotes -- could result in the depth of liquidity that market participants have come to expect in options with multiple assigned Market Makers, and a more stable trading environment. The Exchange believes the proposed rule change would provide more flexibility in terms of how market depth is achieved (i.e., based on quotes from a single Market Maker as opposed to two) and may result in a more timely and

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<sup>35</sup> See, e.g., Nasdaq Options Market (“NOM”) Section 8(b)(3) (providing that “Nasdaq shall disseminate by electronic means an Order Imbalance Indicator every 5 seconds beginning between 9:20 and 9:28, or a shorter dissemination interval as established by the Exchange, with the default being set at 9:25 a.m. The start of dissemination, and a dissemination interval, shall be posted by Nasdaq on its website.”).

<sup>36</sup> See proposed Rule 6.64P-O(d)(2) (providing that “[o]nce a Rotational Quote has been sent, the Exchange will conduct an Auction when there is both a Legal Width Quote and, if applicable, Market Maker quotes with a non-zero offer in the series (subject to the Opening MMQ Timer(s) requirements in paragraph (d)(3) of this Rule”) and Rule 6.64P-O(d)(3)(C)(i) (providing that “[t]he Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two quotes with a non-zero offer submitted by assigned Market Maker(s)”) and (d)(3)(C)(ii) (providing that “[i]f the Exchange has not received at least two quotes with a non-zero offer from any Market Maker(s) assigned to a series by the end of the Opening MMQ Timer, the Exchange will begin a second Opening MMQ Timer”).

efficient opening process. Further, the proposed change may increase the availability of Legal Width Quotes in more series and would add clarity and transparency to Exchange rules.

#### Other Exchange Rules: Proposed Non-substantive or Clarifying Changes

The Exchange also proposes to make several clarifying or non-substantive changes to certain of its rules. First, the Exchange proposes to modify paragraph (c) of Rule 6.37-O (Obligations of Market Makers) regarding “Unusual Conditions - Auctions” to add an open parenthesis in the cross reference to Rule 6.64P-O(a)(10).<sup>37</sup> The Exchange believes this proposed change would correct an inadvertent omission and would add clarity and transparency to Exchange rules.

Next, the Exchange proposes to correct several cross-references in Rule 6.62P-O (Orders and Modifiers). The Exchange proposes to update the reference in Rule 6.62P-O(e)(3)(C)(ii) regarding Day ISO ALO Orders to correctly cross-reference paragraphs (e)(2)(C) - (F) (rather than to paragraphs (e)(2)(C)-(G)) to cover the processing of such ALO Orders once resting.<sup>38</sup> The proposed change would correct an inadvertent error adding clarity and transparency to Exchange rules. Similarly, the Exchange proposes to update the reference in Rule 6.62P-O(h)(6)(B) to correctly cross-reference the defined term Complex Order, which is set forth in Rule 6.62P-O(f) (rather than paragraph (e)).<sup>39</sup> The proposed change would correct an inadvertent error adding clarity and transparency to Exchange rules.

#### (b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>40</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>41</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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.

#### Proposed Change to Pillar Auction Process

Overall, the Exchange believes the proposed changes to its Auction Process would promote a fair and orderly market by mitigating the potential for extreme executions

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<sup>37</sup> See proposed Rule 6.37-O(c).

<sup>38</sup> See proposed Rule 6.62P-O(e)(3)(C)(ii).

<sup>39</sup> See proposed Rule 6.62P-O(h)(6)(B).

<sup>40</sup> 15 U.S.C. 78f(b).

<sup>41</sup> 15 U.S.C. 78f(b)(5).

when a series opens in a wide market and improving the speed and efficiency of the Exchange's opening process without impairing price discovery. The Exchange believes the proposed change should result in better and more consistent prices on Auction executions and facilitate a fair and orderly transition to continuous trading.

The Exchange believes the proposal to amend Rule 6.64P-O to remove specific values or time periods when the Exchange is authorized to change (and in some cases has changed) such values/timers by Trader Update would add clarity and transparency to the rule and alleviate potential confusion resulting from stale values remaining in rule text. As such, this proposed change would 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 Exchange believes the proposed change to make clear that the Exchange's discretion to modify the Maximum Calculated NBBO Spread that would qualify as a Legal Width Quote during the Auction Process would promote just and equitable principles of trade to the benefit of investors because such change would add clarity and transparency to the rule and help avoid potential investor confusion. The proposed change would also align the Exchange's rule text with that of Cboe and its affiliates with regard to the specific discretion applying during the Auction Process.<sup>42</sup>

The Exchange believes the proposal to amend Rule 6.64P-O(d)(4) to allow the Exchange to conduct an Auction on a wide Calculated NBBO once it has cancelled certain trading interest would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors. In particular, the Exchange believes that the proposed change would improve the speed and efficiency of the Exchange's opening process without impairing price discovery, which should result in better and more consistent prices on Auction executions. The proposed cancellation of Market Orders, MOO Orders, and Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price, would allow the Exchange to proceed with a timely opening of each series while preventing extreme executions for series opened based on a wide Calculated NBBO. The proposal to cancel Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price when the Calculated NBBO is wider than the Legal Width Quote, which functionality is new, would allow the Exchange to help ensure that potentially executable Limit Orders would be cancelled rather than execute at potentially extreme prices before the Exchange transitions to continuous trading (in a wide market). As such, the Exchange believes that providing for the cancellation of potentially executable interest (Market Orders, MOOs and Limit Orders alike) would protect investors as it would continue to limit the risk of execution of orders at extreme prices.

The Exchange believes its proposed conforming change to eliminate as unnecessary Rule 6.64P-O(d)(4)(B) given the changes to Rule 6.64P-O(d)(4) (to allow any series that has

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<sup>42</sup> See supra note 26 (citing the discretion of Cboe and its affiliates to modify the opening auction parameters during the opening process).

not opened by the end of the initial Auction Process time period the ability to open based on a wide Calculated NBBO after cancelling executable interest) would remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors because it would allow the Exchange to proceed with a more timely opening of each series --which opening may have otherwise been delayed per the current Pillar Rule until market conditions changed. Further, the Exchange believes this conforming change would add clarity, specificity, transparency, and internal consistency to the proposed rule making it easier for market participants to navigate and comprehend.

The Exchange proposes to modify Rule 6.64P-O(c) to authorize the Exchange to modify the time within which it updates Auction Imbalance Information and to announce any such changes by Trader Update would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors because the Exchange anticipates that as a result of its proposed changes to the Auction Process that updates the Auction Imbalance Information may not be required as frequently as is set forth in the current rule. The Exchange believes that the flexibility afforded by the proposed change would enable it to monitor client feedback and to then determine the appropriate frequency of the publication of the Auction Imbalance Information. In addition, consistent with the rules of other options exchanges, it would afford the Exchange flexibility, including to respond to market conditions.<sup>43</sup>

The Exchange believes its proposal to modify the requirements to open a series for option series that have two or more assigned Market Makers would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors because it would continue to provide Market Makers assigned to such series the opportunity to submit a quote while potentially promoting a more timely opening once at least two quotes (even if from a single Market Maker) have been submitted and would add clarity and transparency to Exchange rules. The Exchange believes the proposed rule change would provide more flexibility in terms of how market depth in the affected series is achieved (i.e., based on quotes from a single Market Maker as opposed to two) and may result in a more timely and efficient opening process. Further, the proposed change may increase the availability of Legal Width Quotes in more series and would add clarity and transparency to Exchange rules. Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery. To the extent that this proposed rule change results in an option series opening sooner, which, in turn would increase the times during which investors may conduct trading in these options, this proposed change would benefit investors and the investing public.

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<sup>43</sup> See supra note 35 (regarding NOM's discretion to establish intervals for its dissemination of an Order Imbalance Indicator and to post such interval(s) to NOM's website, per Section 8(b)(3)).

The Exchange believes that the proposed non-substantive and conforming changes to Rule 6.64P-O (including to delete paragraph (d)(4)(B)) would promote just and equitable principles of trade because such changes would streamline Rule 6.64P-O, thus adding clarity to the Auction Process making it easier to comprehend and navigate to the benefit of market participants and would promote transparency and internal consistency within Exchange rules making them easier to comprehend and navigate.

#### Additional Proposed Non-substantive or Clarifying Changes to Exchange rules

The Exchange believes that the proposed non-substantive and clarifying changes that update/correct inaccurate references would promote transparency and internal consistency within Exchange rules making them easier to comprehend and navigate.<sup>44</sup>

#### 4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. The Exchange does not believe that the proposed rule change would impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act because all market participants may trade in any series that opens subject to the proposed (modified) opening process.

The Exchange believes that the proposed change to the Auction Process, which would allow certain unopened series to open in a wide market after the Exchange first cancelled potentially executable interest, would not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it is designed to open series on the Exchange in a fair, orderly and timely manner while at the same time mitigating the potential for extreme executions. Further, the Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as all market participants that participate in the opening process may benefit equally from the proposal, as the rules of the Exchange apply equally to all market participants.

