

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="86"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="52"/> Amendment No. (req. for Amendments *) <input type="text"/>
---	--	--

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

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description

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

Proposed Rule Change to Amend Rule 7.31 Relating to Discretionary Orders, Auction-Only Orders, Discretionary Modifier, and Yielding Modifier and Related Amendments to Rules 7.16, 7.34, 7.36, and 7.37

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 * Last Name *
 Title *
 E-mail *
 Telephone * Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date Senior Counsel

By

(Name *)

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

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 *

Add Remove View

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 Advance Notice by Clearing Agencies *

Add Remove View

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, security-based swap submission, or advance notice 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

Add Remove View

Exhibit Sent As Paper Document

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 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

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 4 - Marked Copies

Add Remove View

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

Add Remove View

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

Add Remove View

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 (the “Act”)¹ and Rule 19b-4 thereunder,² New York Stock Exchange LLC (“NYSE” or the “Exchange”) proposes to amend Rule 7.31 (Order and Modifiers) to: (i) add a new order type, Discretionary Orders; (ii) amend Auction-Only Orders; (iii) add two new order type modifiers, the Last Sale Peg Modifier and the Yielding Modifier; and (iv) make related changes to Rules 7.16, 7.34, 7.36, and 7.37.

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 is required under the Exchange’s governing documents. Therefore, the Exchange’s internal procedures with respect to the proposed rule change are complete.

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

Chris Solgan
Senior Counsel
NYSE Group, Inc.
(212) 656-3434

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

(a) Purpose

The Exchange proposes to amend Rule 7.31 (Order and Modifiers) to: (i) add a new order type, Discretionary Orders; (ii) amend Auction-Only Orders; (iii) add two new order type modifiers, the Last Sale Peg Modifier and the Yielding Modifier; and (iv) make related changes to Rules 7.16, 7.34, 7.36, and 7.37.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Each of these proposed changes is designed to introduce on Pillar order types and modifiers that are currently available for trading securities listed on the Exchange. First, the proposed new order type, Discretionary Orders, or “D Orders,” is based on current d-Quote functionality.³ Second, the proposed changes to Auction-Only Orders are based on how d-Quotes currently function for auctions in Exchange-listed securities. Third, the proposed Last Sale Peg Modifier is based on the Buy Minus Zero Plus Instruction.⁴ Finally, the proposed Yielding Modifier is based on e-Quotes that yield (“g-Quotes”).⁵ The Exchange also proposes to make related changes to Rules 7.16 (Short Sales), 7.34 (Trading Sessions), 7.36 (Order Ranking and Display), and 7.37 (Order Execution and Routing).

Currently, only UTP Securities are traded on the Exchange’s Pillar trading platform.⁶ Accordingly, at this time, the proposed D Order, Last Sale Peg Modifier, and Yielding Modifier would be available only for UTP Securities. When the Exchange transitions Exchange-listed securities to Pillar, these order types and modifiers would be available for those securities as well. Because the Exchange does not conduct auctions in UTP Securities, the proposed changes to Auction-Only Orders would not be applicable to trading in UTP Securities. The Exchange proposes to file a separate proposed rule change to introduce auctions in Pillar for Exchange-listed securities. The proposed changes in this filing to Auction-Only Orders would not be implemented until that separate filing is approved and the Exchange has begun trading Exchange-listed securities on the Pillar trading platform.

Proposed Discretionary Order

The Exchange proposes a new order type, a Discretionary Order or “D Order”, under paragraph (d)(4) of Rule 7.31 for securities trading on Pillar. Today, the Exchange offers d-Quotes⁷ for trading in Exchange-listed securities only, which operate in a similar manner as the proposed D Order, including that such order

³ See Supplementary Material .25 to Rule 70 (“Rule 70.25”).

⁴ See Rule 13(f)(4).

⁵ See Rule 70(a)(ii) and (iii).

⁶ “UTP Security” is defined as a security that is listed on a national securities exchange other than the Exchange and that trades on the Exchange pursuant to unlisted trading privileges. See Rule 1.1(x).

⁷ See Rule 70.25. See also Securities Exchange Act Release Nos. 54577 (October 5, 2006), 71 FR 60208 (October 12, 2006) (SR-NYSE-2006-25) (“d-Quote Approval Order”); 60251 (July 7, 2009), 74 FR 34068 (July 14, 2009) (SR-NYSE-2009-55); 61072 (November 30, 2009), 74 FR 64103 (December 7, 2009) (SR-NYSE-2009-106); and 75444 (July 13, 2015), 80 FR 42575 (July 17, 2015) (SR-NYSE-2015-15).

type is available to Floor brokers only.

Under Rule 70.25, a d-Quote is a quotation entered by a Floor broker that includes discretionary instructions as to size and/or price.⁸ Such discretionary instructions are active during the trading day, unless the PBBO is crossed.⁹ A Floor broker can also include an instruction for the discretionary instructions to participate in the opening or closing transaction only.¹⁰ Discretionary instructions are not displayed and such instructions apply to both displayed and reserve interest.¹¹ Currently, price discretion can apply to all or a portion of a d-Quote and a d-Quote with a midpoint modifier has a discretionary price range to the midpoint of the PBBO.¹²

With respect to discretionary size, a Floor broker may designate the amount of d-Quote volume to which the discretionary price instructions shall apply, and can also designate that a minimum size of contra-side volume with which it is willing to trade using discretionary size instructions.¹³ A Floor broker may also designate a minimum trade size (“MTS”) that must be met before the d-Quote is executed.¹⁴ A resting d-Quote will be triggered to exercise discretion so long as the contra-side interest’s price is within the discretionary price range and meets the MTS that has been set for the d-Quote.¹⁵

On Pillar, the Exchange proposes to offer Floor brokers functionality similar to d-Quotes in the form of D Orders. However, the Exchange proposes to simplify and streamline D Order functionality on Pillar as compared to how d-Quotes function. Among other things, the Exchange would not offer discretionary size instructions for D Orders that are available to d-Quotes. Also unlike d-Quotes, the discretionary price instructions would be applicable to the entirety of the D Order. In addition, all D Orders would have a discretionary price range capped at the midpoint of the PBBO, which is currently optional functionality for d-Quotes.

Overview. Proposed Rule 7.31(d)(4) would set forth the general requirements for D Orders and would provide that a D Order is a Limit Order that may trade at an undisplayed discretionary price. As further proposed, a D Order must be

⁸ See Rule 70.25(a)(i).

⁹ See Rule 70.25(a)(ii).

¹⁰ See *id.*

¹¹ See Rule 70.25(a)(vi) and (vjj).

¹² See Rule 70.25(b).

¹³ See Rule 70.25(c).

¹⁴ See Rule 70.25(d).

¹⁵ See Rule 70.25(e)(ii).

designated Day, may be designated as routable or non-routable,¹⁶ and on entry, must have a minimum of one round lot displayed. This proposed rule text is based in part on how d-Quotes currently function, with a proposed difference that on Pillar, D Orders would be required to have a display quantity.¹⁷ The Exchange proposes that, as currently available for d-Quotes, D Orders could be combined with a Reserve Order, which would be addressed in an amendment to Rule 7.31(d)(1)(C).

Proposed Rule 7.31(d)(4) would further provide that a D Order is available only to Floor brokers and is eligible to be traded in the Core Trading Session¹⁸ only. This proposed rule text is based on current rules that d-Quotes are available only to Floor brokers. The requirement that D Orders would be eligible to trade in the Core Trading Session only is consistent with current d-Quote functionality, which trade during “regular trading hours” only. The Exchange proposes to apply this same time frame when making D Orders available to all securities that trade on Pillar, including UTP Securities because, as discussed below, D Order functionality would operate similarly to Pegged Orders, which are also only available during Core Trading Hours. The Exchange also proposes to amend Rule 7.34(c)(1)(A) to specify when a D Order may be entered and be eligible for execution.

Proposed Rule 7.31(d)(4) would further provide that a D Order in an Auction-Eligible Security would be eligible to participate in an auction at its limit price. As noted above, the Exchange will file a separate proposed rule change to introduce auctions on Pillar and this proposed change would not be applicable to UTP Securities.¹⁹

¹⁶ A d-Quote can be combined with a Do Not Ship “DNS” Order, which is an order that would be cancelled if it were required to be routed. See Rule 13(e)(2). Accordingly, a d-Quote combined with DNS is a non-routable d-Quote.

¹⁷ Currently, Reserve Orders available to Floor brokers do not require a display quantity. See Rule 70(f).

¹⁸ The Core Trading Session begins at 9:30 a.m. Eastern Time and ends at the conclusion of Core Trading Hours. See Rule 7.34(a)(2). The term “Core Trading Hours” means “the hours of 9:30 a.m. Eastern Time through 4:00 p.m. Eastern Time or such other hours as may be determined by the Exchange from time to time.” See Rule 1.1(d).

¹⁹ In its proposed rule change to introduce auctions, the Exchange will introduce new definitions that are used on its affiliated exchanges that operate auctions on the Pillar trading platform, including the term “Auction-Eligible Security,” “Core Trading Auction,” “Trading Halt Auction,” and “Closing Auction.” See, e.g., NYSE Arca Rule 7.35(a)(1)-E. The Exchange believes that it is appropriate to use the yet-to-be-defined Pillar term relating to auctions in proposed Rule 7.31(d)(4) because these aspects of proposed Rule 7.31(d)(4) would not be

Upon Arrival. Proposed Rule 7.31(d)(4)(A) would provide that the Floor broker would be required to specify one of the following instructions for a D Order: (i) Limit Price D Order; or (ii) Midpoint Price D Order.

- Proposed Rule 7.31(d)(4)(A)(i) would provide that on arrival, a Limit Price D Order to buy (sell) would trade with sell (buy) orders on the Exchange Book, or, if designated as routable, route to an Away Market up (down) to the limit price of the order. If after trading or routing the PBBO is locked or crossed or there is no PBB (PBO), a Limit Price D Order would be cancelled. Because the limit price of a D Order would function similarly to the upper (lower) discretionary price range of a d-Quote, this proposed operation of a Limit Price D Order on arrival is similar to how d-Quotes currently function.²⁰
- Proposed Rule 7.31(d)(4)(A)(ii) would provide that on arrival, a Midpoint Price D Order to buy (sell) would trade with sell (buy) orders on the Exchange Book up (down) to the lower (higher) of the midpoint of the PBBO (“Midpoint Price”) or the order’s limit price. The rule would further provide that a Midpoint Price D Order would not route on arrival, even if designated as routable. If designated as routable, a Midpoint D Order combined with a Reserve Order would be evaluated for routing each time the display quantity is replenished. The rule would further provide that if the PBBO is locked or crossed or there is no PBB or PBO to which the order could be pegged upon arrival, the Midpoint Price D Order would be rejected. The Midpoint Price D Order is based on current functionality that a d-Quote may be designated with a midpoint modifier and the discretionary price range of such d-Quote is the midpoint of the PBBO.²¹

The Exchange notes that the proposed functionality to either cancel or reject a D Order when the PBBO is locked or crossed is based on how Primary Pegged Orders²² currently function.²³ As discussed below, the Exchange proposes that D Orders would function similarly to Primary Pegged Orders because they would be pegged to the same-side PBBO. The Exchange therefore believes that a D Order should be rejected or cancelled under the same circumstances when a Primary

operative until the Exchange’s separate proposed rule change relating to auctions would be operative.

²⁰ See Rule 70.25(e)(vii) (a d-Quote may initiate a sweep to the extent of their price and volume discretion).

²¹ See Rule 70.25(b)(v).

²² See Rule 7.31(h) for a description of Pegged Orders.

²³ See Rule 7.31(h)(2) and (h)(2)(B) (“A Primary Pegged Order will be rejected if the PBBO is locked or crossed.”).

Pegged Order would be cancelled or rejected.²⁴ In addition, this is consistent with current d-Quote functionality that provides that discretionary instructions are not active when the PBBO is crossed.²⁵

Display Price. Proposed Rule 7.31(d)(4)(B) would set forth how a D Order would be displayed when resting on the Exchange Book and would provide that the working²⁶ and display price of a D Order to buy (sell) would be pegged to the PBB (PBO). If the PBB (PBO) is higher (lower) than the limit price of a D Order to buy (sell), the working and display price would be the limit price of the order. The rule would further provide that a D Order to buy (sell) would be cancelled if there is no PBB (PBO) against which to peg. At its display price,²⁷ a D Order would be ranked Priority 2 - Display Orders.²⁸ This proposed functionality for D Orders would be new for Pillar and is based on how Primary Pegged Orders function, including that a D Order would be cancelled if there is nothing against which to peg. The Exchange believes this proposed difference would streamline and simplify the operation of D Orders as compared to d-Quotes.²⁹

Exercising Discretion. Proposed Rule 7.31(d)(4)(C) would provide that a resting D Order to buy (sell) would be eligible to exercise discretion up (down) to the limit price of the order. This proposed rule text is new for Pillar and reflects that the limit price of the D Order would function as the ceiling or floor of the discretionary price range for such order. As noted above, the display price of a D Order would be pegged to the same-side PBBO and would not be based on the limit price.

The proposed rule would further provide that such D Order would not exercise

²⁴ See Rule 7.31(h)(2) (“A Primary Pegged Order to buy (sell) will be rejected on arrival, or cancelled when resting, if there is no PBB (PBO) against which to peg.”)

²⁵ See Rule 70.25(a)(ii).

²⁶ “Working price” means the price at which an order is eligible to trade at any given time, which may be different from the limit price or display price of the order. See Rule 7.36(a)(3).

²⁷ “Display price” means the price at which a Limit Order is displayed, which may be different from the limit price or working price of the order. See Rule 7.36(a)(1).

²⁸ Rule 7.36(e) governs execution priority for orders resting on the Exchange Book and currently sets forth three priority categories: Priority 1 – Market Orders, Priority 2 – Display Orders, and Priority 3 – Non-Display Orders. If a D Order is combined with a Reserve Order, the reserve interest of such order would be ranked Priority 3 - Non-Display Orders. See Rule 7.31(d)(1).

²⁹ Currently, d-Quotes resting at the depth of book can exercise discretion. See Rule 70.25(e)(i)(A).

discretion if the PBBO is locked or crossed or if there is no Midpoint Price. This functionality is based in part on how d-Quotes currently function and adds that D Orders would not exercise discretion if the market is locked (because a D Order would be pegged to the same-side PBBO and there is no midpoint) or if there is no Midpoint Price (meaning there is no price available for a D Order to extend its discretion to).³⁰

Proposed Rule 7.31(d)(4)(C)(i) would provide that a D Order to buy (sell) would be triggered to exercise discretion if the price of an Aggressing Order³¹ to sell (buy) is above (below) the PBB (PBO) and at or below the Midpoint Price (the “discretionary price range”). This would be new functionality for D Orders. Currently, any contra-side order that is within the discretionary price range of a d-Quote would trigger a d-Quote to trade.³² The Exchange believes the proposed difference for D Orders would streamline and simplify the function of D Orders. More specifically, because the discretionary price range for a D Order would be one minimum price variation (“MPV”) better than the same-side PBBO capped by the Midpoint Price, the Exchange believes that only contra-side orders with a limit price within that same discretionary price range should trigger a D Order to exercise discretion.

Proposed Rule 7.31(d)(4)(C)(ii) would provide that the discretionary price at which a D Order to buy (sell) would trade would be the price of the sell (buy) order. This proposed functionality would be new for Pillar and is to be read together with proposed Rule 7.31(d)(4)(C)(i), which defines the price range of the contra-side order that could trigger the D order to exercise discretion. In addition, the Exchange proposes to define the term “discretionary price” in new Rule 7.36(a)(7) to mean the undisplayed price at which a D Order would trade if it exercises discretion.

Proposed Rule 7.31(d)(4)(C)(ii) would further provide that if there is other interest to buy (sell) on the Exchange Book priced equal to or higher (lower) than the price of the sell (buy) order, the discretionary price would be one MPV higher (lower) than the highest (lowest) priced resting order to buy (sell), capped by the Midpoint Price.³³ This would be new functionality for Pillar and is based in part on current functionality that requires a d-Quote to exercise the least amount of

³⁰ See Rule 70.25(a)(ii).

³¹ An Aggressing Order is a buy (sell) order that is or becomes marketable against sell (buy) interest on the Exchange Book and that a resting order may become an Aggressing Order if its working price changes, if the PBBO or NBBO is updated, because of changes to other orders on the Exchange Book, or when processing inbound messages. See Rule 7.36(a)(6).

³² See Rule 70.25(e)(ii).

³³ The MPV for securities is defined in Rule 7.6.

price discretion.³⁴ The following example illustrates this behavior:

- If the PBBO is \$10.00 by \$10.10 with a Midpoint Price of \$10.05 and a Floor broker enters a D Order to buy 100 shares with a limit price of \$10.08 (“Order 1”), Order 1 would be pegged to and displayed at \$10.00, the PBB, with a discretionary price range up to the \$10.05 Midpoint Price. If a non-displayed Limit Order to buy 100 shares at \$10.03 is placed on the Exchange Book (“Order 2”) and next, a Limit Order to sell 200 shares at \$10.01 is entered (“Order 3”), because Order 3 is marketable against Order 2 at \$10.03, Order 1’s discretionary price range would extend to \$10.04, one MPV higher than Order 2’s limit price. Order 3 would execute 100 shares against Order 1 at \$10.04, providing Order 3 with \$0.03 of price improvement relative to its limit price. The remaining 100 shares of Order 3 would execute against Order 2 at \$10.03.

Ranking and Working Time. As provided for in Rule 7.36(f)(1), an order is assigned its working time based on its original entry time, which is the time when an order is placed on the Exchange Book. Rule 7.36(f)(2) further provides that an order is assigned a new working time any time its working price changes.³⁵ Because a D Order can trade at more than one price - its display price or its discretionary price, the Exchange proposes to address the working time associated with each such price in proposed Rule 7.31(d)(4)(D). As proposed, the trigger to exercise discretion would not change the working time of a D Order’s display and working price.

Proposed Rule 7.31(d)(4)(D)(i) would provide that at its discretionary price, a D Order would be assigned a new temporary working time that is later than any same-side resting interest at that price. This temporary working time is distinct from the working time associated with the display and working price of the D Order, which are pegged to the same-side PBBO.

Proposed Rule 7.31(d)(4)(D)(ii) would provide that multiple D Orders eligible to trade at the same discretionary price would be ranked by limit price and time. This is new functionality for Pillar. Current Rule 70.25(e)(iii) and (iv) describe how competing d-Quotes from more than one Floor broker trade. The Exchange does not propose to replicate this functionality on Pillar and believes that ranking multiple same-side D Orders based on limit price and time would simplify the process for allocation among competing D Orders. Finally, proposed Rule 7.31(d)(4)(D)(iii) would provide that any quantity of a D Order that does not execute at a discretionary price would return to the working time associated with

³⁴ See Rule 70.25(e)(i)(A).

³⁵ Pursuant to Rule 7.36(f)(2), each time a D Order is assigned a new working and display price, i.e., with each change to the same-side PBBO pursuant to proposed Rule 7.31(d)(4)(B)(i), such D Order would be assigned a new working time.

its working and display price.

The Exchange believes that the proposed temporary working time associated with the discretionary price would respect the priority of the working times of orders that may have a working price equal to the D Order's discretionary price. By assigning a temporary working time, the D Order would be ranked behind other orders at that price. In addition, because the D Order would continue to be displayed at its display price, even if it were triggered to exercise discretion, the proposal would honor such D Order's original working time if it were to trade at its display price.

Resting D Order that Becomes Marketable. Proposed Rule 7.31(d)(4)(E) would provide that after the PBBO unlocks or uncrosses or a Midpoint Price becomes accessible, resting D Orders to buy (sell) would be ranked based on the lower (higher) of the Midpoint Price or limit price of the order to determine whether a D Order is marketable within the discretionary price range with contra-side orders on the Exchange Book. This proposed rule text is new and reflects the difference in Pillar that D Orders would not exercise discretion when the PBBO is locked or crossed or if a Midpoint Price is unavailable. This proposed rule text addresses how a resting D Order would be ranked for trading when the PBBO unlocks or uncrosses or if a Midpoint Price becomes accessible.

D Orders Rejected and Modifiers. Proposed Rule 7.31(d)(4)(F) would provide that a D Order may be designated with a Self Trade Prevention Modifier ("STP") and would be rejected if combined with any other modifiers or if the same-side PBBO is zero. This proposed functionality is new, as d-Quotes cannot currently be designated with an STP Modifier.³⁶ The Exchange believes that making STP Modifiers available for D Orders would provide Floor brokers with more tools to reduce the potential for two orders to interact if they are from the same customer. By specifying that D Orders cannot be combined with other modifiers, the rule provides transparency that a D Order cannot be combined with other modifiers defined in Rule 7.31(i).

Regarding STP, Rule 7.31(i)(2) describes the Exchange's STP Modifier. Generally, if two orders from the same Client ID both have an STP Modifier, the Exchange will cancel one of the two orders, based on instruction from the member organization. For D Orders, because the discretionary price is temporary, the Exchange proposes that if a D Order exercising discretion would trade with another order with an STP Modifier from the same Client ID, the two orders would not trade, but nor would either order be cancelled. The Exchange does not believe it would be appropriate to cancel the D Order in such scenario because if the D Order is not cancelled, it would be eligible to trade with another order at either its display price or a different discretionary price at a later time. To effect this change, the Exchange proposes to amend Rule 7.31(i)(2) to add new

³⁶

See Rule 13(f)(3)(B).

subparagraph (C) that would provide that a resting D Order with an STP Modifier that is triggered to exercise discretion and is not an Aggressing Order will not trade at a discretionary price against a contra-side order that is also designated with an STP Modifier and from the same Client ID and that in such case, the D Order would not be cancelled.

Last 10 Seconds of Trading. Proposed Rule 7.31(d)(4)(G) would provide that a request to enter a D Order in any security or to cancel or modify a D Order in an Auction-Eligible Security entered 10 seconds or less before the scheduled close of trading would be rejected. This proposed rule text is based in part on the second sentence of current Rule 70.25(a)(ii), which provides that the Exchange will reject any d-Quotes that are entered 10 seconds or less before the scheduled end of trading. The proposed functionality for UTP Securities would be identical to Rule 70.25(a)(ii). For Auction-Eligible Securities, the Exchange proposes to add that requests to cancel or modify such D Orders would also be rejected.³⁷ The Exchange believes that preventing cancellation or modification of a D Order leading into an auction would promote fair and orderly auctions by reducing the potential for a D Order to be changed leading into the close. The Exchange does not propose to offer this functionality for D Orders in UTP Securities because the Exchange will not conduct auctions in UTP Securities.

Allocation of D Orders. Rule 7.37(b) describes how an Aggressing Order is allocated among contra-side orders at each price. The Exchange maintains separate allocation wheels on each side of the market for displayed and non-displayed orders at each price. The Exchange proposes to amend Rule 7.37(b) to set forth how D Orders would participate in the allocation process.

Rule 7.37(b)(1) sets forth the following allocation sequence: (1) Market Orders trade first based on time; (2) orders with Setter Priority as described in Exchange Rule 7.36(h) receive an allocation; (3) orders ranked Priority 2 - Displayed Orders are allocated on parity by Participant; (4) orders ranked Priority 3 - Non-Display Orders, other than Mid-Point Liquidity (“MPL”) Orders³⁸ with an MTS Modifier, are allocated on parity by Participant;³⁹ and then (5) MPL Orders with an MTS Modifier are allocated based on MTS size (smallest to largest) and time.

As proposed, D Orders trading at a discretionary price would be allocated next on parity. Accordingly, at their discretionary price, D Orders would be allocated

³⁷ As noted above, proposed changes for Auction-Eligible Securities would not be implemented until a separate proposed rule change relating to auctions is approved and the Exchange transitions Exchange-listed securities to Pillar.

³⁸ See Rule 7.31(d)(3) for a description of MPL Orders.

³⁹ In sum, an order with an MTS Modifier would only trade with contra-side orders that, either individually or in the aggregate, satisfy the order’s minimum trade size condition. See Rule 7.31(i)(3) for a full description of the MTS Modifier.

after all other orders at that price, except, as described below, Yielding Orders. To effect this change, the Exchange proposes to amend Rule 7.37(b)(1) to add new sub-paragraph (F) to provide that next, D Orders trading at a discretionary price would be allocated on parity by Floor broker. This proposed functionality is based in part on current Rule 70.25(a)(ii), which provides that executions of d-Quotes within the discretionary price range are considered non-displayable for purposes of Rule 72.

Rule 7.37(b)(2) describes the process for the parity allocation wheel. Currently, the Exchange creates separate allocation wheels for orders ranked Priority 2 - Display Orders and orders ranked Priority 3 - Non-Display Orders. The Exchange proposes to create a third allocation wheel if there is more than one D Order eligible to trade at a discretionary price. In such case, the Exchange would create an allocation wheel for D Orders at that discretionary price.⁴⁰

The Exchange proposes that an allocation wheel for D Orders trading at a discretionary price would function the same as allocation wheels for display and non-display orders, with one proposed difference. Because the discretionary price at which a D Order would trade is a temporary price established based on whether a contra-side order triggers a D Order to exercise discretion, the Exchange proposes to amend Rule 7.37(b)(2)(A) to provide that for each D Order parity allocation wheel, a D Order to buy (sell) with the highest (lowest) limit price would establish the first position on that allocation wheel. This proposed rule text is consistent with the proposed ranking of D Orders as set forth in proposed Rule 7.31(d)(4)(D)(ii), which would require multiple D Orders eligible to trade at the same discretionary price to be ranked by limit price and time as described above.

The following example illustrate how the parity allocation wheel for D Orders would be established:

- If the PBBO is \$10.00 by \$10.10 with a Midpoint Price of \$10.05 and a Floor broker enters a D Order to buy 1,000 shares with a limit price of \$10.06 (“Order 1”), Order 1 would be pegged to and displayed at \$10.00, the PBB, with discretion to the \$10.05, the Midpoint Price. If another Floor broker enters a separate D Order to buy 1,000 shares with a limit price of \$10.07 (“Order 2”), like Order 1, Order 2 would be pegged to and displayed at \$10.00, the PBB, with discretion to \$10.05, the Midpoint Price.
- If a Limit Order to sell 100 shares at \$10.05 is entered (“Order 3”), Order 3 would trigger both Order 1 and 2 to exercise discretion at the Midpoint Price. Because Order 2 has the more aggressive limit price, it would establish the first position on the D Order parity wheel. In this example, Order 3 would trade 100 shares with Order 2 at \$10.05. Because there is

⁴⁰

See proposed amendment to Rule 7.37(b)(2).

no remaining quantity of Order 3, Order 1 would not receive an allocation.