The Exchange does not believe that the proposed change to open those series with more than one assigned Market Maker based on two quotes regardless of the source would result in an undue burden on competition. Market Makers are encouraged but not required to quote in their assigned series at the open regardless of whether a Market Maker is one of several assigned to a series or is the only one. As such, this proposal would not subject any Market Maker to additional obligations. Thus, the Exchange does not believe this proposed change would result in an undue burden on intra-market competition as it would apply equally to all similarly-situated Market Makers regarding their assigned series. The Exchange believes that the proposal to allow a series with more than one assigned Market Maker to open based on two quotes regardless of the source

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<sup>44</sup> See supra notes 37-39.

would continue to encourage participation of Market Makers at the open, may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open (sooner). Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery. With respect to inter-market competition, the Exchange notes that most options exchanges do not require Market Makers to quote during the opening.<sup>45</sup>

Additionally, the non-substantive changes proposed by the Exchange, including removing reference to specific values or time periods where the Exchange has discretion to modify such values/timers by Trader Update, provide additional clarity and detail in the Exchange's rules, reduce the potential for investor confusion, and are not changes made for any competitive purpose.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

6. Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of any time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange believes that Amendment No. 2 qualifies for accelerated effectiveness in accordance with Section 19(b)(2) of the Act. The Exchange's proposal to amend Rule 6.64P-O (Auction Process), was published in the Federal Register on June 30, 2022, and, as of the date of this Amendment No. 2, no comments regarding the original filing were submitted.

Amendment No. 2, which supersedes and replaces the original filing in its entirety, updates information regarding the Exchange's completed migration to Pillar and substantively modifies the original filing proposing as follows: (i) proposing additional discretion for the Exchange to establish what constitutes a Legal Width Quote during the Auction Process (ii) adopting a defined term of "initial Auction Process time period"; (iii) adopting functionality to cancel, rather than execute in the Auction, certain Limit Orders after the "initial Auction Process time period" has elapsed; (iv) providing the Exchange discretion to modify by Trader Update the timing for dissemination of Auction Imbalance Information; and (v) removing the specified values for time periods that the Exchange has discretion to modify by Trader Update (i.e., MMQ Opening Timers). Overall, the Exchange believes the proposed changes to its Auction Process would promote a fair and

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<sup>45</sup> See, e.g., Cboe and its affiliated exchanges.

orderly market by mitigating the potential for extreme executions when a series opens in a wide market and improving the speed and efficiency of the Exchange's opening process without impairing price discovery. The Exchange believes the proposed change should result in better and more consistent prices on Auction executions and facilitate a fair and orderly transition to continuous trading.

The Exchange believes that there is good cause for the Commission to accelerate effectiveness because the changes set forth in Amendment No. 2 are intended to enable the Exchange to proceed with a timely opening of each option series after a specified period of time, while preventing extreme executions for series opened based on a wide Calculated NBBO. In addition, the proposal to clarify that the Exchange may modify the Maximum Calculated NBBO Spread during the Auction Process and to authorize the Exchange to announce by Trader Update changes made to the timing of its updates to Auction Imbalance Information is not new or novel and is consistent with the rules of other options exchanges.<sup>46</sup> With respect to the proposed clarifying changes in Amendment No. 2, the Exchange believes such changes are non-substantive (i.e., they do not alter the functionality of the proposed rule changes) and would add granularity to the proposal. In particular, the Exchange believes the proposal to remove specific values or time periods when the Exchange is authorized to change (and in some cases has changed) such values/timers by Trader Update would add clarity and transparency to the rule and alleviate potential confusion resulting from stale values remaining in rule text.

In addition, the Exchange believes that Amendment No. 2 is non-controversial, does not pose an undue burden on competition, and does not raise any novel issues because the proposed changes would enable the Exchange to proceed with a timely opening of each option series after a specified period of time, while preventing extreme executions for series opened (on a quote) based on a wide Calculated NBBO.

The Exchange believe that the changes proposed in Amendment No. 2 would not significantly affect the protection of investors or the public interest but would instead provide greater clarity to the original filing and provide greater transparency about the Auction Process set forth in Rule 6.64P-O.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

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<sup>46</sup> See supra notes 25 (citing the discretion of Cboe and its affiliated exchanges to modify the opening auction parameters during the opening process) and 34 (regarding NOM's discretion to establish intervals for its dissemination of an Order Imbalance Indicator and to post such interval(s) to NOM's website, per Section 8(b)(3)), respectively.



9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

9. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register

Exhibit 5 – Text of Proposed Rule Change

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NYSEARCA-2022-31, Amendment No. 2)

[Date]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to Amend Rule 6.64P-O

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on October 27, 2022, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.64P-O (Auction Process). This Amendment No. 2 supersedes and replaces Amendment No. 1 to the original filing in its entirety.<sup>4</sup> The proposed change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> On October 25, 2022, the Exchange filed Amendment No. 1 to SR-NYSEArca-2022-31, which replaced and superseded the original filing in its entirety. On October 27, 2022, the Exchange filed Amendment No. 2 to SR-NYSEArca-2022-31, which replaced and superseded in its entirety both Amendment No. 1 and the original filing.

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to modify Rule 6.64P-O regarding the automated process for both opening and reopening trading in a series on the Exchange on Pillar as set forth below.<sup>5</sup> This Amendment No. 2 supersedes and replaces Amendment No. 1 to the original filing in its entirety.<sup>6</sup>

Current Pillar Auction Process

Rule 6.64P-O(d) sets forth the Auction Process.<sup>7</sup> Per Rule 6.64P-O(d)(1), once the

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<sup>5</sup> Rule 6.64P-O (the “Pillar Rule”) covers the opening and reopening of option series, which process is identical on the Pillar trading platform. As such, the Exchange will simply refer to the “opening” of a series herein. The Exchange completed its migration to Pillar on July 28, 2022, as announced here: <https://www.nyse.com/trader-update/history#110000440092>.

<sup>6</sup> This Amendment No. 2 updates information regarding the Exchange’s completed migration to Pillar and substantively modifies the original filing as follows: (i) proposing additional discretion for the Exchange to establish what constitutes a Legal Width Quote during the Auction Process (ii) adopting a defined term of “initial Auction Process time period”; (iii) adopting functionality to cancel, rather than execute in the Auction, certain Limit Orders after the “initial Auction Process time period” has elapsed; (iv) providing the Exchange discretion to modify by Trader Update the timing for dissemination of Auction Imbalance Information; and (v) removing the specified values for time periods that the Exchange has discretion to modify by Trader Update (i.e., MMQ Opening Timers).

<sup>7</sup> “Auction Process” refers to the process that begins when the Exchange receives an Auction Trigger for a series and ends when the Auction is conducted. See Rule 6.64P-

Exchange receives the Auction Trigger for a series,<sup>8</sup> the Auction Process begins and the Exchange sends a Rotational Quote<sup>9</sup> to both OPRA and proprietary data feeds indicating that the Exchange is in the process of transitioning from a pre-open state to continuous trading for that series.

Per Rule 6.64P-O(d)(2), once a Rotational Quote has been sent, the Exchange conducts an Auction,<sup>10</sup> provided “there is both a Legal Width Quote and, if applicable, Market Maker quotes with a non-zero offer in the series” within the Opening Timer(s), per Rule 6.64P-O(d)(3).<sup>11</sup> The Exchange deems the Legal Width Quote requirement satisfied if the Calculated NBBO (described below) for the series is uncrossed, contains a non-zero offer, and has a spread that does not exceed a maximum differential that is determined by the Exchange on a class basis and announced by Trader Update.<sup>12</sup> The Calculated NBBO is comprised of the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process.<sup>13</sup> A

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O(a)(5).

<sup>8</sup> “Auction Trigger” refers to the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin. See Rule 6.64P-O(a)(7).

<sup>9</sup> “Rotational Quote” refers to the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins and such Rotational Quote will be updated (for price and size) during the Auction Process. See Rule 6.64P-O(a)(13).

<sup>10</sup> “Auction” refers to the opening or reopening of a series for trading either with or without a trade. See Rule 6.64P-O(a)(1).

<sup>11</sup> See Rule 6.64P-O(d)(2). Rule 6.64P-O(d)(3) specifies the parameters of the Opening MMQ Timers, which are designed to encourage (but not require) any Market Maker(s) assigned to an option series to submit Legal Width Quotes in connection with the Auction Process. The Exchange proposes a non-substantive change of “30” to “thirty” regarding the Opening MMQ Timer(s), which would add clarity and internal consistency to the rule. See proposed Rule 6.64P-O(d)(3).

<sup>12</sup> See Rule 6.64P-O(a)(10)(A)-(C). The maximum spread differential for a given series or class of options may be modified by a Trading Official. See Rule 6.64P-O(a)(10)(C).

<sup>13</sup> See Rule 6.64P-O(a)(8) (defining Calculated NBBO).

Calculated NBBO does not require both Market Maker quotes and ABBO to be present, and may be composed of Market Maker quotes only, of the ABBO only, or a combination thereof.

If the foregoing requirements are met (i.e., per Rule 6.64P-O(d)(2)), the Exchange will conduct an Auction that will either result in a trade or in a quote depending on whether there is (or is not) Matched Volume<sup>14</sup> that can trade at or within the Auction Collars.<sup>15</sup> If there is Matched Volume that can trade at or within the Auction Collars, the Auction will result in a trade at the Indicative Match Price.<sup>16</sup> However, if there is no Matched Volume that can trade at or within the Auction Collars, the Auction Process will instead result in a quote and the Exchange transitions to continuous trading as set forth in Rule 6.64P-O(f).<sup>17</sup>

Finally, per Rule 6.64P-O(d)(4), unless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process (inclusive of the thirty-second Opening MMQ Timer(s)), if there is no Legal Width Quote, the Exchange will not conduct an Auction, even if there is Matched Volume, i.e., the series will not open (hereinafter referred to as the “initial Auction

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<sup>14</sup> “Matched Volume” refers to the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders. See Rule 6.64P-O(a)(11). An Imbalance Offset Order (“IO Order”) is a Limit Order that is to be traded only in an Auction. See Rule 6.62P-O(c)(3).

<sup>15</sup> “Auction Collar” refers to the price collar thresholds for the Indicative Match Price for an Auction, with the upper Auction Collar being the offer of the Legal Width Quote and the lower Auction Collar being the bid of the Legal Width Quote, provided that if the bid of the Legal Width Quote is zero, the lower Auction Collar will be one MPV above zero for the series. And, if there is no Legal Width Quote, the Auction Collars will be published in the Auction Imbalance Information as zero. See Rule 6.64P-O(a)(2).

<sup>16</sup> See Rule 6.64P-O(d)(2)(A). “Indicative Match Price” refers to the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders and excluding IO Orders, subject to the Auction Collars. If there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars. See Rule 6.64P-O(a)(9).

<sup>17</sup> See Rule 6.64P-O(d)(2)(B).

Process time period,” as described further below). After the initial Auction Process time period, if there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer, the Exchange will first cancel any Market Orders and MOO Orders and then transition the option series to continuous trading per Rule 6.64P-O(f).<sup>18</sup> The Exchange, however, will not open a series and such series will remain unopened until the earlier of (i) a Legal Width Quote is established and an Auction can be conducted; (ii) the series can be opened as provided for in paragraph (d)(4)(A) (i.e., there is no Matched Volume and the Calculated NBBO is uncrossed and has a non-zero offer); (iii) the series is halted; or (iv) the end of Core Trading Hours.<sup>19</sup> In other words, a series that does not meet the requirements of Rule 6.64P-O(d)(4)(A) may be delayed in opening until one of the conditions set forth in Rule 6.64P-O(d)(4)(B) occur.

#### Proposed Change to Auction Process

First, the Exchange proposes to codify existing rule text (contained in paragraph (d)(4) of the Rule) into the defined phrase the “initial Auction Process time period” in proposed Rule 6.64P-O(a)(5)(i).<sup>20</sup> As proposed, the initial Auction Process time period would mean, “an Exchange-determined time period after the commencement of the Auction Process as specified by Trader Update.”<sup>21</sup> Given that the Exchange has discretion to modify the “ninety second” time period referenced in Rule 6.64P-O(d)(4) -- and has modified this time period since adopting the

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<sup>18</sup> See Rule 6.64P-O(d)(4)(A).

<sup>19</sup> See Rule 6.64P-O(d)(4)(B).

<sup>20</sup> See Rule 6.64P-O(d)(4) (providing that “[u]nless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process . . .” and “[n]inety seconds after the Auction Process begins:”). Consistent with the proposed defined term of “initial Auction Process time period,” the Exchange proposes to remove the references to ninety (90) seconds.

<sup>21</sup> See proposed Rule 6.64P-O(a)(5)(i) (defining “initial Auction Process time period”).

Pillar Rule -- the Exchange proposes to remove reference to a specific time period, which would add clarity and transparency to the Auction Process.<sup>22</sup> Consistent with this change, the Exchange likewise proposes to modify Rule 6.64P-O(d)(3), to remove reference to “30 seconds” which is the default value for the length of each MMQ Opening Timer, “[u]nless otherwise specified by Trader Update.”<sup>23</sup> Given that the Exchange has modified this time period since adopting the Pillar Rule, the Exchange believes that removing reference to a specific time period would add clarity and transparency to the Auction Process.<sup>24</sup>

Next, the Exchange proposes to modify Rule 6.64P-O(a)(10)(C) to clarify the Exchange’s discretion to determine the presence of a Legal Width Quote. Rule 6.64P-O(a)(10)(C) provides that, to be deemed a Legal Width Quote, the spread of the Calculated NBBO may not exceed a maximum differential that is determined by the Exchange on a class basis and announced by Trader Update (herein referred to as the “Maximum Calculated NBBO Spread”).<sup>25</sup> The Exchange proposes to clarify that the Exchange has authority to modify the Maximum

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<sup>22</sup> On August 19, 2002, the Exchange announced by Trader Update that, effective August 22, 2022, “the Exchange will reduce the time period after the start of the Auction Process when the Exchange may open a series on a quote without requiring a Legal Width Quote (provided there is no crossing interest) to 15 seconds, from the current 90 seconds,” available here: <https://www.nyse.com/trader-update/history#110000462552> (the “Opening Timer Update”).

<sup>23</sup> See proposed Rule 6.64P-O(d)(3) (providing that “[e]ach Opening MMQ Timer will be an Exchange-determined period that is announced by Trader Update”).

<sup>24</sup> See Opening Timer Trader Update, *supra* note 22 (announcing that, effective August 22, 2022, each Opening MMQ Timer will be reduced to 5 seconds, from the current value of 30 seconds). The Exchange proposes the non-substantive change to re-organize the existing text for clarity purposes (i.e., moving the clause “[e]ach opening MMQ Timer” to the beginning of the proposed rule). See *id.*

<sup>25</sup> See Rule 6.64P-O(a)(10)(C) (which also provides a Trading Official may establish maximum differentials for one or more series or classes of options, which differ from those established by the Exchange). To qualify as a Legal Width Quote, the Calculated NBBO must also be uncrossed and must contain a non-zero offer, which requirements are not being modified by this rule change. See Rule 6.64P-O(a)(10)(A)-(B).

Calculated NBBO Spread during the Auction Process and that any such modifications (like the Exchange-determined Maximum Calculated NBBO Spread) would likewise be announced by Trader Update.<sup>26</sup> This proposed clarification, which is consistent with its existing authority under Rule 6.64P-O(a)(10), would add specificity and transparency to the Auction Process to the benefit of all market participants. The Exchange notes that other options exchanges likewise specify that their discretion to modify the opening parameters for each option series applies during the opening auction process and likewise includes the requirement that each such change is announced to their market participants.<sup>27</sup>

The Exchange proposes to modify Rule 6.64P-O(d)(4) to provide that, after the initial Auction Process time period has elapsed, the Exchange may open a series when the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer (the “wide Calculated NBBO”) provided the Exchange first cancels certain interest.<sup>28</sup> Specifically, before the Exchange can open a series, with a quote, and transition to continuous trading (per Rule 6.64P-O(f)) based on a wide Calculated NBBO, the Exchange must first cancel Market Orders, MOO Orders, and Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price.<sup>29</sup> The Exchange believes that the proposed cancellation of such

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<sup>26</sup> See proposed Rule 6.64P-O(a)(10)(C). See Rule 6.64P-O(a)(10)(A)-(B).

<sup>27</sup> See, e.g., Cboe Options Exchange, Inc. (“Cboe”) Rule 5.31(a) (definitions of Maximum Composite Width and Opening Collar, each of which the exchange “may modify during the opening auction process (which modifications the Exchange disseminates to all subscribers to the Exchange’s data feeds that deliver opening auction updates)”); Cboe EDGX Options Exchange, Inc. (“EDGX”) Rule 21.7(a) (same); Cboe BZX Options Exchange, Inc. (“BZX”) Rule 21.7(a) (definitions of Maximum Composite Width and Opening Collar); Cboe C2 Exchange Inc. (“C2”) Rule 6.11(a) (same)).