Re-pricing of D Orders during a Short Sale Period. Rule 7.16(f)(5) sets forth how the Exchange processes short sale orders during a Short Sale Period.⁴¹ The Exchange proposes to amend Rule 7.16(f)(5)(C) to address how the Exchange would process D Orders marked “short” during a Short Sale Period. As proposed, during a Short Sale Period, the Exchange proposes to process sell short D Orders like Pegged Orders and MPL Orders. To effect this change, the Exchange proposes to amend Rule 7.16(f)(5)(C) to add that D Orders, like Pegged Orders and MPL Orders today, including orders marked buy, sell long and sell short exempt, would use the National Best Bid and Offer (“NBBO”) instead of the PBBO as the reference price. Because the Exchange has defined the term “Midpoint Price” for D Orders, the Exchange further proposes to amend that rule to provide that the Midpoint Price of D Orders would be the midpoint price of the NBBO, including situations where the midpoint is less than one minimum price increment above the National Best Bid (“NBB”). This functionality would be new for D Orders on Pillar as compared to how d-Quotes function and is based on applying existing Pillar logic for orders that peg to the PBBO to D Orders.

Auction-Only Orders

As noted above, the Exchange does not conduct auctions in UTP securities. If the Exchange receives an Auction-Only Order in a UTP Security, the Exchange routes such order directly to the primary listing market for that security. Therefore, Rule 7.31(c) currently describes an Auction-Only Order as a Limit Order or Market Order that is only to be routed pursuant to Rule 7.34.

Because d-Quotes currently can be designated to exercise discretion only in auctions, the Exchange proposes to include in this filing how discretionary instructions would function on Pillar auctions.⁴² Because this proposed amendment would address auctions in Auction-Eligible Securities on the Exchange, the Exchange proposes to amend Rule 7.31(c) to reflect the difference between Auction-Only Orders for Exchange-listed securities, which will be auction eligible when they transition to Pillar, and Auction-Only Orders for UTP Securities, which are routed to the primary listing market. As proposed, 7.31(c) would provide that an Auction-Only Order is a Limit Order or Market Order in an Exchange-listed security that is to be traded in an auction on the Exchange. The

⁴¹ A “Short Sale Period” is defined in Rule 7.16(f)(4) to mean the period when a Short Sale Price Test is in effect. A “Short Sale Price Test” is defined in Rule 7.16(f)(3) to mean the period during which Exchange systems will not execute or display a short sale order with respect to a covered security at a price that is less than or equal to the current NBB in compliance with Rule 201 of Regulation SHO. 17 CFR 242.201.

⁴² See Rule 70.25(a)(ii).

rule would further provide that an Auction-Only Order in a UTP security would be routed on arrival to the primary listing market for that security.

Core Open and Trading Halt Auctions. Proposed Rule 7.31(c)(1) would describe the Auction-Only Orders designated for an opening or reopening auction that the Exchange would accept before the Core Trading Session begins (for the Core Open Auction) or during a halt or pause (for a Trading Halt Auction). As proposed, any quantity of such orders that are not traded in the designated auction would be cancelled. This proposed text does not introduce new functionality, but uses Pillar terminology relating to auctions. The Exchange proposes to move the definitions for a Limit-on-Open Order (“LOO Order”) and a Market-on-Open Order (“MOO Order”) as sub-paragraphs under Rule 7.31(c)(1) without any changes.⁴³

As noted above, under Rule 70.25(a)(ii), a d-Quote can include an instruction to participate in the opening transaction only, meaning that the discretionary instructions for an e-Quote would be live for the opening transaction only. The Exchange proposes to replicate that d-Quote behavior on Pillar, but rather than include it in the definition of D Order, the Exchange proposes to describe it as an Auction-Only Order that would be called the “Opening D Order.”

Proposed Rule 7.31(c)(1)(C) would provide that an Opening D Order is a Limit Order to buy (sell) with an instruction to exercise discretion in the Core Open Auction or Trading Halt Auction up (down) to a designated undisplayed price. Just as d-Quotes are available only to Floor brokers, proposed Rule 7.31(c)(1)(C)(i) would provide that an Opening D Order may be entered by a Floor broker only. Because an Opening D Order would cancel if it does not trade in the designated auction, this order type would not be eligible to trade in continuous trading. This proposed rule text is based on current functionality, but uses Pillar terminology.

Because an Opening D Order could be entered for a UTP Security, proposed Rule 7.31(c)(1)(C)(ii) would provide that based on the instruction of the Floor broker, an Opening D Order in a UTP Security would be routed to the primary listing market as either a MOO or LOO Order. This is consistent with the treatment of Auction-Only Orders today in UTP securities, which are routed to the primary listing market for that security.

Closing Auctions. Proposed Rule 7.31(c)(2) would describe the Auction-Only Orders designated for a closing auction that the Exchange would accept when it

⁴³

Current Rule 7.31(c)(1) relating to LOO Orders would be renumbered as Rule 7.31(c)(1)(A) and current Rule 7.31(c)(2) relating to MOO Orders would be renumbered as Rule 7.31(c)(1)(B).

begins accepting orders for a trading day as provided for in Rule 7.34(a)(1).⁴⁴ The Exchange proposes to move the definitions for a Limit-on-Close Order (“LOC Order”) and a Market-on-Close Order (“MOC Order”) as sub-paragraphs under Rule 7.31(c)(2) without any changes.⁴⁵

Similar to d-Quotes for opening transactions, Rule 70.25(a)(ii) provides that a d-Quote can include an instruction to participate in the closing transaction only, meaning that the discretionary instructions for an e-Quote would be live for the closing transaction only. Because the discretionary instructions are live only for a closing auction, on Pillar, the Exchange proposes to describe this functionality as part of Auction-Only Orders rather than as part of D Orders. As proposed, a Closing D Order would be defined in Rule 7.31(c)(2)(C) as a Limit Order to buy (sell) with an instruction to exercise discretion in the Closing Auction up (down) to a designated undisplayed price. As with d-Quotes, proposed Rule 7.31(c)(2)(C)(i) would provide that a Closing D Order may be entered by a Floor broker only.

Proposed Rule 7.31(c)(2)(C)(ii) would provide that on arrival, a Closing D Order would be processed as a Limit Order and may trade or route prior to the Closing Auction. This proposed rule text is based on how a d-Quote with instructions to participate in the closing transaction only currently operate, as such d-Quotes are eligible to trade prior to the closing transaction as a straight e-Quote and the discretionary instructions of such a d-Quote are active only for the closing transaction.

Proposed Rule 7.31(c)(2)(C)(iii) would provide that a Closing D Order in an Auction-Eligible Security may include the proposed Yielding Modifier, which is described in more detail below. This would be new functionality on Pillar, as currently, a d-Quote cannot be combined with a g-Quote. As proposed, until the Closing Auction, a Closing D Order with the proposed Yielding Modifier would be processed as a Yielding Order. When executing in the Closing Auction, a Closing D Order with a Yielding Modifier would trade at its undisplayed discretionary price, but would yield to all other orders at that price.⁴⁶

Proposed Rule 7.31(c)(2)(C)(iv) would provide that a request to enter a Closing D Order in any security or cancel or modify a Closing D Order in an Auction-

⁴⁴ Rule 7.34(a)(1) provides that the Exchange will begin accepting orders 30 minutes before the Early Trading Sessions begins at 7:00 a.m. Eastern Time.

⁴⁵ Current Rule 7.31(c)(3) relating to LOC Orders would be renumbered as Rule 7.31(c)(2)(A) and current Rule 7.31(c)(4) relating to MOO Orders would be renumbered as Rule 7.31(c)(2)(B).

⁴⁶ The Exchange proposes to set forth how orders are allocated in an auction in its separate proposed rule change introducing auctions on Pillar for Exchange-listed securities.

Eligible Security entered 10 seconds or less before the scheduled close of trading would be rejected. This proposed rule text is based in part on the operation of d-Quotes for Exchange-listed securities described in the second sentence of current Rule 70.25(a)(ii), which prohibits the entry of d-Quotes 10 seconds or less before the close of trading. The Exchange proposes that entry and cancellation of Closing D Orders should function in the same manner as entry and cancellation of D Orders, described above. Accordingly, for the same reasons, the Exchange proposes new functionality that a Closing D Order in an Auction-Eligible Security may not be cancelled or modified 10 seconds or less before the scheduled close of trading. Because the Exchange would accept a Closing D Order in a UTP Security, even though such order would be routed to the primary market, as proposed, such orders would also be rejected if entered 10 seconds or less before the scheduled close of trading.

Proposed Rule 7.31(c)(2)(C)(v) would provide that based on the instruction of the Floor broker, a Closing D Order in a UTP Security would be routed to the primary listing market as either a MOC or LOC Order. This is consistent with the treatment of Auction-Only Orders today in UTP securities, which are routed to the primary listing market for that security.

To complete the list of Auction-Only Orders that would be available on the Exchange when it introduces auctions on Pillar for Exchange-listed securities, the Exchange proposes to amend Rule 7.31(c) to include the proposed Closing Imbalance Offset Order (“Closing IO Order”), which is based on the Closing Offset Order (“CO Order”) currently available for Exchange-listed securities.⁴⁷ Proposed Rule 7.31(c)(2)(D) would provide that a Closing IO Order is a Limit Order to buy (sell) in an Auction-Eligible Security that is to be traded only in a Closing Auction.

Proposed Rule 7.31(c)(2)(D)(i) would provide that a Closing IO Order would participate in a Closing Auction only if: (i) there is an imbalance in the security on the opposite side of the market from the Closing IO Order after taking into account all other orders eligible to trade at the auction price; and (ii) the limit price of the Closing IO Order to buy (sell) is at or above (below) the price of the Closing Auction. This text is based on Rule 13(c)(1)(i) and (ii), which describe when a CO Order may participate in the Closing Auction, with changes to reflect Pillar terminology.

Proposed Rule 7.31(c)(2)(D)(ii) would provide that the working price of a Closing IO Order to buy (sell) would be adjusted to be equal to the price of the Closing Auction, provided that the working price of the Closing IO Order would not be higher (lower) than its limit price. This proposed text would add further specificity to the operation of Closing IO Order and is based on Rule 13(c)(1)(iii) which provides that a CO Order will participate in the Closing Auction if its limit

⁴⁷

See Rule 13(c)(1).

price is at or within the price of the Closing Auction. The Exchange will describe ranking and allocation of the proposed Closing IO Orders in its separate proposed rule change relating to auctions.

Proposed Last Sale Peg Modifier

The Exchange proposes to add a new order type modifier, Last Sale Peg, which would be set forth in proposed paragraph (i)(4) of Rule 7.31. Today, the Exchange offers the Buy Minus Zero Plus (“BMZP”)⁴⁸ instruction for trading in Exchange-listed securities. The Last Sale Peg Modifier is designed to achieve the same purpose as the BMZP instruction for securities trading on Pillar, with specified differences to reflect Pillar functions and terminology.

Under Rule 13(f)(4), for Exchange-listed securities, an order with a BMZP instruction will not trade at a price that is higher than the last sale, subject to the limit price of an order, if applicable.⁴⁹ Odd-lot sized transactions are not considered the last sale for purposes of executing BMZP orders.

The BMZP instruction is available to buy Limit Orders only and is designed to assist member organizations in their compliance with the “safe harbor” provisions of Rule 10b-18 under the Act (“Rule 10b-18”) for issuer repurchases.⁵⁰ One of the four provisions required to fall under Rule 10b-18’s safe harbor is that the purchase price of a security may not exceed the highest independent bid or the last independent transaction price for the security.⁵¹ Because an order with a BMZP instruction will not trade at a price that is higher than the last sale, member organizations can use this instruction to facilitate their compliance with at least one of the conditions of the safe harbor provision of Rule 10b-18.⁵²

⁴⁸ See Rule 13(f)(4).

⁴⁹ See Rule 13(f)(4). Limit Orders with a BMZP instruction that are systemically delivered to Exchange systems are eligible to be automatically executed in accordance with, and to the extent provided by, Rules 1000 - 1004, consistent with the order's instructions. Id. Odd-lot sized transactions are not be considered the last sale for purposes of executing an order with a BMZP instruction. Id.

⁵⁰ See 17 CFR 240.10b-18. See also Securities Exchange Act Release No. 78679 (August 25, 2016), 81 FR 60080 (August 31, 2016) (SR-NYSE-2016-59).

⁵¹ See 17 CFR 240.10b-18(b)(3). The other three conditions relate to time of purchases, volume of purchases, and a requirement that only one broker or dealer be involved in such repurchases on a single day.

⁵² The Exchange does not represent that an order with a BMZP instruction or the proposed Last Sale Peg Modifier are guaranteed to meet the requirements of the safe harbor provision of Rule 10b-18; rather, these instruction are available to member organizations to facilitate their own compliance with Rule 10b-18.

On Pillar, the Exchange proposes to offer functionality that is based on the BMZP instruction and rename it the Last Sale Peg Modifier. Proposed 7.31(i)(4) would set forth the general requirements for the Last Sale Peg Modifier. As proposed, a Non-Routable Limit Order to buy may be designated with a Last Sale Peg Modifier, which would be referred to as a “Last Sale Peg Order.” Proposed 7.31(i)(4) would also provide that a Last Sale Peg Order would not trade or be displayed at a price higher than the later of the most recent last-sale eligible trade⁵³ executed on the Exchange or the most recent consolidated last-sale eligible trade⁵⁴ which would be defined for purposes of this Rule as the “last-sale price.” This rule text is based on Rule 13(f)(4)(A), but with greater specificity of what it means to be a last sale price for purposes of a Last Sale Peg Order.