<sup>28</sup> See proposed Rule 6.64P-O(d)(4). Consistent with the proposed definition of the “initial Auction Process time period” and its use in the proposed rule, the Exchange proposes to delete reference to “ninety seconds” regarding the Auction Process. See *id.*

<sup>29</sup> See proposed Rule 6.64P-O(d)(4). The Exchange proposes to re-locate the text regarding



executable Limit Orders would help prevent executions at potentially extreme prices. Consistent with this change, the Exchange proposes to add a caveat to Rule 6.64P-O(d)(2)(A) -- which provides for the trading of certain executable interest at the Indicative Match Price -- to make clear that the trading behavior set forth in this provision is subject to proposed Rule 6.64P-O(d)(4).<sup>30</sup> Although the functionality set forth in Rule 6.64P-O(d) is designed to allow the affected series to open on a quote (and not a trade), the Exchange acknowledges the possibility that such series may open on a trade because orders or quotes may arrive as the Exchange is evaluating trading interest and whether such interest qualifies as a Legal Width Quote.<sup>31</sup>

The proposed cancellation of Market Orders and MOO Orders before opening a series is consistent with the current Pillar Rule and thus would continue to protect Market Orders and MOO Orders from being executed before transitioning to continuous trading, per paragraph (f) of the Pillar Rule when there is a wide Calculated NBBO.<sup>32</sup> The proposed cancellation of Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price, is new.

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the potential race condition resulting in a trade from Rule 6.64P-O(d)(4)(A) to proposed Rule 6.64P-O(d)(4) and to replace reference to “Auction” with “Auction Process” for the sake of clarity as well as to delete current paragraph (d)(4)(A) of the Pillar Rule as obsolete because the text describing the wide Calculated NBBO is contained in proposed Rule 6.64P-O(d)(4) and the transition to continuous trading is no longer dependent upon the presence of Matched Volume under the proposed functionality. See id.

<sup>30</sup> See proposed Rule 6.64P-O(d)(2)(A). As is the case today -- which behavior remains unchanged by proposed Rule 6.64P-O(d), the Exchange will open on a quote and transition to continuous trading (per Rule 6.64P-O(f)) in the absence of executable interest (i.e., there is no Matched Volume that can trade at or within the Auction Collars). See Rule 6.64P-O(d)(2)(B).

<sup>31</sup> See proposed Rule 6.64P-O(d)(4) (regarding the potential race condition resulting in a trade).

<sup>32</sup> See Rule 6.64P-O(d)(4)(A)(i) (providing that Market Orders and MOO Orders are cancelled “[a]ny time a series is opened or reopened when there is no Legal Width Quote”). The Exchange believes this proposed change is non-substantive as it simply relocates existing text in the more streamlined proposed rule.

The Indicative Match Price refers to the opening price for a series and represent the price at which the maximum number of contracts can be traded in an Auction. Thus, the proposal to cancel Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price when the Calculated NBBO is wider than the Legal Width Quote would allow the Exchange to help ensure that potentially executable Limit Orders would be cancelled rather than execute at potentially extreme prices before the Exchange transitions to continuous trading.<sup>33</sup> The Exchange believes that this proposed handling would likewise allow the Exchange to proceed with a timely opening of each series --which opening would have otherwise been delayed until market conditions changed per the current Pillar Rule.<sup>34</sup>

Because the proposed change to Rule 6.64P-O(d)(4) would allow any series that has not opened by the end of the initial Auction Process time period the ability to open on a quote based on a wide Calculated NBBO, the Exchange proposes to eliminate as unnecessary Rule 6.64P-O(d)(4)(B), which paragraph contemplates a series not being able to open because the Calculated NBBO is wider than -- and thus does not qualify as -- a Legal Width Quote. The Exchange believes these proposed conforming changes are necessary given that the proposed changes to Rule 6.64P-O(d)(4) render paragraph (d)(4)(B) of the Rule unnecessary.

In addition, the Exchange proposes to modify Rule 6.64P-O(c), which provides that “Auction Imbalance Information is updated at least every second until the Auction is conducted,

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<sup>33</sup> The Exchange notes that “[i]f there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars.” See Rule 6.64P-O(a)(9).

<sup>34</sup> See, e.g., Rule 6.64P-O(d)(4)(A) and (B). The Exchange notes that any Auction interest that is not cancelled in series that open per proposed Rule 6.64P-O(d)(4) would be handled in the same manner as all other Auction interest that is present when the Exchange transitions from the Auction Process to continuous trading per Rule 6.64P-O(f)(1)-(3).

unless there is no change to the information,” to authorize the Exchange to modify the time within which it updates this information and to announce any such changes by Trader Update.<sup>35</sup> Given the proposed change to allow the Exchange to open certain series after the initial Auction Process time period after first cancelling certain interest, the Exchange anticipates that it may not be necessary to update the Auction Imbalance Information at least every second. The Exchange seeks flexibility in the frequency for imbalance publication as it plans to monitor the impact of the proposed change after which it will be in a position to better assess the appropriate frequency for publication of the Auction Imbalance Information. In addition, this proposed discretion, which is consistent with other options exchanges, would afford the Exchange flexibility, including to respond to market conditions.<sup>36</sup>

Finally, the Exchange also proposes to modify the requirements to open a series during the initial Auction Process time period for option series with two or more assigned Market Makers, per Rule 6.64P-O(d)(3)(C). Per Rule 6.64P-O(d)(3)(C)(i), if there are two or more Market Makers assigned to a series, the Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two assigned Market Makers have submitted a quote with a non-zero offer. Per Rule 6.64P-O(d)(3)(C)(ii), if at least two Market Makers assigned to a series have not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer, the Exchange will begin a second

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<sup>35</sup> See proposed Rule 6.64P-O(c) (providing that “[u]nless otherwise provided by Trader Update, Auction Imbalance Information is updated at least every second until the Auction is conducted, unless there is no change to the information”).

<sup>36</sup> See, e.g., Nasdaq Options Market (“NOM”) Section 8(b)(3) (providing that “Nasdaq shall disseminate by electronic means an Order Imbalance Indicator every 5 seconds beginning between 9:20 and 9:28, or a shorter dissemination interval as established by the Exchange, with the default being set at 9:25 a.m. The start of dissemination, and a dissemination interval, shall be posted by Nasdaq on its website.”).

Opening MMQ Timer. The Exchange proposes to modify these provisions to provide that the Exchange would require that at least two quotes with non-zero offers be submitted during the Opening MMQ Timer, which quotes may be sent by one or more Market Makers.<sup>37</sup>

The Exchange believes that the proposed change continues to encourage (but not require) Market Makers to participate at the open, which may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open in a timely manner. The Exchange believes that expanding the opportunities for each Market Maker to enter the market -- whether by each Market Maker submitting one quote or a single Market Maker submitting two quotes -- could result in the depth of liquidity that market participants have come to expect in options with multiple assigned Market Makers, and a more stable trading environment. The Exchange believes the proposed rule change would provide more flexibility in terms of how market depth is achieved (i.e., based on quotes from a single Market Maker as opposed to two) and may result in a more timely and efficient opening process. Further, the proposed change may increase the availability of Legal Width Quotes in more series and would add clarity and transparency to Exchange rules.

#### Other Exchange Rules: Proposed Non-substantive or Clarifying Changes

The Exchange also proposes to make several clarifying or non-substantive changes to

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<sup>37</sup> See proposed Rule 6.64P-O(d)(2) (providing that “[o]nce a Rotational Quote has been sent, the Exchange will conduct an Auction when there is both a Legal Width Quote and, if applicable, Market Maker quotes with a non-zero offer in the series (subject to the Opening MMQ Timer(s) requirements in paragraph (d)(3) of this Rule”) and Rule 6.64P-O(d)(3)(C)(i) (providing that “[t]he Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two quotes with a non-zero offer submitted by assigned Market Maker(s)”) and (d)(3)(C)(ii) (providing that “[i]f the Exchange has not received at least two quotes with a non-zero offer from any Market Maker(s) assigned to a series by the end of the Opening MMQ Timer, the Exchange will begin a second Opening MMQ Timer”).

certain of its rules. First, the Exchange proposes to modify paragraph (c) of Rule 6.37-O (Obligations of Market Makers) regarding “Unusual Conditions - Auctions” to add an open parenthesis in the cross reference to Rule 6.64P-O(a)(10).<sup>38</sup> The Exchange believes this proposed change would correct an inadvertent omission and would add clarity and transparency to Exchange rules.

Next, the Exchange proposes to correct several cross-references in Rule 6.62P-O (Orders and Modifiers). The Exchange proposes to update the reference in Rule 6.62P-O(e)(3)(C)(ii) regarding Day ISO ALO Orders to correctly cross-reference paragraphs (e)(2)(C) - (F) (rather than to paragraphs (e)(2)(C)-(G)) to cover the processing of such ALO Orders once resting.<sup>39</sup> The proposed change would correct an inadvertent error adding clarity and transparency to Exchange rules. Similarly, the Exchange proposes to update the reference in Rule 6.62P-O(h)(6)(B) to correctly cross-reference the defined term Complex Order, which is set forth in Rule 6.62P-O(f) (rather than paragraph (e)).<sup>40</sup> The proposed change would correct an inadvertent error adding clarity and transparency to Exchange rules.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>41</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>42</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in

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<sup>38</sup> See proposed Rule 6.37-O(c).

<sup>39</sup> See proposed Rule 6.62P-O(e)(3)(C)(ii).