The proposed functionality to restrict Last Sale Peg Orders to Non-Routable Limit Orders would be new because currently, the BMZP instruction can be included on both routable and non-routable buy orders. The Exchange believes that limiting the availability of this modifier to Non-Routable Limit Orders would simplify the operation of this modifier, while at the same time achieving the goal of the modifier, which is to provide an instruction to facilitate compliance with the safe harbor provisions of Rule 10b-18. Like the BMZP instruction, the proposed Last Sale Peg Order would be available only for buy orders. For completeness, and in anticipation of the Exchange’s separate proposed rule change to introduce auctions on Pillar, the Exchange proposes that a Last Sale Peg Order would not participate in any auctions.

Proposed Rule 7.31(i)(4)(A) would provide that the working price of a Last Sale Peg Order would be pegged to the lower of the last-sale price, the limit price of the order, or the PBO. To reflect which last-sale price would be applicable, proposed Rule 7.31(i)(4)(A) would further provide that the working price of a resting Last Sale Peg Order would not be adjusted until an Aggressing Order is fully processed. In other words, if an Aggressing Order trades at multiple prices, the Exchange would wait for the last price at which such order trades to determine the last-sale price for purposes of re-pricing the working price of a resting Last Sale Peg Order.

The rule would further provide that if the last-sale price is not at a permissible MPV, the working price of the order would be rounded down to the nearest MPV. This last provision would be applicable, for example, if the last-sale price were at the midpoint of a penny-spread security, which would not be in two decimals. In such case, the Exchange would round the working price of the Last Sale Peg Order down to the MPV for the security. This proposed rule text would be new for Pillar and the Exchange believes that it would promote transparency regarding

⁵³ A last-sale eligible trade must be of at least one round lot.

⁵⁴ A consolidated last-sale eligible trade is the last-sale eligible trade reported to the responsible single plan processor.

how a Last Sale Peg Order would be displayed on the Exchange Book in a manner to facilitate compliance with the safe-harbor provisions of Rule 10b-18.

Proposed Rule 7.31(i)(4)(B) would provide that the display price of a Last Sale Peg Order would be the same as the working price, unless the working price is pegged to the PBO, in which case, the display price would be determined under paragraph (e)(1) of Rule 7.31. Rule 7.31(e)(1) describes how a Non-Routable Limit Order to buy that, at the time of entry and after trading with any sell orders in the Exchange Book priced at or below the PBO is priced.⁵⁵ Because a Last Sale Peg Order would be a Non-Routable Limit Order, it would follow the pricing instructions of such order.

Proposed Rule 7.31(i)(4)(C) would provide that a Last Sale Peg Order may be designated with an STP Modifier and would be rejected if combined with any other modifiers or if there is no last-sale price. This proposed rule text promotes transparency that a Non-Routable Limit Order with a Last Sale Peg Modifier can include an STP, but could not be combined with any other modifiers described in Rule 7.31.

The Exchange proposes that Last Sale Peg Orders would be eligible for execution only during the Core Trading Session. As further proposed, similar to Primary Pegged Orders, the Exchange proposes that Last Sale Peg Orders would be accepted prior to the commencement of the Core Trading Session, but would not be eligible for execution until the Core Trading Session begins. To effect this change, the Exchange proposes to amend Rule 7.34(c)(1)(A) to add Last Sale Peg Orders to the description of orders that may be accepted but not eligible to trade during the Early Trading Session.

Proposed Yielding Modifier

The Exchange proposes to add a second new order type modifier, the Yielding Modifier, under paragraph (i)(5) of Rule 7.31, for trading on Pillar. Today, the

⁵⁵ Under Rule 7.31(e)(1), Non-Routable Limit Orders would be re-priced as follows: (i) it will have a working price of the PBO (PBB) of an Away Market and a display price one MPV below (above) that PBO (PBB); (ii) if the PBO (PBB) of an Away Market re-prices higher (lower), it will be assigned a new working price of the updated PBO (PBB) and a new display price of one MPV below (above) that updated PBO (PBB); (iii) if the PBO (PBB) of an Away Market re-prices to be equal to or lower (higher) than its last display price, its display price will not change, but the working price will be adjusted to be equal to its display price; or (iv) if its limit price no longer locks or crosses the PBO (PBB) of an Away Market, it will be assigned a working price and display price equal to its limit price and will not be assigned a new working price or display price based on changes to the PBO (PBB).

Exchange offers Floor brokers g-Quotes⁵⁶ for trading in Exchange-listed securities only. The proposed Yielding Modifier is based on how g-Quotes currently function and as with g-Quotes, would be available only to Floor brokers.

Currently, g-Quotes are designed to assist Floor brokers with compliance with Section 11(a)(1) of the Act,⁵⁷ which generally prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or any account over which it or an associated person exercises discretion. Subsection (G) of Section 11(a)(1) provides an exemption from this prohibition, allowing an exchange member to have its own floor broker execute a proprietary order, also known as a “G order,” provided such order yields priority, parity, and precedence (the “G Rule”). For Exchange-listed securities, the Exchange offers g-Quotes, which are an electronic method for Floor brokers to represent orders that yield priority, parity and precedence based on size to all other displayed and non-displayed orders on the Exchange Book, in compliance with the G Rule.⁵⁸

Like g-Quotes, the proposed Yielding Modifier would aid Floor brokers in complying with the G Rule when trading on Pillar. Proposed Rule 7.31(i)(5) would set forth the general requirements for the Yielding Modifier and would provide that a Limit Order, Non-Routable Limit Order, Reserve Order, or Closing D Order may be designated with a Yielding Modifier, which for purposes of this Rule, would be referred to as a “Yielding Order.” This proposed rule text is based on how the Exchange currently functions, because a g-Quote is a form of an e-Quote, and pursuant to Rule 70.25, e-Quotes may be displayed or non-displayed and routable or non-routable. The proposed rule text uses Pillar terminology to reflect these functions. Proposed Rule 7.31(i)(5) would also provide that a Yielding Order would yield priority to all other displayed and non-displayed orders at the same price, and, similar to g-Quotes, may be entered by a Floor broker only.

Proposed Rule 7.31(i)(5) would also provide that a Yielding Order would be ranked Priority 4 - Yielding Orders. The Exchange would make a related amendment to Rule 7.36(e) to add this additional priority category. Proposed Rule 7.36(e)(4) would provide that Priority 4 - Yielding Orders would have fourth priority. The Exchange believes that these proposed priority categories are consistent with current g-Quote functionality because Yielding Orders would be ranked behind all other displayed and non-displayed orders.

⁵⁶ See Rule 70(a)(ii) and (iii).

⁵⁷ 15 U.S.C. 78k(a)(1).

⁵⁸ Under the G Rule, G orders are not required to yield to other orders that are for the account of a member, e.g., Designated Market Maker (“DMM”) interest or other g-Quotes.

Proposed Rule 7.31(i)(5)(A) and (B) would describe how an Aggressing Yielding Order would trade. Proposed Rule 7.31(i)(5)(A) would provide that an Aggressing Yielding Order to buy (sell) with a limit price higher (lower) than the limit price of a resting order to buy (sell) would trade ahead of such resting order. This proposed rule text is consistent with how g-Quotes are ranked and traded in an auction; a better-priced g-Quote will trade ahead of an at-priced limit order because it has price priority.⁵⁹ The Exchange proposes to make this explicit in the rules for all executions of a Yielding Order. For example, if the Exchange has a Non-Displayed Limit Order to buy with a limit price of 10.00 (“Order 1”) that is locked by an ALO Order to sell at 10.00 (“Order 2”), an arriving Yielding Order to buy with a limit price of 10.03 (“Order 3”) would trade with Order 2 at 10.00. Because Order 3 is willing to trade at a more aggressive price than Order 1 and therefore has price priority, the Exchange believes that Order 3 would not need to yield to Order 1 when trading at 10.00. The Exchange therefore believes that this proposed execution would be consistent with the G Rule.⁶⁰

Proposed Rule 7.31(i)(5)(B) would provide that an Aggressing Yielding Order to buy (sell) with a limit price equal to the limit price of a resting order to buy (sell) would either: (i) trigger the resting order to become an Aggressing Order, unless the order to sell (buy) is an MPL-ALO Order,⁶¹ or an MPL Order with an MTS Modifier, in which case neither the Yielding Order nor the same-side resting order would trade; or (ii) trade ahead of such resting order if such resting order is not eligible to trade (e.g., an ALO Order or an order with an MTS Modifier).

In the first scenario, the Exchange believes that triggering the resting order to trade ahead of the Yielding Order would respect the priority of the resting order at that price. Neither order would trade if the contra-side order is either an MPL ALO or MPL Order with an MTS Modifier and has a conditional instruction that does not allow it to trade at that price. The Exchange believes that not permitting either order to trade in this circumstance would ensure that the Yielding Order does not trade ahead of a same-priced resting order in accordance with the G Rule.

In the second scenario, the Exchange believes that if a resting order has a condition that has not been met and is therefore not eligible to trade, such order

⁵⁹ See Rule 115A(a)(1) and Rule 123C(7)(a)(vii).

⁶⁰ See, e.g., Securities Exchange Act Release No. 67686 (August 17, 2012), 77 FR 51596, 51599 (August 24, 2012) (SR-NYSE-2012-19) (Approval Order) (approving the Exchange’s proposal that better-priced G Orders would be guaranteed to participate in a closing auction and would have priority over same-side limit orders on the Exchange Book that are at the same price as the closing auction).

⁶¹ See Rule 7.31(e)(2) for a description of the ALO Order. An MPL Order may be designated with the ALO modifier. See Rule 7.31(d)(3)(E).

cedes execution priority to a same-side Yielding Order at the same price, and therefore, the Yielding Order would not be trading ahead of such order in violation of the G Rule. The execution of both an ALO Order and an order with an MTS Modifier are both contingent on a pre-condition being met. The ALO Order requires that the contra-side order be a liquidity remover and the order with a MTS Modifier requires that the contra-side order be of a certain size to meet its minimum quantity condition. Because the condition of either resting order has not been met and such order cannot participate in an execution, the Exchange believes this order cedes execution priority to the Yielding Order and the Yielding Order would not be required to yield to it under the G Rule.

The following example illustrates how an order with a Yielding Modifier would interact with conditional orders, such as ALO orders, MPL ALO orders, or MPL orders with an MTS Modifier.

- If the PBBO is \$10.00 by \$10.20 resulting in a Midpoint Price of \$10.10, a Limit Order to buy 40 shares at \$10.10 is entered and is placed on the Exchange Book (“Order 1”), and an MPL ALO order to sell 100 shares at 10.00 is then entered (“Order 2”) and placed on the Exchange Book at the Midpoint Price, the Exchange Book would become internally locked because Order 2 cannot trade with Order 1.⁶² Next, a Floor broker enters a Yielding Order to buy 50 shares at \$10.10 (“Order 3”). Order 3 would not execute against Order 2 because Order 3 is priced equal to Order 1 and must yield priority, parity and precedence to Order 1. Order 3 would be placed on the Exchange Book at \$10.10.
- If the Away Market PBB is \$10.00, a Non-Displayed Limit Order to sell 1,000 shares at \$10.00 is entered (“Order 1”), and an ALO order to buy 100 shares at \$10.00 is entered (“Order 2”), Order 2 would not trade with Order 1 because it cannot act as a liquidity remover. Order 2 would be placed on the Exchange Book at \$10.00. Next, a Yielding Order to buy 1,000 shares at \$10.00 is entered (“Order 3”), which would execute 1,000 shares against Order 1 at \$10.00. Order 3 would not be required to yield to Order 2 because Order 2 was an ALO order that chose to forgo the execution in favor of being placed on the Exchange Book and acting as a liquidity provider.

Similar to the Last Sale Peg Order, proposed Rule 7.31(i)(5)(C) would provide that a Yielding Order may be designated with an STP Modifier and would be rejected if combined with any other modifiers.

⁶² See Rule 7.31(d)(3)(E)(i) (providing that “[a]n Aggressing MPL-ALO Order to buy (sell) will trade with resting orders to sell (buy) with a working price below (above) the midpoint of the PBBO at the working price of the resting orders, but will not trade with resting orders to sell (buy) priced at the midpoint of the PBBO.”).

The Exchange also proposes to amend Rule 7.37(b) to describe how orders with a Yielding Modifier would participate in the allocation process. As described above, the Exchange proposes that after all other displayed and non-displayed orders are allocated, D Orders would be allocated on parity. The Exchange proposes to amend Rule 7.37(b)(1) to add subparagraph (G) to provide that after D Orders have been allocated, the display quantity of orders ranked Priority 4 - Yielding Orders would be allocated based on time. The Exchange would further add subparagraph (H) to provide that next, the non-display quantity of orders ranked Priority 4 - Yielding Orders would be allocated on time. This proposed allocation process is based in part on how g-Quotes are allocated after all other displayed and non-displayed orders in Exchange-listed securities. The Exchange proposes new functionality for Pillar that within each Yielding Order priority ranking, orders would be allocated on time rather than on parity. The Exchange believes that this proposed difference would streamline and simplify the allocation of Yielding Orders and is consistent with their intended compliance with the G Rule.

(b) Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act,⁶³ in general, and furthers the objectives of Sections 6(b)(5) of the Act,⁶⁴ 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change extends the availability of orders and modifiers currently available for trading of Exchange-listed securities to trading of UTP Securities on Pillar. Specifically, the proposed D Order, Last Sale Peg Modifier, and Yielding Modifier that the Exchange proposes for Pillar would operate in a similar manner as d-Quotes, BMZP, and g-Quotes, respectively, which are currently available for trading in Exchange-listed securities. In addition, the proposed changes to Auction-Only Orders would introduce on Pillar order types and modifiers that are currently available for Exchange-listed securities. Specifically, these changes would introduce three new order types on Pillar: the Opening D Order, Closing D Order, and Closing IO Order, each of which are based on existing order types available for trading in Exchange-listed securities.