<sup>40</sup> See proposed Rule 6.62P-O(h)(6)(B).

<sup>41</sup> 15 U.S.C. 78f(b).

<sup>42</sup> 15 U.S.C. 78f(b)(5).

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.

Proposed Change to Pillar Auction Process

Overall, the Exchange believes the proposed changes to its Auction Process would promote a fair and orderly market by mitigating the potential for extreme executions when a series opens in a wide market and improving the speed and efficiency of the Exchange's opening process without impairing price discovery. The Exchange believes the proposed change should result in better and more consistent prices on Auction executions and facilitate a fair and orderly transition to continuous trading.

The Exchange believes the proposal to amend Rule 6.64P-O to remove specific values or time periods when the Exchange is authorized to change (and in some cases has changed) such values/timers by Trader Update would add clarity and transparency to the rule and alleviate potential confusion resulting from stale values remaining in rule text. As such, this proposed change would 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 Exchange believes the proposed change to make clear that the Exchange's discretion to modify the Maximum Calculated NBBO Spread that would qualify as a Legal Width Quote during the Auction Process would promote just and equitable principles of trade to the benefit of investors because such change would add clarity and transparency to the rule and help avoid potential investor confusion. The proposed change would also align the Exchange's rule text with that of Cboe and its affiliates with regard to the specific discretion applying during the

Auction Process.<sup>43</sup>

The Exchange believes the proposal to amend Rule 6.64P-O(d)(4) to allow the Exchange to conduct an Auction on a wide Calculated NBBO once it has cancelled certain trading interest would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors. In particular, the Exchange believes that the proposed change would improve the speed and efficiency of the Exchange's opening process without impairing price discovery, which should result in better and more consistent prices on Auction executions. The proposed cancellation of Market Orders, MOO Orders, and Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price, would allow the Exchange to proceed with a timely opening of each series while preventing extreme executions for series opened based on a wide Calculated NBBO. The proposal to cancel Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price when the Calculated NBBO is wider than the Legal Width Quote, which functionality is new, would allow the Exchange to help ensure that potentially executable Limit Orders would be cancelled rather than execute at potentially extreme prices before the Exchange transitions to continuous trading (in a wide market). As such, the Exchange believes that providing for the cancellation of potentially executable interest (Market Orders, MOOs and Limit Orders alike) would protect investors as it would continue to limit the risk of execution of orders at extreme prices.

The Exchange believes its proposed conforming change to eliminate as unnecessary Rule 6.64P-O(d)(4)(B) given the changes to Rule 6.64P-O(d)(4) (to allow any series that has not

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<sup>43</sup> See supra note 27 (citing the discretion of Cboe and its affiliates to modify the opening auction parameters during the opening process).

opened by the end of the initial Auction Process time period the ability to open based on a wide Calculated NBBO after cancelling executable interest) would remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors because it would allow the Exchange to proceed with a more timely opening of each series -- which opening may have otherwise been delayed per the current Pillar Rule until market conditions changed. Further, the Exchange believes this conforming change would add clarity, specificity, transparency, and internal consistency to the proposed rule making it easier for market participants to navigate and comprehend.

The Exchange proposes to modify Rule 6.64P-O(c) to authorize the Exchange to modify the time within which it updates Auction Imbalance Information and to announce any such changes by Trader Update would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors because the Exchange anticipates that as a result of its proposed changes to the Auction Process that updates the Auction Imbalance Information may not be required as frequently as is set forth in the current rule. The Exchange believes that the flexibility afforded by the proposed change would enable it to monitor client feedback and to then determine the appropriate frequency of the publication of the Auction Imbalance Information. In addition, consistent with the rules of other options exchanges, it would afford the Exchange flexibility, including to respond to market conditions.<sup>44</sup>

The Exchange believes its proposal to modify the requirements to open a series for option series that have two or more assigned Market Makers would promote just and equitable

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<sup>44</sup> See supra note 36 (regarding NOM's discretion to establish intervals for its dissemination of an Order Imbalance Indicator and to post such interval(s) to NOM's website, per Section 8(b)(3)).



principles of trade and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors because it would continue to provide Market Makers assigned to such series the opportunity to submit a quote while potentially promoting a more timely opening once at least two quotes (even if from a single Market Maker) have been submitted and would add clarity and transparency to Exchange rules. The Exchange believes the proposed rule change would provide more flexibility in terms of how market depth in the affected series is achieved (i.e., based on quotes from a single Market Maker as opposed to two) and may result in a more timely and efficient opening process. Further, the proposed change may increase the availability of Legal Width Quotes in more series and would add clarity and transparency to Exchange rules. Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery. To the extent that this proposed rule change results in an option series opening sooner, which, in turn would increase the times during which investors may conduct trading in these options, this proposed change would benefit investors and the investing public.

The Exchange believes that the proposed non-substantive and conforming changes to Rule 6.64P-O (including to delete paragraph (d)(4)(B)) would promote just and equitable principles of trade because such changes would streamline Rule 6.64P-O, thus adding clarity to the Auction Process making it easier to comprehend and navigate to the benefit of market participants and would promote transparency and internal consistency within Exchange rules making them easier to comprehend and navigate.

#### Additional Proposed Non-substantive or Clarifying Changes to Exchange rules

The Exchange believes that the proposed non-substantive and clarifying changes that update/correct inaccurate references would promote transparency and internal consistency within

Exchange rules making them easier to comprehend and navigate.<sup>45</sup>

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. The Exchange does not believe that the proposed rule change would impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act because all market participants may trade in any series that opens subject to the proposed (modified) opening process.

The Exchange believes that the proposed change to the Auction Process, which would allow certain unopened series to open in a wide market after the Exchange first cancelled potentially executable interest, would not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because it is designed to open series on the Exchange in a fair, orderly and timely manner while at the same time mitigating the potential for extreme executions. Further, the Exchange does not believe that the proposed rule change will impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act, as all market participants that participate in the opening process may benefit equally from the proposal, as the rules of the Exchange apply equally to all market participants.

The Exchange does not believe that the proposed change to open those series with more than one assigned Market Maker based on two quotes regardless of the source would result in an undue burden on competition. Market Makers are encouraged but not required to quote in their

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<sup>45</sup> See supra notes 38-40.

assigned series at the open regardless of whether a Market Maker is one of several assigned to a series or is the only one. As such, this proposal would not subject any Market Maker to additional obligations. Thus, the Exchange does not believe this proposed change would result in an undue burden on intra-market competition as it would apply equally to all similarly-situated Market Makers regarding their assigned series. The Exchange believes that the proposal to allow a series with more than one assigned Market Maker to open based on two quotes regardless of the source would continue to encourage participation of Market Makers at the open, may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open (sooner). Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery. With respect to inter-market competition, the Exchange notes that most options exchanges do not require Market Makers to quote during the opening.<sup>46</sup>

Additionally, the non-substantive changes proposed by the Exchange, including removing reference to specific values or time periods where the Exchange has discretion to modify such values/timers by Trader Update, provide additional clarity and detail in the Exchange's rules, reduce the potential for investor confusion, and are not changes made for any competitive purpose.

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

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange believes that Amendment No. 2 qualifies for accelerated effectiveness in

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<sup>46</sup> See, e.g., Cboe and its affiliated exchanges.

accordance with Section 19(b)(2) of the Act. The Exchange's proposal to amend Rule 6.64P-O (Auction Process), was published in the Federal Register on June 30, 2022, and, as of the date of this Amendment No. 2, no comments regarding the original filing were submitted.

Amendment No. 2, which supersedes and replaces the original filing in its entirety, updates information regarding the Exchange's completed migration to Pillar and substantively modifies the original filing proposing as follows: (i) proposing additional discretion for the Exchange to establish what constitutes a Legal Width Quote during the Auction Process (ii) adopting a defined term of "initial Auction Process time period"; (iii) adopting functionality to cancel, rather than execute in the Auction, certain Limit Orders after the "initial Auction Process time period" has elapsed; (iv) providing the Exchange discretion to modify by Trader Update the timing for dissemination of Auction Imbalance Information; and (v) removing the specified values for time periods that the Exchange has discretion to modify by Trader Update (i.e., MMQ Opening Timers). Overall, the Exchange believes the proposed changes to its Auction Process would promote a fair and orderly market by mitigating the potential for extreme executions when a series opens in a wide market and improving the speed and efficiency of the Exchange's opening process without impairing price discovery. The Exchange believes the proposed change should result in better and more consistent prices on Auction executions and facilitate a fair and orderly transition to continuous trading.