⁶³ 15 U.S.C. 78f(b).

⁶⁴ 15 U.S.C. 78f(b)(5).

The proposed rule changes are all based on existing functionality with differences in rule text only to reflect Pillar terminology.

D Orders. The Exchange believes that the proposed D Order would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because it would expand existing functionality available to trading of Exchange-listed securities to trading of UTP Securities on Pillar. This proposed rule change would also ensure that this functionality would continue to be available to Floor brokers when the Exchange transitions trading of Exchange-listed securities to Pillar. The Exchange notes that D Orders would operate in a manner similar to d-Quotes. For example, a D Order would be eligible to trade at an undisplayed, discretionary price. In addition, D Orders could still be designated as routable or non-routable and could be combined with a Reserve Order. However, the Exchange proposes to simplify and streamline D Order functionality as compared to how d-Quotes function. More specifically, the Exchange proposes to cap the discretionary price range to the midpoint of the PBBO, define the discretionary price range of such order based on the limit price, limit the circumstances when a D Order would be triggered to exercise discretion, and peg the display price of a D Order to the same-side PBBO.

The Exchange believes that these proposed differences would simplify the operation of D Orders as compared to d-Quotes, while at the same time allow such orders to both contribute to the display of liquidity at the Exchange and offer price improvement opportunities to contra-side orders. Accordingly, the Exchange believes that the proposed D Order would remove impediments to and perfect the mechanism of a free and open market and a national market system by promoting price improvement to incoming orders, thereby improving execution opportunities for market participants. These increased price improvement opportunities are designed to attract additional order flow to the Exchange.

The Exchange believes that making the proposed D Order available to Floor brokers only is not designed to permit unfair discrimination among customers, issuers, brokers, or dealers. First, D Orders are based on current d-Quote functionality, which is available only to Floor brokers and is designed to replicate electronically the Floor broker's agency role to exercise price discretion on an order on behalf of a customer.⁶⁵ Floor brokers fulfill an agency broker role on behalf of their customers without conflicts and fill a void for firms that have chosen to allocate resources away from trading desks. In addition to this role, Floor brokers provide services for more illiquid securities, which upstairs trading desks may not be staffed to manage. Importantly, when providing such agency trading services, a Floor broker is unconflicted because a Floor broker is not

⁶⁵

See, e.g., Securities Exchange Act Release No. 34-60251 (July 7, 2009), 74 FR 34068 (July 14, 2009) (Approval Order) (noting that d-Quotes provide Floor brokers with similar functionality that was previously available to Floor brokers).

trading for the member's own account and does not sell research to customers. Floor brokers therefore can focus on price discovery and volume discovery on behalf of their customers, while at the same time managing their customers' order flow to ensure that it does not impact pricing on the market (e.g., executing large positions on behalf of a customer). Use of the D Order would facilitate this agency function by allowing Floor brokers to enter orders on behalf of their customers without pricing impact because the discretionary price range would be undisplayed. When managing such customer order flow, Floor brokers trading in UTP Securities would continue to be subject to Exchange rules that are unique to Floor brokers, including Rules 95, 122, 123, and paragraphs (d) – (j) of Rule 134. In addition, any member organization can choose to have a Floor broker operation and thus have direct access to D Orders on behalf of its customers.

In addition, the Exchange notes that while D Orders would be available only to Floor brokers, such orders would not receive any execution priority or benefit when trading at a discretionary price. To the contrary, as proposed, if a D Order were to exercise discretion and trade at an undisplayed, discretionary price, such D Order would be ranked behind all other same-side orders at that price, except for a Yielding Order, which by definition yields to all other orders and can only be entered by another Floor broker. The Exchange therefore believes that the proposed changes to Rule 7.37, which sets forth the allocation process for D Orders, would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system by providing transparency regarding the priority of such orders.

More specifically, the Exchange believes it would remove impediments to and perfect the mechanism of a free and open market and a national market system for a D Order trading at a discretionary price to yield to other orders at that price because any such resting order, whether displayed (which could only be an odd-lot sized order) or non-displayed, would have time priority over the D Order trading at a discretionary price. To reflect this time priority, the Exchange proposes to assign a D Order a temporary working time associated with the discretionary price, which the Exchange believes would respect the priority of the working times of orders that may have a working price equal to the D Order's discretionary price. By assigning a temporary working time, the D Order would be ranked behind other orders at that price. The Exchange further believes that maintaining the working time of a D Order if it trades at its displayed price would reflect that even if triggered to exercise discretion, it would remain displayed at the same-side PBBO until it is executed. If a D Order that is triggered to exercise discretion is not fully executed, it would remain available for execution at its displayed price. Because that display price would not be changing, the Exchange believes it is reasonable to maintain time priority for that D Order if it were to execute at that displayed price.

The Exchange believes that the manner by which the discretionary price for a D Order would be determined would remove impediments to and perfect the mechanism of a free and open market and a national market system because the

principles are the same as how d-Quotes function, which is to provide price improvement while exercising the least amount of price discretion. Consistent with that current behavior, a proposed D Order would be able to trade at a discretionary price that provides price improvement over resting orders on the Exchange Book, subject to a cap at the Midpoint Price.

The Exchange also believes it is reasonable for D Orders to be allocated among multiple Floor brokers at a price based on parity as such model is consistent with the Exchange's current parity allocation for Floor brokers. As noted above, this parity allocation is only among the Floor broker D Orders - other resting orders at that price, whether displayed or undisplayed, would have first priority. The Exchange further believes that with this parity allocation, it would be appropriate to create a separate allocation wheel for D Orders when more than one D Order is eligible to trade at the same discretionary price. The Exchange further believes that it is appropriate for the most aggressively-priced D Order to establish the first position on any such allocation wheel as it would encourage the entry of aggressively-priced orders available to provide price improvement to contra-side orders.

Auction-Only Orders. The Exchange believes that the proposed changes to Auction-Only Orders would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest by introducing on Pillar existing order types currently available for trading of Exchange-listed securities. As noted above, currently, the Exchange trades only UTP Securities on Pillar. The Exchange anticipates transitioning Exchange-listed securities to Pillar and the Exchange intends to introduce auction functionality on Pillar pursuant to a separate proposed rule change. In anticipation of that transition, the Exchange proposes to amend Rule 7.31(c) now to expand the Auction-Only Orders available on Pillar to include order types currently available on the Exchange.

The Exchange believes that amending the descriptions of existing order types on Pillar -- LOOs, MOOs, LOCs, and MOCs -- would remove impediments to and perfect the mechanism of a free and open market and a national market system by providing transparency regarding how such orders would function depending on whether such order would be for a UTP Security or an Auction-Eligible Security. As is the case today, LOOs, MOOs, LOCs, and MOCs in UTP securities would be routed to the primary listing exchange for that security. And as is the case today for Exchange-listed securities, these same orders in Exchange-listed securities would participate in auctions on the Exchange.

The proposed Opening and Closing D Orders, which the Exchange now proposes to define separately under Auction-Only Orders in the Pillar rules, are based on existing d-Quote functionality as described in Rule 70.25(a)(ii). The Exchange believes that that these proposed order types would remove impediments to and perfect the mechanisms of a free and open market and a national market system because they would ensure continuity of available order types for when

Exchange-listed securities transition to Pillar. The proposed differences between these orders and d-Quote functionality are largely non-substantive to provide additional transparency regarding how such order type would function. Like d-Quotes, an Opening or Closing D Order in an Exchange-listed security would be available to Floor brokers only and would be triggered to exercise discretion only in an auction. For example, a Closing D Order entered prior to the Closing Auction would function as a Limit Order and would be eligible for execution or routing based on its limit price during continuous trading. The Exchange notes that the proposed Opening and Closing D Orders would not have any execution priority compared to other orders trading in an auction. Today, all better-priced orders are guaranteed to participate in an auction, and the Exchange proposes to maintain that auction logic when it transitions to Pillar. If the discretionary price of an Opening or Closing D Order were better-priced than the price of the auction, it would participate in that auction just as any other better-priced order would participate in such auction. Therefore, Opening and Closing D Orders do not present any new or novel issues.

The Exchange further believes that the proposed difference from d-Quotes to reject both the entry *and* cancellation of D Orders and Closing D Orders that are entered ten seconds or less before the scheduled time for the Closing Auction would remove impediments to and perfect the mechanism of a free and open market and a national market system by promoting transparency and would also promote fair and orderly auctions by reducing the potential for a D Order to be changed leading into the close.

The Exchange also believes that the proposed new functionality to enable a Floor broker to combine a Yielding Modifier with a Closing D Order would facilitate Floor broker order participation in the closing auction in a manner consistent with the G Rule. The Exchange further believes that limiting the availability of this functionality to Exchange-listed securities would remove impediments to and perfect the mechanism of a free and open market and a national market system because Closing D Orders in UTP Securities would be routed to the primary listing market for such security, which do not have similar yielding functionality.

Finally, the Exchange believes that the proposed Closing IO Order would remove impediments to and perfect the mechanism of a free and open market and a national market system because it is based on the CO Order described under Rule 13(c)(1), which is currently available for Exchange-listed securities. The Exchange similarly proposes to offer the Closing IO Order for Exchange-listed securities on Pillar and such order type would ensure continuity in what auction orders would be available for when the Exchange transitions trading of Exchange-listed securities to Pillar. The Exchange proposes to include in its separate proposed rule change relating to auctions how all of these Auction-Only Orders would be allocated in an auction.

Last Sale Peg Modifier. The Exchange believes that the proposed Last Sale Peg Modifier would remove impediments to, and perfect the mechanisms of, a free

and open market and a national market system and, in general, protect investors and the public interest because it would expand existing functionality available to trading of Exchange-listed securities to trading on Pillar, which would aid member organizations in their compliance with provision of Rule 10b-18. Today, the Exchange offers the BMZP instruction, which prevents a buy order from trading at a price higher than the last sale. As proposed, the Last Sale Peg Modifier would offer functionality based on the BMZP instruction for all orders that trade on the Exchange. Similar to the BMZP instruction, the proposed Last Sale Peg Modifier would be available to buy orders and is designed to facilitate compliance with one of the conditions of the safe harbor provision of Rule 10b-18. The Exchange believes that the proposed differences between the proposed Last Sale Peg Modifier and the BMZP instruction are designed to streamline the operation of the order modifier and promote transparency, while at the same time maintaining the core purpose of such modifier. For example, the Exchange believes that limiting this modifier to Non-Routable Limit Orders would simplify its operation because the Exchange would not be able to assist a member organization to comply with Rule 10b-18 if such order were routed to an Away Market.

Yielding Modifier. The Exchange believes that the proposed Yielding Modifier would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because it would expand functionality currently available on the Exchange to Floor brokers in Exchange-listed securities to all securities trading on Pillar by providing Floor brokers an electronic method to represent orders on Pillar that yield priority, parity and precedence to displayed and non-displayed orders on the Exchange's book in compliance with the G Rule.⁶⁶ Today, the Exchange offers g-Quotes⁶⁷ for trading in Exchange-listed securities. The proposed Yielding Modifier is based on current g-Quote functionality, including that it would only be available to Floor brokers. The Exchange notes that there is no need to offer this modifier to non-Floor brokers because the only members with the specified G Rule obligations today are Floor brokers - the electronic, off-Floor entry of orders is subject to an exception to the G Rule.⁶⁸

The Exchange believes the proposed rule for the Yielding Modifier is designed to provide transparency of how the proposed modifier would function if there are resting orders on both sides of the Exchange book locking each other at the same price. The Exchange believes that the proposed functionality to allow an arriving Yielding Order that is priced better than a resting order that is locked with a contra-side order to trade ahead of such same-side resting order is consistent with

⁶⁶ See Section 11(a)(1) of the Act, 15 U.S.C. 78k(a)(1).

⁶⁷ See Rule 70(a)(ii) and (iii).

⁶⁸ See Securities Exchange Act Release No. 82945 (March 26, 2018), 83 FR 13553, 13568 (March 29, 2018) (SR-NYSE-2018-36) (Approval Order).

the G Rule because in such scenario, the Yielding Order is willing to trade at a better price than the resting order, and therefore has price priority over such resting order. Likewise, the Exchange believes it would be appropriate to trigger a resting order eligible to trade ahead of a same-priced, same-side Yielding Order because if such resting order is eligible to be executed and the Yielding Order does not have price priority, the resting order should have an opportunity to trade first. If it cannot trade, then neither it nor the Yielding Order would trade. Finally, the Exchange believes it would be consistent with the G Rule for a Yielding Order to trade ahead of a same-priced resting order that is unable to trade because one or more conditions cannot be met for such resting order. The Exchange believes this trading scenario would be consistent with the G Rule because the resting order is not eligible to trade, and therefore it would yield priority to the Yielding Order; the Yielding Order would not trade ahead of any orders in that execution.

Lastly, the Exchange believes the proposed changes to Rules 7.36 and 7.37 regarding the priority and parity allocation process for orders with a Yielding Modifier would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system. The Exchange believes it is reasonable to prioritize for execution and parity purposes orders with a Yielding Modifier behind all other orders at the same price because doing so is consistent with the modifier's purpose, which is to yield priority and parity to all other displayed and non-displayed orders at the same price, in compliance with the G Rule.

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

In accordance with Section 6(b)(8) of the Act,⁶⁹ the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed change extends the availability of order types that are currently available for Exchange-listed securities to trading on Pillar. The Exchange operates in a highly competitive environment in which its unaffiliated exchange competitors operate under common rules for the trading of securities listed on their markets as well as those that they trade pursuant to unlisted trading privileges. By extending the availability of order types that are currently available for Exchange-listed securities to trading on Pillar, the Exchange would provide its members with consistency across trading of all securities in the Exchange. Doing so would also enable the Exchange to further compete with unaffiliated exchange competitors that also trade UTP securities.

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

⁶⁹

15 U.S.C. 78f(b)(8).

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)

Not applicable.

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

Not applicable.

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.

11. Exhibits

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

Exhibit 5 – Text of the Proposed Rule Change

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NYSE-2018-52)

[Date]

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend Rule 7.31 Relating to Discretionary Orders, Auction-Only Orders, Discretionary Modifier, and Yielding Modifier and Related Amendments to Rules 7.16, 7.34, 7.36, and 7.37

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on October 29, 2018, New York Stock Exchange LLC (“NYSE” 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 7.31 (Order and Modifiers) to: (i) add a new order type, Discretionary Orders; (ii) amend Auction-Only Orders; (iii) add two new order type modifiers, the Last Sale Peg Modifier and the Yielding Modifier; and (iv) make related changes to Rules 7.16, 7.34, 7.36, and 7.37. The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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

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

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

1. Purpose

The Exchange proposes to amend Rule 7.31 (Order and Modifiers) to: (i) add a new order type, Discretionary Orders; (ii) amend Auction-Only Orders; (iii) add two new order type modifiers, the Last Sale Peg Modifier and the Yielding Modifier; and (iv) make related changes to Rules 7.16, 7.34, 7.36, and 7.37.

Each of these proposed changes is designed to introduce on Pillar order types and modifiers that are currently available for trading securities listed on the Exchange. First, the proposed new order type, Discretionary Orders, or “D Orders,” is based on current d-Quote functionality.⁴ Second, the proposed changes to Auction-Only Orders are based on how d-Quotes currently function for auctions in Exchange-listed securities. Third, the proposed Last Sale Peg Modifier is based on the Buy Minus Zero Plus Instruction.⁵ Finally, the proposed Yielding Modifier is based on e-Quotes that yield (“g-

⁴ See Supplementary Material .25 to Rule 70 (“Rule 70.25”).

⁵ See Rule 13(f)(4).

Quotes”).⁶ The Exchange also proposes to make related changes to Rules 7.16 (Short Sales), 7.34 (Trading Sessions), 7.36 (Order Ranking and Display), and 7.37 (Order Execution and Routing).

Currently, only UTP Securities are traded on the Exchange’s Pillar trading platform.⁷ Accordingly, at this time, the proposed D Order, Last Sale Peg Modifier, and Yielding Modifier would be available only for UTP Securities. When the Exchange transitions Exchange-listed securities to Pillar, these order types and modifiers would be available for those securities as well. Because the Exchange does not conduct auctions in UTP Securities, the proposed changes to Auction-Only Orders would not be applicable to trading in UTP Securities. The Exchange proposes to file a separate proposed rule change to introduce auctions in Pillar for Exchange-listed securities. The proposed changes in this filing to Auction-Only Orders would not be implemented until that separate filing is approved and the Exchange has begun trading Exchange-listed securities on the Pillar trading platform.

Proposed Discretionary Order

The Exchange proposes a new order type, a Discretionary Order or “D Order”, under paragraph (d)(4) of Rule 7.31 for securities trading on Pillar. Today, the Exchange offers d-Quotes⁸ for trading in Exchange-listed securities only, which operate in a similar

⁶ See Rule 70(a)(ii) and (iii).

⁷ “UTP Security” is defined as a security that is listed on a national securities exchange other than the Exchange and that trades on the Exchange pursuant to unlisted trading privileges. See Rule 1.1(x).

⁸ See Rule 70.25. See also Securities Exchange Act Release Nos. 54577 (October 5, 2006), 71 FR 60208 (October 12, 2006) (SR-NYSE-2006-25) (“d-Quote Approval Order”); 60251 (July 7, 2009), 74 FR 34068 (July 14, 2009) (SR-NYSE-2009-55); 61072 (November 30, 2009), 74 FR 64103 (December 7, 2009) (SR-NYSE-2009-106); and 75444 (July 13, 2015), 80 FR 42575 (July 17, 2015)

manner as the proposed D Order, including that such order type is available to Floor brokers only.

Under Rule 70.25, a d-Quote is a quotation entered by a Floor broker that includes discretionary instructions as to size and/or price.⁹ Such discretionary instructions are active during the trading day, unless the PBBO is crossed.¹⁰ A Floor broker can also include an instruction for the discretionary instructions to participate in the opening or closing transaction only.¹¹ Discretionary instructions are not displayed and such instructions apply to both displayed and reserve interest.¹² Currently, price discretion can apply to all or a portion of a d-Quote and a d-Quote with a midpoint modifier has a discretionary price range to the midpoint of the PBBO.¹³

With respect to discretionary size, a Floor broker may designate the amount of d-Quote volume to which the discretionary price instructions shall apply, and can also designate that a minimum size of contra-side volume with which it is willing to trade using discretionary size instructions.¹⁴ A Floor broker may also designate a minimum trade size (“MTS”) that must be met before the d-Quote is executed.¹⁵ A resting d-Quote will be triggered to exercise discretion so long as the contra-side interest’s price is within

(SR-NYSE-2015-15).

⁹ See Rule 70.25(a)(i).

¹⁰ See Rule 70.25(a)(ii).

¹¹ See id.

¹² See Rule 70.25(a)(vi) and (vjj).

¹³ See Rule 70.25(b).

¹⁴ See Rule 70.25(c).

¹⁵ See Rule 70.25(d).

the discretionary price range and meets the MTS that has been set for the d-Quote.¹⁶

On Pillar, the Exchange proposes to offer Floor brokers functionality similar to d-Quotes in the form of D Orders. However, the Exchange proposes to simplify and streamline D Order functionality on Pillar as compared to how d-Quotes function. Among other things, the Exchange would not offer discretionary size instructions for D Orders that are available to d-Quotes. Also unlike d-Quotes, the discretionary price instructions would be applicable to the entirety of the D Order. In addition, all D Orders would have a discretionary price range capped at the midpoint of the PBBO, which is currently optional functionality for d-Quotes.

Overview. Proposed Rule 7.31(d)(4) would set forth the general requirements for D Orders and would provide that a D Order is a Limit Order that may trade at an undisplayed discretionary price. As further proposed, a D Order must be designated Day, may be designated as routable or non-routable,¹⁷ and on entry, must have a minimum of one round lot displayed. This proposed rule text is based in part on how d-Quotes currently function, with a proposed difference that on Pillar, D Orders would be required to have a display quantity.¹⁸ The Exchange proposes that, as currently available for d-Quotes, D Orders could be combined with a Reserve Order, which would be addressed in an amendment to Rule 7.31(d)(1)(C).

Proposed Rule 7.31(d)(4) would further provide that a D Order is available only

¹⁶ See Rule 70.25(e)(ii).

¹⁷ A d-Quote can be combined with a Do Not Ship “DNS” Order, which is an order that would be cancelled if it were required to be routed. See Rule 13(e)(2). Accordingly, a d-Quote combined with DNS is a non-routable d-Quote.

¹⁸ Currently, Reserve Orders available to Floor brokers do not require a display quantity. See Rule 70(f).

to Floor brokers and is eligible to be traded in the Core Trading Session¹⁹ only. This proposed rule text is based on current rules that d-Quotes are available only to Floor brokers. The requirement that D Orders would be eligible to trade in the Core Trading Session only is consistent with current d-Quote functionality, which trade during “regular trading hours” only. The Exchange proposes to apply this same time frame when making D Orders available to all securities that trade on Pillar, including UTP Securities because, as discussed below, D Order functionality would operate similarly to Pegged Orders, which are also only available during Core Trading Hours. The Exchange also proposes to amend Rule 7.34(c)(1)(A) to specify when a D Order may be entered and be eligible for execution.

Proposed Rule 7.31(d)(4) would further provide that a D Order in an Auction-Eligible Security would be eligible to participate in an auction at its limit price. As noted above, the Exchange will file a separate proposed rule change to introduce auctions on Pillar and this proposed change would not be applicable to UTP Securities.²⁰

Upon Arrival. Proposed Rule 7.31(d)(4)(A) would provide that the Floor broker would

¹⁹ The Core Trading Session begins at 9:30 a.m. Eastern Time and ends at the conclusion of Core Trading Hours. See Rule 7.34(a)(2). The term “Core Trading Hours” means “the hours of 9:30 a.m. Eastern Time through 4:00 p.m. Eastern Time or such other hours as may be determined by the Exchange from time to time.” See Rule 1.1(d).

²⁰ In its proposed rule change to introduce auctions, the Exchange will introduce new definitions that are used on its affiliated exchanges that operate auctions on the Pillar trading platform, including the term “Auction-Eligible Security,” “Core Trading Auction,” “Trading Halt Auction,” and “Closing Auction.” See, e.g., NYSE Arca Rule 7.35(a)(1)-E. The Exchange believes that it is appropriate to use the yet-to-be-defined Pillar term relating to auctions in proposed Rule 7.31(d)(4) because these aspects of proposed Rule 7.31(d)(4) would not be operative until the Exchange’s separate proposed rule change relating to auctions would be operative.

be required to specify one of the following instructions for a D Order: (i) Limit Price D Order; or (ii) Midpoint Price D Order.

- Proposed Rule 7.31(d)(4)(A)(i) would provide that on arrival, a Limit Price D Order to buy (sell) would trade with sell (buy) orders on the Exchange Book, or, if designated as routable, route to an Away Market up (down) to the limit price of the order. If after trading or routing the PBBO is locked or crossed or there is no PBB (PBO), a Limit Price D Order would be cancelled. Because the limit price of a D Order would function similarly to the upper (lower) discretionary price range of a d-Quote, this proposed operation of a Limit Price D Order on arrival is similar to how d-Quotes currently function.²¹
- Proposed Rule 7.31(d)(4)(A)(ii) would provide that on arrival, a Midpoint Price D Order to buy (sell) would trade with sell (buy) orders on the Exchange Book up (down) to the lower (higher) of the midpoint of the PBBO (“Midpoint Price”) or the order’s limit price. The rule would further provide that a Midpoint Price D Order would not route on arrival, even if designated as routable. If designated as routable, a Midpoint D Order combined with a Reserve Order would be evaluated for routing each time the display quantity is replenished. The rule would further provide that if the PBBO is locked or crossed or there is no PBB or PBO to which the order could be pegged upon arrival, the Midpoint Price D Order would be rejected. The Midpoint Price D Order is based on current functionality that a d-Quote may be designated with a midpoint modifier and the discretionary price

²¹ See Rule 70.25(e)(vii) (a d-Quote may initiate a sweep to the extent of their price and volume discretion).

range of such d-Quote is the midpoint of the PBBO.²²

The Exchange notes that the proposed functionality to either cancel or reject a D Order when the PBBO is locked or crossed is based on how Primary Pegged Orders²³ currently function.²⁴ As discussed below, the Exchange proposes that D Orders would function similarly to Primary Pegged Orders because they would be pegged to the same-side PBBO. The Exchange therefore believes that a D Order should be rejected or cancelled under the same circumstances when a Primary Pegged Order would be cancelled or rejected.²⁵ In addition, this is consistent with current d-Quote functionality that provides that discretionary instructions are not active when the PBBO is crossed.²⁶

Display Price. Proposed Rule 7.31(d)(4)(B) would set forth how a D Order would be displayed when resting on the Exchange Book and would provide that the working²⁷ and display price of a D Order to buy (sell) would be pegged to the PBB (PBO). If the PBB (PBO) is higher (lower) than the limit price of a D Order to buy (sell), the working and display price would be the limit price of the order. The rule would further provide that a D Order to buy (sell) would be cancelled if there is no PBB (PBO)

²² See Rule 70.25(b)(v).

²³ See Rule 7.31(h) for a description of Pegged Orders.

²⁴ See Rule 7.31(h)(2) and (h)(2)(B) (“A Primary Pegged Order will be rejected if the PBBO is locked or crossed.”).

²⁵ See Rule 7.31(h)(2) (“A Primary Pegged Order to buy (sell) will be rejected on arrival, or cancelled when resting, if there is no PBB (PBO) against which to peg.”)

²⁶ See Rule 70.25(a)(ii).

²⁷ “Working price” means the price at which an order is eligible to trade at any given time, which may be different from the limit price or display price of the order. See Rule 7.36(a)(3).

against which to peg. At its display price,²⁸ a D Order would be ranked Priority 2 - Display Orders.²⁹ This proposed functionality for D Orders would be new for Pillar and is based on how Primary Pegged Orders function, including that a D Order would be cancelled if there is nothing against which to peg. The Exchange believes this proposed difference would streamline and simplify the operation of D Orders as compared to d-Quotes.³⁰

Exercising Discretion. Proposed Rule 7.31(d)(4)(C) would provide that a resting D Order to buy (sell) would be eligible to exercise discretion up (down) to the limit price of the order. This proposed rule text is new for Pillar and reflects that the limit price of the D Order would function as the ceiling or floor of the discretionary price range for such order. As noted above, the display price of a D Order would be pegged to the same-side PBBO and would not be based on the limit price.