The Exchange believes that there is good cause for the Commission to accelerate effectiveness because the changes set forth in Amendment No. 2 are intended to enable the Exchange to proceed with a timely opening of each option series after a specified period of time, while preventing extreme executions for series opened based on a wide Calculated NBBO. In addition, the proposal to clarify that the Exchange may modify the Maximum Calculated NBBO

Spread during the Auction Process and to authorize the Exchange to announce by Trader Update changes made to the timing of its updates to Auction Imbalance Information is not new or novel and is consistent with the rules of other options exchanges. With respect to the proposed clarifying changes in Amendment No. 2, the Exchange believes such changes are non-substantive (i.e., they do not alter the functionality of the proposed rule changes) and would add granularity to the proposal. In particular, the Exchange believes the proposal to remove specific values or time periods when the Exchange is authorized to change (and in some cases has changed) such values/timers by Trader Update would add clarity and transparency to the rule and alleviate potential confusion resulting from stale values remaining in rule text.

In addition, the Exchange believes that Amendment No. 2 is non-controversial, does not pose an undue burden on competition, and does not raise any novel issues because the proposed changes would enable the Exchange to proceed with a timely opening of each option series after a specified period of time, while preventing extreme executions for series opened (on a quote) based on a wide Calculated NBBO.

The Exchange believe that the changes proposed in Amendment No. 2 would not significantly affect the protection of investors or the public interest but would instead provide greater clarity to the original filing and provide greater transparency about the Auction Process set forth in Rule 6.64P-O.

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEARCA-2022-31 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-NYSEARCA-2022-31. This file number should be included on the subject line if e-mail 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 website (<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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEARCA-2022-31 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>47</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>47</sup> 17 CFR 200.30-3(a)(12).

Additions: Underlined

Deletions: [Bracketed]

Amendment No. 4 added text in ***bold italics double-underlined***

Amendment No. 4 deleted text in ~~strikethrough~~

**Rules of NYSE Arca, Inc.**

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**Options Rules**

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**Rule 6-O OPTIONS TRADING**

*Rules with a “P” modifier are operative for symbols that are trading on the Pillar trading platform. If a symbol is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier will no longer be operative for that symbol. The Exchange will announce by Trader Update when symbols are trading on the Pillar trading platform.*

**Rules Principally Applicable to Trading of Option Contracts**

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**Rule 6.64P-O. Auction Process**

(a) This Rule is applicable to all series that trade on the Exchange other than Flex Options. The following are definitions for purposes of Rule 6-O Options Trading that are applicable to trading on Pillar:

\* \* \* \* \*

(5) “Auction Process” means the process that begins when the Exchange receives an Auction Trigger for a series and ends when the Auction is conducted.

(i) The “initial Auction Process time period” means, ~~unless otherwise specified by Trader Update, the first ninety seconds~~ ***an Exchange-determined time period*** after the commencement of the Auction Process ***as specified by Trader Update.***

\* \* \* \* \*

(10) A “Legal Width Quote” is a Calculated NBBO that:

(A) may be locked, but not crossed;

(B) does not contain a zero offer; {and}



(C) has a spread between the Calculated NBBO for each option contract that does not exceed a maximum differential that is determined by the Exchange on a class basis, **which amount may be modified during the Auction Process, and such maximum differentials (and modifications thereto) will be** and announced by Trader Update, provided that a Trading Official may establish differences other than the above for one or more series or classes of options~~].; and~~

~~(D) provided that, after the initial Auction Process time period, the Exchange will not impose limits for the maximum differential for the spread between the Calculated NBBO.~~

\* \* \* \* \*

(c) *Auction Imbalance Information.* **Unless otherwise specified by Trader Update,** Auction Imbalance Information is updated at least every second until the Auction is conducted, unless there is no change to the information. The Exchange will begin disseminating Auction Imbalance Information at the following times:

\* \* \* \* \*

(d) *Auction Process.*

\* \* \* \* \*

(2) Once a Rotational Quote has been sent, the Exchange will conduct an Auction when there is both a Legal Width Quote and, if applicable, Market Maker quotes with a non-zero offer in the series (subject to the Opening MMQ Timer(s) requirements in paragraph (d)(3) of this Rule). The Exchange will wait a minimum of two milliseconds after disseminating the Rotational Quote before an Auction can be conducted. Subject to the above:

(A) If there is Matched Volume that can trade at or within the Auction Collars, the Auction will result in a trade at the Indicative Match Price, **except as specified in Rule 6.64P-O(d)(4).**

\* \* \* \* \*

(3) *Opening MMQ Timers.* ~~Unless otherwise specified by Trader Update, e~~**Each** Opening MMQ Timer will be **an Exchange-determined period that is announced by Trader Update**~~[30]thirty seconds~~. Once the Auction Process begins, the Exchange will begin one or more Opening MMQ Timers for the Market Maker(s) assigned to a series to submit a quote with a non-zero offer, subject to the following:

\* \* \* \* \*

(4) **For any option series that has not opened by the end of the initial Auction Process time period because the Calculated NBBO is wider than the Legal Width Quote, if the Calculated NBBO is not crossed and does not contain a zero offer, the Exchange will transition to continuous trading as described in paragraph (f) of this Rule after it first**

**cancels Market Orders, MOO Orders, and Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price. In such case, the Auction Process is not intended to end with a trade, but it may result in a trade even if there is no Legal Width Quote if orders or quotes arrive during the period when the Exchange is evaluating the status of orders and quotes.** [Unless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process] ~~During the initial Auction Process time period, if there is no Legal Width Quote, the Exchange will not conduct an Auction, even if there is Matched Volume. [Ninety seconds after the Auction Process begins] After the conclusion of the initial Auction Process time period, and consistent with paragraph (a)(10)(D) of this Rule:~~

(A) ~~If [there is no Matched Volume and] the Calculated NBBO [is wider than the Legal Width Quote,] is not crossed, and does not contain a zero offer, the Exchange will conduct an Auction, provided that if the Calculated NBBO spread is wider than the differential established as per paragraph (a)(10)(C) of this Rule, the Exchange will cancel Market Orders and MOO Orders before conducting the Auction. After the cancellation of any Market Orders or MOO Orders as applicable, the Auction Process will proceed consistent with paragraph (d)(2)(A)-(B) of this Rule. [transition to continuous trading as described in paragraph (f) of this Rule. In such case, the Auction is not intended to end with a trade, but it may result in a trade even if there is no Legal Width Quote if orders or quotes arrive during the period when the Exchange is evaluating the status of orders and quotes.]~~

~~[(i) Any time a series is opened or reopened when there is no Legal Width Quote, Market Orders and MOO Orders will not participate in the Auction and will be cancelled before the Exchange transitions to continuous trading.]~~

~~(B) If the Exchange still cannot conduct an Auction under paragraph (d)(4)[(A)] of this Rule, the Exchange will continue to evaluate both the Calculated NBBO and interest on the Consolidated Book until the earlier of:~~

~~(i) a Legal Width Quote is established and an Auction can be conducted;~~

~~[(ii) the series can be opened as provided for in paragraph (d)(4)(A); ]~~

~~[(iii)](ii) the series is halted; or~~

~~[(iv)](iii) the end of Core Trading Hours.~~

\* \* \* \* \*

Additions: Underlined  
Deletions: [Bracketed]

## Rules of NYSE Arca, Inc.

\* \* \* \* \*

### Options Rules

\* \* \* \* \*

#### Rule 6-O OPTIONS TRADING

*Rules with a “P” modifier are operative for symbols that are trading on the Pillar trading platform. If a symbol is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier will no longer be operative for that symbol. The Exchange will announce by Trader Update when symbols are trading on the Pillar trading platform.*

#### Rules Principally Applicable to Trading of Option Contracts

##### Rule 6.37-O. Obligations of Market Makers

\* \* \* \* \*

(c) *Unusual Conditions - Auctions.* If the interest of maintaining a fair and orderly market so requires, a Trading Official may declare that unusual market conditions exist in a particular issue and allow Market Makers in that issue to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37-O or Rule 6.64P-O(a)(10). In making such determinations to allow wider markets, the Trading Official should consider the following factors: (A) whether there is pending news, a news announcement or other special events; (B) whether the underlying security is trading outside of the bid or offer in such security then being disseminated; (C) whether OTP Holders and OTP Firms receive no response to orders placed to buy or sell the underlying security; and (D) whether a vendor quote feed is clearly stale or unreliable.

\* \* \* \* \*

##### Rule 6.62P-O. Orders and Modifiers

\* \* \* \* \*

(e) Orders with Instructions Not to Route

\* \* \* \* \*

(3) Intermarket Sweep Order (“ISO”). A Limit Order that does not route and meets the requirements of Rule 6.92-O(a)(8).

\* \* \* \* \*

(C) A Day ISO may be designated with an ALO Modifier (“Day ISO ALO”). On arrival, a Day ISO ALO to buy (sell) may lock or cross Away Market Protected Quotations at the time of arrival of the Day ISO ALO but will not remove liquidity from the Consolidated Book. A Day ISO ALO can be designated to be cancelled if it would be displayed at a price other than its limit price.

\* \* \* \* \*

(ii) Once resting, a Day ISO ALO will be processed as an ALO Order as specified in paragraphs (e)(2)(C) - ([G]F) of this Rule.

\* \* \* \* \*

(h) Orders Available Only in Open Outcry.

\* \* \* \* \*

(6)(A) *Stock/Option Order* is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than 8 option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.

(B) *Stock/Complex Order*. A “Stock/Complex Order” is the purchase or sale of a Complex Order (as defined in Rule 6.62P-O([e]f)) coupled with an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) representing either:

\* \* \* \* \*

### **Rule 6.64P-O. Auction Process**

(a) This Rule is applicable to all series that trade on the Exchange other than Flex Options. The following are definitions for purposes of Rule 6-O Options Trading that are applicable to trading on Pillar:

(1) “Auction” means the opening or reopening of a series for trading either with or without a trade.

(A) “Core Open Auction” means the Auction that opens trading after the beginning of Core Trading Hours.

(B) “Trading Halt Auction” means the Auction that reopens trading following a trading halt.

(2) “Auction Collar” means the price collar thresholds for the Indicative Match Price for an

Auction.

- (A) The upper Auction Collar will be the offer of the Legal Width Quote and the lower Auction Collar will be the bid of the Legal Width Quote, provided that if the bid of the Legal Width Quote is zero, the lower Auction Collar will be one MPV above zero for the series.
  - (B) If there is no Legal Width Quote, the Auction Collars will be published in the Auction Imbalance Information as zero.
- (3) “Auction Imbalance Information” means the information that the Exchange disseminates about an Auction via its proprietary data feeds and includes the Auction Collars, Auction Indicator, Book Clearing Price, Far Clearing Price, Indicative Match Price, Matched Volume, Market Imbalance, and Total Imbalance. Auction Imbalance Information will be based on all quotes and orders (including the non-displayed quantity of Reserve Orders) eligible to participate in an Auction, excluding IO Orders.
- (A) “Auction Indicator” means the indicator that provides a status update of whether an Auction cannot be conducted because either (i) there is no Legal Width Quote, or (ii) a Market Maker quote has not been received during the Opening MMQ Timer(s).
  - (B) “Book Clearing Price” is the price at which all contracts could be traded in an Auction if not subject to the Auction Collar. The Book Clearing Price will be zero if a sell (buy) Imbalance cannot be filled by any buy (sell) interest.
  - (C) “Far Clearing Price” is the price at which Auction-Only Orders could be traded in an Auction within the Auction Collar.
  - (D) “Imbalance” means the number of buy (sell) contracts that cannot be matched with sell (buy) contracts at the Indicative Match Price at any given time.
    - (i) “Total Imbalance” is the Imbalance of all buy (sell) contracts at the Indicative Match Price for all orders and quotes eligible to trade in an Auction.
    - (ii) “Market Imbalance” is the Imbalance of any remaining buy (sell) Market Orders and MOO Orders that are not matched for trading in the Auction.
- (4) “Auction Price” means the price at which an Auction that results in a trade is conducted.
- (5) “Auction Process” means the process that begins when the Exchange receives an Auction Trigger for a series and ends when the Auction is conducted.
- (i) The “initial Auction Process time period” means an Exchange-determined time period after the commencement of the Auction Process as specified by Trader Update.
- (6) “Auction Processing Period” means the period during which the Auction is being processed.

- (7) “Auction Trigger” means the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin.
- (A) For a Core Open Auction, the Auction Trigger is when the Primary Market first disseminates at or after 9:30 a.m. Eastern Time both a two-sided quote and a trade of any size that is at or within the quote.
  - (B) For a Trading Halt Auction, the Auction Trigger is when the Primary Market disseminates at the end of a trading halt or pause a resume message, a two-sided quote, and a trade of any size that is at or within the quote.
- (8) “Calculated NBBO” means the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process.
- (9) “Indicative Match Price” means the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders and excluding IO Orders, subject to the Auction Collars. If there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars.
- (A) If there is more than one price level at which the maximum number of contracts can be traded within the Auction Collars, the Indicative Match Price will be the price closest to the midpoint of the Legal Width Quote, rounded to the nearest MPV for the series, provided that the Indicative Match Price will not be lower (higher) than the highest (lowest) price of a Limit Order to buy (sell) ranked Priority 2 - Display Orders that is eligible to participate in the Auction.
  - (B) An Indicative Match Price that is higher (lower) than the upper (lower) Auction Collar will be adjusted to the upper (lower) Auction Collar and orders eligible to participate in the Auction will trade at the collared Indicative Match Price.
    - (i) Limit Orders to buy (sell) with a limit price above (below) the upper (lower) Auction Collar will be included in the Auction Imbalance Information at the collared Indicative Match Price and will be eligible to trade at the Indicative Match Price.
    - (ii) Limit Orders and quotes to buy (sell) with a limit price below (above) the lower (upper) Auction Collar will not be included in the Auction Imbalance Information and will not participate in an Auction.
  - (C) If the Matched Volume for an Auction consists of only buy and sell Market Orders, the Indicative Match Price will be the midpoint of the Legal Width Quote, rounded to the MPV for the series, or, if the Legal Width Quote is locked, the locked price.
  - (D) If there is no Matched Volume, including if there are Market Orders on only one side of the Market, the Indicative Match Price and Total Imbalance for the Auction Imbalance Information will be zero.

(10) A “Legal Width Quote” is a Calculated NBBO that:

(A) may be locked, but not crossed;

(B) does not contain a zero offer; and

(C) has a spread between the Calculated NBBO for each option contract that does not exceed a maximum differential that is determined by the Exchange on a class basis, which amount may be modified during the Auction Process, and such maximum differentials (and modifications thereto) will be announced by Trader Update, provided that a Trading Official may establish differences other than the above for one or more series or classes of options.

(11) “Matched Volume” means the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders.

(12) “Pre-open state” means the period before a series is opened or reopened for trading. During the pre-open state, the Exchange will accept Auction-Only Orders, quotes, and orders designated Day or GTC, including orders ranked Priority 3 - Non-Display Orders that are not eligible to participate in an Auction.

(A) The pre-open state for the Core Open Auction begins at 6:00 a.m. Eastern Time and ends when the Auction Processing Period begins. At the beginning of the pre-open state before the Core Open Auction, orders designated GTC that remain from the prior trading day will be included in the Consolidated Book.

(B) The pre-open state for a Trading Halt Auction begins at the beginning of the trading halt and ends when the Auction Processing Period begins.

(13) “Rotational Quote” means the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins. During the Auction Process, the Exchange will update the price and size of the Rotational Quote. A Rotational Quote can be locked or crossed. If there are no Market Maker quotes, the Rotational Quote will be published with a zero price and size.

(b) *Auction Ranking.* Orders and quotes on the side of the Imbalance are not guaranteed to participate in an Auction and will be ranked in price-time priority under Rule 6.76P-O consistent with the priority ranking associated with each order or quote, provided that:

(1) Limit Orders, quotes, and LOO Orders will be ranked based on their limit price and not the price at which they would participate in the Auction.

(2) MOO Orders will be ranked Priority 1 - Market Orders.

(3) LOO Orders will be ranked Priority 2 - Display Orders.

(4) IO Orders will be ranked based on time among IO Orders, subject to eligibility to participate at the Indicative Match Price based on their limit price.

(c) *Auction Imbalance Information.* Unless otherwise specified by Trader Update, Auction Imbalance Information is updated at least every second until the Auction is conducted, unless there is no change to the information. The Exchange will begin disseminating Auction Imbalance Information at the following times:

- (1) Core Open Auction Imbalance Information will begin at 8:00 a.m. Eastern Time.
- (2) Trading Halt Auction Imbalance Information will begin at the beginning of the trading halt.

(d) *Auction Process.*

(1) *Rotational Quote.* When the Exchange receives the Auction Trigger for a series, the Exchange will send a Rotational Quote to both OPRA and proprietary data feeds indicating that the Exchange is in the process of transitioning from a pre-open state to continuous trading for that series.

(2) Once a Rotational Quote has been sent, the Exchange will conduct an Auction when there is both a Legal Width Quote and, if applicable, Market Maker quotes with a non-zero offer in the series (subject to the Opening MMQ Timer(s) requirements in paragraph (d)(3) of this Rule). The Exchange will wait a minimum of two milliseconds after disseminating the Rotational Quote before an Auction can be conducted. Subject to the above:

(A) If there is Matched Volume that can trade at or within the Auction Collars, the Auction will result in a trade at the Indicative Match Price, except as specified in Rule 6.64P-O(d)(4).

(B) If there is no Matched Volume that can trade at or within the Auction Collars, the Auction will not result in a trade and the Exchange will transition to continuous trading as described in paragraph (f) of this Rule and the Auction will result in a quote.

(3) *Opening MMQ Timers.* [Unless otherwise specified by Trader Update, e]Each Opening MMQ Timer will be an Exchange-determined period that is announced by Trader Update[30 seconds]. Once the Auction Process begins, the Exchange will begin one or more Opening MMQ Timers for the Market Maker(s) assigned to a series to submit a quote with a non-zero offer, subject to the following:

(A) If there are no Market Makers assigned to a series, the Exchange will conduct an Auction in that series based on only a Legal Width Quote, without waiting for the Opening MMQ Timer to end.