The proposed rule would further provide that such D Order would not exercise discretion if the PBBO is locked or crossed or if there is no Midpoint Price. This functionality is based in part on how d-Quotes currently function and adds that D Orders would not exercise discretion if the market is locked (because a D Order would be pegged to the same-side PBBO and there is no midpoint) or if there is no Midpoint Price

²⁸ “Display price” means the price at which a Limit Order is displayed, which may be different from the limit price or working price of the order. See Rule 7.36(a)(1).

²⁹ Rule 7.36(e) governs execution priority for orders resting on the Exchange Book and currently sets forth three priority categories: Priority 1 – Market Orders, Priority 2 – Display Orders, and Priority 3 – Non-Display Orders. If a D Order is combined with a Reserve Order, the reserve interest of such order would be ranked Priority 3 - Non-Display Orders. See Rule 7.31(d)(1).

³⁰ Currently, d-Quotes resting at the depth of book can exercise discretion. See Rule 70.25(e)(i)(A).

(meaning there is no price available for a D Order to extend its discretion to).³¹

Proposed Rule 7.31(d)(4)(C)(i) would provide that a D Order to buy (sell) would be triggered to exercise discretion if the price of an Aggressing Order³² to sell (buy) is above (below) the PBB (PBO) and at or below the Midpoint Price (the “discretionary price range”). This would be new functionality for D Orders. Currently, any contra-side order that is within the discretionary price range of a d-Quote would trigger a d-Quote to trade.³³ The Exchange believes the proposed difference for D Orders would streamline and simplify the function of D Orders. More specifically, because the discretionary price range for a D Order would be one minimum price variation (“MPV”) better than the same-side PBBO capped by the Midpoint Price, the Exchange believes that only contra-side orders with a limit price within that same discretionary price range should trigger a D Order to exercise discretion.

Proposed Rule 7.31(d)(4)(C)(ii) would provide that the discretionary price at which a D Order to buy (sell) would trade would be the price of the sell (buy) order. This proposed functionality would be new for Pillar and is to be read together with proposed Rule 7.31(d)(4)(C)(i), which defines the price range of the contra-side order that could trigger the D order to exercise discretion. In addition, the Exchange proposes to define the term “discretionary price” in new Rule 7.36(a)(7) to mean the undisplayed price at which a D Order would trade if it exercises discretion.

³¹ See Rule 70.25(a)(ii).

³² An Aggressing Order is a buy (sell) order that is or becomes marketable against sell (buy) interest on the Exchange Book and that a resting order may become an Aggressing Order if its working price changes, if the PBBO or NBBO is updated, because of changes to other orders on the Exchange Book, or when processing inbound messages. See Rule 7.36(a)(6).

³³ See Rule 70.25(e)(ii).

Proposed Rule 7.31(d)(4)(C)(ii) would further provide that if there is other interest to buy (sell) on the Exchange Book priced equal to or higher (lower) than the price of the sell (buy) order, the discretionary price would be one MPV higher (lower) than the highest (lowest) priced resting order to buy (sell), capped by the Midpoint Price.³⁴ This would be new functionality for Pillar and is based in part on current functionality that requires a d-Quote to exercise the least amount of price discretion.³⁵

The following example illustrates this behavior:

- If the PBBO is \$10.00 by \$10.10 with a Midpoint Price of \$10.05 and a Floor broker enters a D Order to buy 100 shares with a limit price of \$10.08 (“Order 1”), Order 1 would be pegged to and displayed at \$10.00, the PBB, with a discretionary price range up to the \$10.05 Midpoint Price. If a non-displayed Limit Order to buy 100 shares at \$10.03 is placed on the Exchange Book (“Order 2”) and next, a Limit Order to sell 200 shares at \$10.01 is entered (“Order 3”), because Order 3 is marketable against Order 2 at \$10.03, Order 1’s discretionary price range would extend to \$10.04, one MPV higher than Order 2’s limit price. Order 3 would execute 100 shares against Order 1 at \$10.04, providing Order 3 with \$0.03 of price improvement relative to its limit price. The remaining 100 shares of Order 3 would execute against Order 2 at \$10.03.

Ranking and Working Time. As provided for in Rule 7.36(f)(1), an order is assigned its working time based on its original entry time, which is the time when an order is placed on the Exchange Book. Rule 7.36(f)(2) further provides that an order is

³⁴ The MPV for securities is defined in Rule 7.6.

³⁵ See Rule 70.25(e)(i)(A).

assigned a new working time any time its working price changes.³⁶ Because a D Order can trade at more than one price - its display price or its discretionary price, the Exchange proposes to address the working time associated with each such price in proposed Rule 7.31(d)(4)(D). As proposed, the trigger to exercise discretion would not change the working time of a D Order's display and working price.

Proposed Rule 7.31(d)(4)(D)(i) would provide that at its discretionary price, a D Order would be assigned a new temporary working time that is later than any same-side resting interest at that price. This temporary working time is distinct from the working time associated with the display and working price of the D Order, which are pegged to the same-side PBBO.

Proposed Rule 7.31(d)(4)(D)(ii) would provide that multiple D Orders eligible to trade at the same discretionary price would be ranked by limit price and time. This is new functionality for Pillar. Current Rule 70.25(e)(iii) and (iv) describe how competing d-Quotes from more than one Floor broker trade. The Exchange does not propose to replicate this functionality on Pillar and believes that ranking multiple same-side D Orders based on limit price and time would simplify the process for allocation among competing D Orders. Finally, proposed Rule 7.31(d)(4)(D)(iii) would provide that any quantity of a D Order that does not execute at a discretionary price would return to the working time associated with its working and display price.

The Exchange believes that the proposed temporary working time associated with the discretionary price would respect the priority of the working times of orders that may

³⁶ Pursuant to Rule 7.36(f)(2), each time a D Order is assigned a new working and display price, i.e., with each change to the same-side PBBO pursuant to proposed Rule 7.31(d)(4)(B)(i), such D Order would be assigned a new working time.

have a working price equal to the D Order's discretionary price. By assigning a temporary working time, the D Order would be ranked behind other orders at that price. In addition, because the D Order would continue to be displayed at its display price, even if it were triggered to exercise discretion, the proposal would honor such D Order's original working time if it were to trade at its display price.

Resting D Order that Becomes Marketable. Proposed Rule 7.31(d)(4)(E) would provide that after the PBBO unlocks or uncrosses or a Midpoint Price becomes accessible, resting D Orders to buy (sell) would be ranked based on the lower (higher) of the Midpoint Price or limit price of the order to determine whether a D Order is marketable within the discretionary price range with contra-side orders on the Exchange Book. This proposed rule text is new and reflects the difference in Pillar that D Orders would not exercise discretion when the PBBO is locked or crossed or if a Midpoint Price is unavailable. This proposed rule text addresses how a resting D Order would be ranked for trading when the PBBO unlocks or uncrosses or if a Midpoint Price becomes accessible.

D Orders Rejected and Modifiers. Proposed Rule 7.31(d)(4)(F) would provide that a D Order may be designated with a Self Trade Prevention Modifier ("STP") and would be rejected if combined with any other modifiers or if the same-side PBBO is zero. This proposed functionality is new, as d-Quotes cannot currently be designated with an STP Modifier.³⁷ The Exchange believes that making STP Modifiers available for D Orders would provide Floor brokers with more tools to reduce the potential for two orders to interact if they are from the same customer. By specifying that D Orders cannot

³⁷ See Rule 13(f)(3)(B).

be combined with other modifiers, the rule provides transparency that a D Order cannot be combined with other modifiers defined in Rule 7.31(i).

Regarding STP, Rule 7.31(i)(2) describes the Exchange's STP Modifier. Generally, if two orders from the same Client ID both have an STP Modifier, the Exchange will cancel one of the two orders, based on instruction from the member organization. For D Orders, because the discretionary price is temporary, the Exchange proposes that if a D Order exercising discretion would trade with another order with an STP Modifier from the same Client ID, the two orders would not trade, but nor would either order be cancelled. The Exchange does not believe it would be appropriate to cancel the D Order in such scenario because if the D Order is not cancelled, it would be eligible to trade with another order at either its display price or a different discretionary price at a later time. To effect this change, the Exchange proposes to amend Rule 7.31(i)(2) to add new subparagraph (C) that would provide that a resting D Order with an STP Modifier that is triggered to exercise discretion and is not an Aggressing Order will not trade at a discretionary price against a contra-side order that is also designated with an STP Modifier and from the same Client ID and that in such case, the D Order would not be cancelled.

Last 10 Seconds of Trading. Proposed Rule 7.31(d)(4)(G) would provide that a request to enter a D Order in any security or to cancel or modify a D Order in an Auction-Eligible Security entered 10 seconds or less before the scheduled close of trading would be rejected. This proposed rule text is based in part on the second sentence of current Rule 70.25(a)(ii), which provides that the Exchange will reject any d-Quotes that are entered 10 seconds or less before the scheduled end of trading. The proposed

functionality for UTP Securities would be identical to Rule 70.25(a)(ii). For Auction-Eligible Securities, the Exchange proposes to add that requests to cancel or modify such D Orders would also be rejected.³⁸ The Exchange believes that preventing cancellation or modification of a D Order leading into an auction would promote fair and orderly auctions by reducing the potential for a D Order to be changed leading into the close. The Exchange does not propose to offer this functionality for D Orders in UTP Securities because the Exchange will not conduct auctions in UTP Securities.

Allocation of D Orders. Rule 7.37(b) describes how an Aggressing Order is allocated among contra-side orders at each price. The Exchange maintains separate allocation wheels on each side of the market for displayed and non-displayed orders at each price. The Exchange proposes to amend Rule 7.37(b) to set forth how D Orders would participate in the allocation process.

Rule 7.37(b)(1) sets forth the following allocation sequence: (1) Market Orders trade first based on time; (2) orders with Setter Priority as described in Exchange Rule 7.36(h) receive an allocation; (3) orders ranked Priority 2 - Displayed Orders are allocated on parity by Participant; (4) orders ranked Priority 3 - Non-Display Orders, other than Mid-Point Liquidity (“MPL”) Orders³⁹ with an MTS Modifier, are allocated on parity by Participant;⁴⁰ and then (5) MPL Orders with an MTS Modifier are allocated based on MTS size (smallest to largest) and time.

³⁸ As noted above, proposed changes for Auction-Eligible Securities would not be implemented until a separate proposed rule change relating to auctions is approved and the Exchange transitions Exchange-listed securities to Pillar.

³⁹ See Rule 7.31(d)(3) for a description of MPL Orders.

⁴⁰ In sum, an order with an MTS Modifier would only trade with contra-side orders that, either individually or in the aggregate, satisfy the order’s minimum trade size condition. See Rule 7.31(i)(3) for a full description of the MTS Modifier.

As proposed, D Orders trading at a discretionary price would be allocated next on parity. Accordingly, at their discretionary price, D Orders would be allocated after all other orders at that price, except, as described below, Yielding Orders. To effect this change, the Exchange proposes to amend Rule 7.37(b)(1) to add new sub-paragraph (F) to provide that next, D Orders trading at a discretionary price would be allocated on parity by Floor broker. This proposed functionality is based in part on current Rule 70.25(a)(ii), which provides that executions of d-Quotes within the discretionary price range are considered non-displayable for purposes of Rule 72.

Rule 7.37(b)(2) describes the process for the parity allocation wheel. Currently, the Exchange creates separate allocation wheels for orders ranked Priority 2 - Display Orders and orders ranked Priority 3 - Non-Display Orders. The Exchange proposes to create a third allocation wheel if there is more than one D Order eligible to trade at a discretionary price. In such case, the Exchange would create an allocation wheel for D Orders at that discretionary price.⁴¹

The Exchange proposes that an allocation wheel for D Orders trading at a discretionary price would function the same as allocation wheels for display and non-display orders, with one proposed difference. Because the discretionary price at which a D Order would trade is a temporary price established based on whether a contra-side order triggers a D Order to exercise discretion, the Exchange proposes to amend Rule 7.37(b)(2)(A) to provide that for each D Order parity allocation wheel, a D Order to buy (sell) with the highest (lowest) limit price would establish the first position on that allocation wheel. This proposed rule text is consistent with the proposed ranking of D

⁴¹ See proposed amendment to Rule 7.37(b)(2).

Orders as set forth in proposed Rule 7.31(d)(4)(D)(ii), which would require multiple D Orders eligible to trade at the same discretionary price to be ranked by limit price and time as described above.

The following example illustrate how the parity allocation wheel for D Orders would be established:

- If the PBBO is \$10.00 by \$10.10 with a Midpoint Price of \$10.05 and a Floor broker enters a D Order to buy 1,000 shares with a limit price of \$10.06 (“Order 1”), Order 1 would be pegged to and displayed at \$10.00, the PBB, with discretion to the \$10.05, the Midpoint Price. If another Floor broker enters a separate D Order to buy 1,000 shares with a limit price of \$10.07 (“Order 2”), like Order 1, Order 2 would be pegged to and displayed at \$10.00, the PBB, with discretion to \$10.05, the Midpoint Price.
- If a Limit Order to sell 100 shares at \$10.05 is entered (“Order 3”), Order 3 would trigger both Order 1 and 2 to exercise discretion at the Midpoint Price. Because Order 2 has the more aggressive limit price, it would establish the first position on the D Order parity wheel. In this example, Order 3 would trade 100 shares with Order 2 at \$10.05. Because there is no remaining quantity of Order 3, Order 1 would not receive an allocation.