(B) If there is only one Market Maker assigned to a series:

(i) The Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and the assigned Market Maker has submitted a quote with a non-zero offer.

(ii) If the Market Maker assigned to a series has not submitted a quote with a non-zero



offer by the end of the Opening MMQ Timer and there is a Legal Width Quote, the Exchange will conduct the Auction.

(C) If there are two or more Market Makers assigned to a series:

- (i) The Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two [assigned Market Makers have submitted a] quotes with a non-zero offer submitted by assigned Market Maker(s).
- (ii) If the Exchange has not received at least two [Market Makers assigned to a series have not submitted a] quotes with a non-zero offer from any Market Maker(s) assigned to a series by the end of the Opening MMQ Timer, the Exchange will begin a second Opening MMQ Timer. During the second Opening MMQ Timer, the Exchange will conduct the Auction, without waiting for the second Opening MMQ Timer to end, if there is both a Legal Width Quote and at least one Market Maker has submitted a quote with a non-zero offer.
- (iii) If no Market Maker assigned to a series has submitted a quote with a non-zero offer by the end of the second Opening MMQ Timer and there is a Legal Width Quote, the Exchange will conduct the Auction.

(4) For any option series that has not opened by the end of the initial Auction Process time period because the Calculated NBBO is wider than the Legal Width Quote, if the Calculated NBBO is not crossed and does not contain a zero offer, the Exchange will transition to continuous trading as described in paragraph (f) of this Rule after it first cancels Market Orders, MOO Orders, and Limit Orders to buy (sell) priced equal to or higher (lower) than the Indicative Match Price. In such case, the Auction Process is not intended to end with a trade, but it may result in a trade even if there is no Legal Width Quote if orders or quotes arrive during the period when the Exchange is evaluating the status of orders and quotes.[Unless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process, if there is no Legal Width Quote, the Exchange will not conduct an Auction, even if there is Matched Volume. Ninety seconds after the Auction Process begins:]

[ (A) If there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote is not crossed, and does not contain a zero offer, the Exchange will transition to continuous trading as described in paragraph (f) of this Rule. In such case, the Auction is not intended to end with a trade, but it may result in a trade even if there is no Legal Width Quote if orders or quotes arrive during the period when the Exchange is evaluating the status of orders and quotes.]

[ (i) Any time a series is opened or reopened when there is no Legal Width Quote, Market Orders and MOO Orders will not participate in the Auction and will be cancelled before the Exchange transitions to continuous trading.]

[ (B) If the Exchange still cannot conduct an Auction under paragraph (d)(4)(A) of this Rule, the Exchange will continue to evaluate both the Calculated NBBO and interest on the Consolidated Book until the earlier of:

- (i) a Legal Width Quote is established and an Auction can be conducted;
- (ii) the series can be opened as provided for in paragraph (d)(4)(A);
- (iii) the series is halted; or
- (iv) the end of Core Trading Hours. ]

(5) The Exchange may deviate from the standard manner of the Auction Process, including adjusting the timing of the Auction Process in any option series or opening or reopening a series when there is no Legal Width Quote, when it believes it is necessary in the interests of a fair and orderly market.

(e) *Order Processing during an Auction Processing Period.* For purposes of paragraphs (e) and (f) of this rule, an "order instruction" refers to a request to cancel, cancel and replace, or modify an order or quote. During the Auction Processing Period, the Exchange will reject new quotes and, if the Exchange receives order instructions for existing quotes, the Exchange will cancel any same-side quotes sent from the same order/quote entry port of that Market Maker. During the Auction Processing Period, new orders will be accepted but will not be processed until after the Auction Processing Period and order instructions for existing orders will be processed as follows:

- (1) An order instruction that arrives during the Auction Processing Period will not be processed until after the Auction Processing Period if it relates to an order or quote that was received before the Auction Processing Period. Any subsequent order instructions relating to such order will be rejected when a prior order instruction is pending.
- (2) An order instruction that arrives during the Auction Processing Period will be processed on arrival if it relates to an order that was received during the Auction Processing Period.

(f) *Transition to Continuous Trading.* After the Auction Processing Period concludes, the Exchange will transition to continuous trading as follows:

- (1) Orders that are no longer eligible to trade will be cancelled.
- (2) During the transition to continuous trading, the Exchange will reject new quotes and, if the Exchange receives order instructions for existing quotes, the Exchange will cancel any same-side quotes sent from the same order/quote entry port of that Market Maker and order instructions will be processed as follows:
  - (A) An order instruction that relates to an order that was received before the Auction Processing Period or that has already transitioned to continuous trading and that arrives during either the transition to continuous trading or the Auction Processing Period will be processed in time sequence with the processing of orders and quotes as specified in paragraphs (f)(3)(A) or (B) of this Rule. Any subsequent order instructions relating to such order will be rejected when a prior order instruction is pending.
  - (B) An order instruction that arrives during the transition to continuous trading will be

processed on arrival if it relates to an order that was entered during either the Auction Processing Period or the transition to continuous trading and such order has not yet transitioned to continuous trading.

(3) When transitioning to continuous trading following an Auction, orders and quotes will be processed as follows:

(A) The Exchange will process Auction-eligible orders and quotes that were received before the Auction Processing Period and orders ranked Priority 3 - Non-Display Orders received before a trading halt as follows:

- (i) Limit Orders and quotes will be subject to the Limit Order Price Protection, Arbitrage Check, and Intrinsic Value Check, as applicable.
- (ii) Limit Orders and Market Orders will be assigned a Trading Collar.
- (iii) Orders eligible to route that are marketable against Away Market Protected Quotations will route based on the ranking of such orders as set forth in Rule 6.76P-O(c).
- (iv) After routing eligible orders, orders and quotes not eligible to route that are marketable against Away Market Protected Quotations will cancel.
- (v) Once there are no more unexecuted orders marketable against Away Market Protected Quotations, orders and quotes that are marketable against other orders and quotes in the Consolidated Book will trade or be repriced.
- (vi) Market Orders received during a pre-open state will be subject to the validation specified in Rule 6.62P-O(a)(1)(C).
- (vii) The display quantity of Reserve Orders will be replenished.
- (viii) The Exchange will send a quote to OPRA and proprietary data feeds representing the highest-priced bid and lowest-priced offer of any remaining unexecuted Auction-eligible orders and quotes that were received before the Auction Processing Period.

(B) Next, orders ranked Priority 3 - Non-Display Orders that were received during a pre-open state will be assigned a new working time in time sequence relative to one another based on original entry time and will be subject to the Limit Order Price Protection, Arbitrage Check, and Intrinsic Value Check, as applicable, and if not cancelled, will be traded or repriced.

(C) Next, orders that were received during the Auction Processing Period will be assigned a new working time in time sequence relative to one another based on original entry time and will be subject to the Limit Order Price Protection, Pre-Trade Risk Controls, Arbitrage Check, Intrinsic Value Check, and validations specified in Rule 6.62P-O(a)(1)(A), as applicable, and if not cancelled, will be processed consistent with

the terms of the order.

(D) When transitioning to continuous trading:

- (i) The display price and working price of orders and quotes will be adjusted based on the contra-side interest in the Consolidated Book or ABBO, as provided for in Rule 6.62P-O.
- (ii) The display price and working price of a Day ISO will be adjusted in the same manner as a Non-Routable Limit Order until the Day ISO is either traded in full or displayed at its limit price. The display price and working price of a Day ISO ALO will be adjusted in the same manner as an ALO Order until the Day ISO ALO is either traded in full or displayed at its limit price.

(g) *Order Processing During a Trading Halt.* The Exchange will process new and existing orders and quotes in a series during a trading halt as follows:

- (1) cancel any unexecuted quantity of orders for which the 500-millisecond Trading Collar timer has started and all resting Market Maker quotes;
- (2) re-price all other resting orders on the Consolidated Book to their limit price. The repricing of a Non-Routable Limit Order, ALO Order, or Day ISO ALO to its limit price during a trading halt will not be counted toward the number of times such order may be repriced. Any subsequent repricing of such order during the transition to continuous trading is permitted as the additional repricing event as provided for in Rule 6.62P-O(e)(1)(B) and (e)(2)(C);
- (3) accept and process all cancellations;
- (4) reject incoming Limit Orders designated IOC or FOK;
- (5) accept all other incoming order and quote messages and instructions until the Auction Processing Period for the Trading Halt Auction, at which point, paragraph (e) of this Rule will govern the entry of incoming orders, quotes, and order instructions; and
- (6) disseminate a zero bid and zero offer quote to OPRA and proprietary data feeds.

(h) Whenever in the judgment of the Exchange the interests of a fair and orderly market so require, the Exchange may adjust the timing of or suspend the Auctions set forth in this Rule with prior notice to OTP Holders and OTP Firms.

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