Re-pricing of D Orders during a Short Sale Period. Rule 7.16(f)(5) sets forth how the Exchange processes short sale orders during a Short Sale Period.⁴² The

⁴² A “Short Sale Period” is defined in Rule 7.16(f)(4) to mean the period when a Short Sale Price Test is in effect. A “Short Sale Price Test” is defined in Rule 7.16(f)(3) to mean the period during which Exchange systems will not execute or display a short sale order with respect to a covered security at a price that is less than or equal to the current NBB in compliance with Rule 201 of Regulation

Exchange proposes to amend Rule 7.16(f)(5)(C) to address how the Exchange would process D Orders marked “short” during a Short Sale Period. As proposed, during a Short Sale Period, the Exchange proposes to process sell short D Orders like Pegged Orders and MPL Orders. To effect this change, the Exchange proposes to amend Rule 7.16(f)(5)(C) to add that D Orders, like Pegged Orders and MPL Orders today, including orders marked buy, sell long and sell short exempt, would use the National Best Bid and Offer (“NBBO”) instead of the PBBO as the reference price. Because the Exchange has defined the term “Midpoint Price” for D Orders, the Exchange further proposes to amend that rule to provide that the Midpoint Price of D Orders would be the midpoint price of the NBBO, including situations where the midpoint is less than one minimum price increment above the National Best Bid (“NBB”). This functionality would be new for D Orders on Pillar as compared to how d-Quotes function and is based on applying existing Pillar logic for orders that peg to the PBBO to D Orders.

Auction-Only Orders

As noted above, the Exchange does not conduct auctions in UTP securities. If the Exchange receives an Auction-Only Order in a UTP Security, the Exchange routes such order directly to the primary listing market for that security. Therefore, Rule 7.31(c) currently describes an Auction-Only Order as a Limit Order or Market Order that is only to be routed pursuant to Rule 7.34.

Because d-Quotes currently can be designated to exercise discretion only in auctions, the Exchange proposes to include in this filing how discretionary instructions

would function on Pillar auctions.⁴³ Because this proposed amendment would address auctions in Auction-Eligible Securities on the Exchange, the Exchange proposes to amend Rule 7.31(c) to reflect the difference between Auction-Only Orders for Exchange-listed securities, which will be auction eligible when they transition to Pillar, and Auction-Only Orders for UTP Securities, which are routed to the primary listing market. As proposed, 7.31(c) would provide that an Auction-Only Order is a Limit Order or Market Order in an Exchange-listed security that is to be traded in an auction on the Exchange. The rule would further provide that an Auction-Only Order in a UTP security would be routed on arrival to the primary listing market for that security.

Core Open and Trading Halt Auctions. Proposed Rule 7.31(c)(1) would describe the Auction-Only Orders designated for an opening or reopening auction that the Exchange would accept before the Core Trading Session begins (for the Core Open Auction) or during a halt or pause (for a Trading Halt Auction). As proposed, any quantity of such orders that are not traded in the designated auction would be cancelled. This proposed text does not introduce new functionality, but uses Pillar terminology relating to auctions. The Exchange proposes to move the definitions for a Limit-on-Open Order (“LOO Order”) and a Market-on-Open Order (“MOO Order”) as sub-paragraphs under Rule 7.31(c)(1) without any changes.⁴⁴

As noted above, under Rule 70.25(a)(ii), a d-Quote can include an instruction to participate in the opening transaction only, meaning that the discretionary instructions for an e-Quote would be live for the opening transaction only. The Exchange proposes to

⁴³ See Rule 70.25(a)(ii).

⁴⁴ Current Rule 7.31(c)(1) relating to LOO Orders would be renumbered as Rule 7.31(c)(1)(A) and current Rule 7.31(c)(2) relating to MOO Orders would be renumbered as Rule 7.31(c)(1)(B).

replicate that d-Quote behavior on Pillar, but rather than include it in the definition of D Order, the Exchange proposes to describe it as an Auction-Only Order that would be called the “Opening D Order.”

Proposed Rule 7.31(c)(1)(C) would provide that an Opening D Order is a Limit Order to buy (sell) with an instruction to exercise discretion in the Core Open Auction or Trading Halt Auction up (down) to a designated undisplayed price. Just as d-Quotes are available only to Floor brokers, proposed Rule 7.31(c)(1)(C)(i) would provide that an Opening D Order may be entered by a Floor broker only. Because an Opening D Order would cancel if it does not trade in the designated auction, this order type would not be eligible to trade in continuous trading. This proposed rule text is based on current functionality, but uses Pillar terminology.

Because an Opening D Order could be entered for a UTP Security, proposed Rule 7.31(c)(1)(C)(ii) would provide that based on the instruction of the Floor broker, an Opening D Order in a UTP Security would be routed to the primary listing market as either a MOO or LOO Order. This is consistent with the treatment of Auction-Only Orders today in UTP securities, which are routed to the primary listing market for that security.

Closing Auctions. Proposed Rule 7.31(c)(2) would describe the Auction-Only Orders designated for a closing auction that the Exchange would accept when it begins accepting orders for a trading day as provided for in Rule 7.34(a)(1).⁴⁵ The Exchange proposes to move the definitions for a Limit-on-Close Order (“LOC Order”) and a Market-on-Close Order (“MOC Order”) as sub-paragraphs under Rule 7.31(c)(2) without

⁴⁵ Rule 7.34(a)(1) provides that the Exchange will begin accepting orders 30 minutes before the Early Trading Sessions begins at 7:00 a.m. Eastern Time.

any changes.⁴⁶

Similar to d-Quotes for opening transactions, Rule 70.25(a)(ii) provides that a d-Quote can include an instruction to participate in the closing transaction only, meaning that the discretionary instructions for an e-Quote would be live for the closing transaction only. Because the discretionary instructions are live only for a closing auction, on Pillar, the Exchange proposes to describe this functionality as part of Auction-Only Orders rather than as part of D Orders. As proposed, a Closing D Order would be defined in Rule 7.31(c)(2)(C) as a Limit Order to buy (sell) with an instruction to exercise discretion in the Closing Auction up (down) to a designated undisplayed price. As with d-Quotes, proposed Rule 7.31(c)(2)(C)(i) would provide that a Closing D Order may be entered by a Floor broker only.

Proposed Rule 7.31(c)(2)(C)(ii) would provide that on arrival, a Closing D Order would be processed as a Limit Order and may trade or route prior to the Closing Auction. This proposed rule text is based on how a d-Quote with instructions to participate in the closing transaction only currently operate, as such d-Quotes are eligible to trade prior to the closing transaction as a straight e-Quote and the discretionary instructions of such a d-Quote are active only for the closing transaction.

Proposed Rule 7.31(c)(2)(C)(iii) would provide that a Closing D Order in an Auction-Eligible Security may include the proposed Yielding Modifier, which is described in more detail below. This would be new functionality on Pillar, as currently, a d-Quote cannot be combined with a g-Quote. As proposed, until the Closing Auction, a

⁴⁶ Current Rule 7.31(c)(3) relating to LOC Orders would be renumbered as Rule 7.31(c)(2)(A) and current Rule 7.31(c)(4) relating to MOO Orders would be renumbered as Rule 7.31(c)(2)(B).

Closing D Order with the proposed Yielding Modifier would be processed as a Yielding Order. When executing in the Closing Auction, a Closing D Order with a Yielding Modifier would trade at its undisplayed discretionary price, but would yield to all other orders at that price.⁴⁷

Proposed Rule 7.31(c)(2)(C)(iv) would provide that a request to enter a Closing D Order in any security or cancel or modify a Closing D Order in an Auction-Eligible Security entered 10 seconds or less before the scheduled close of trading would be rejected. This proposed rule text is based in part on the operation of d-Quotes for Exchange-listed securities described in the second sentence of current Rule 70.25(a)(ii), which prohibits the entry of d-Quotes 10 seconds or less before the close of trading. The Exchange proposes that entry and cancellation of Closing D Orders should function in the same manner as entry and cancellation of D Orders, described above. Accordingly, for the same reasons, the Exchange proposes new functionality that a Closing D Order in an Auction-Eligible Security may not be cancelled or modified 10 seconds or less before the scheduled close of trading. Because the Exchange would accept a Closing D Order in a UTP Security, even though such order would be routed to the primary market, as proposed, such orders would also be rejected if entered 10 seconds or less before the scheduled close of trading.

Proposed Rule 7.31(c)(2)(C)(v) would provide that based on the instruction of the Floor broker, a Closing D Order in a UTP Security would be routed to the primary listing market as either a MOC or LOC Order. This is consistent with the treatment of Auction-

⁴⁷ The Exchange proposes to set forth how orders are allocated in an auction in its separate proposed rule change introducing auctions on Pillar for Exchange-listed securities.

Only Orders today in UTP securities, which are routed to the primary listing market for that security.

To complete the list of Auction-Only Orders that would be available on the Exchange when it introduces auctions on Pillar for Exchange-listed securities, the Exchange proposes to amend Rule 7.31(c) to include the proposed Closing Imbalance Offset Order (“Closing IO Order”), which is based on the Closing Offset Order (“CO Order”) currently available for Exchange-listed securities.⁴⁸ Proposed Rule 7.31(c)(2)(D) would provide that a Closing IO Order is a Limit Order to buy (sell) in an Auction-Eligible Security that is to be traded only in a Closing Auction.

Proposed Rule 7.31(c)(2)(D)(i) would provide that a Closing IO Order would participate in a Closing Auction only if: (i) there is an imbalance in the security on the opposite side of the market from the Closing IO Order after taking into account all other orders eligible to trade at the auction price; and (ii) the limit price of the Closing IO Order to buy (sell) is at or above (below) the price of the Closing Auction. This text is based on Rule 13(c)(1)(i) and (ii), which describe when a CO Order may participate in the Closing Auction, with changes to reflect Pillar terminology.

Proposed Rule 7.31(c)(2)(D)(ii) would provide that the working price of a Closing IO Order to buy (sell) would be adjusted to be equal to the price of the Closing Auction, provided that the working price of the Closing IO Order would not be higher (lower) than its limit price. This proposed text would add further specificity to the operation of Closing IO Order and is based on Rule 13(c)(1)(iii) which provides that a CO Order will participate in the Closing Auction if its limit price is at or within the price of the Closing

⁴⁸ See Rule 13(c)(1).

Auction. The Exchange will describe ranking and allocation of the proposed Closing IO Orders in its separate proposed rule change relating to auctions.

Proposed Last Sale Peg Modifier

The Exchange proposes to add a new order type modifier, Last Sale Peg, which would be set forth in proposed paragraph (i)(4) of Rule 7.31. Today, the Exchange offers the Buy Minus Zero Plus (“BMZP”)⁴⁹ instruction for trading in Exchange-listed securities. The Last Sale Peg Modifier is designed to achieve the same purpose as the BMZP instruction for securities trading on Pillar, with specified differences to reflect Pillar functions and terminology.

Under Rule 13(f)(4), for Exchange-listed securities, an order with a BMZP instruction will not trade at a price that is higher than the last sale, subject to the limit price of an order, if applicable.⁵⁰ Odd-lot sized transactions are not considered the last sale for purposes of executing BMZP orders.

The BMZP instruction is available to buy Limit Orders only and is designed to assist member organizations in their compliance with the “safe harbor” provisions of Rule 10b-18 under the Act (“Rule 10b-18”) for issuer repurchases.⁵¹ One of the four provisions required to fall under Rule 10b-18’s safe harbor is that the purchase price of a security may not exceed the highest independent bid or the last independent transaction

⁴⁹ See Rule 13(f)(4).

⁵⁰ See Rule 13(f)(4). Limit Orders with a BMZP instruction that are systemically delivered to Exchange systems are eligible to be automatically executed in accordance with, and to the extent provided by, Rules 1000 - 1004, consistent with the order's instructions. Id. Odd-lot sized transactions are not be considered the last sale for purposes of executing an order with a BMZP instruction. Id.

⁵¹ See 17 CFR 240.10b-18. See also Securities Exchange Act Release No. 78679 (August 25, 2016), 81 FR 60080 (August 31, 2016) (SR-NYSE-2016-59).

price for the security.⁵² Because an order with a BMZP instruction will not trade at a price that is higher than the last sale, member organizations can use this instruction to facilitate their compliance with at least one of the conditions of the safe harbor provision of Rule 10b-18.⁵³

On Pillar, the Exchange proposes to offer functionality that is based on the BMZP instruction and rename it the Last Sale Peg Modifier. Proposed 7.31(i)(4) would set forth the general requirements for the Last Sale Peg Modifier. As proposed, a Non-Routable Limit Order to buy may be designated with a Last Sale Peg Modifier, which would be referred to as a “Last Sale Peg Order.” Proposed 7.31(i)(4) would also provide that a Last Sale Peg Order would not trade or be displayed at a price higher than the later of the most recent last-sale eligible trade⁵⁴ executed on the Exchange or the most recent consolidated last-sale eligible trade⁵⁵ which would be defined for purposes of this Rule as the “last-sale price.” This rule text is based on Rule 13(f)(4)(A), but with greater specificity of what it means to be a last sale price for purposes of a Last Sale Peg Order.

The proposed functionality to restrict Last Sale Peg Orders to Non-Routable Limit Orders would be new because currently, the BMZP instruction can be included on both routable and non-routable buy orders. The Exchange believes that limiting the

⁵² See 17 CFR 240.10b-18(b)(3). The other three conditions relate to time of purchases, volume of purchases, and a requirement that only one broker or dealer be involved in such repurchases on a single day.

⁵³ The Exchange does not represent that an order with a BMZP instruction or the proposed Last Sale Peg Modifier are guaranteed to meet the requirements of the safe harbor provision of Rule 10b-18; rather, these instruction are available to member organizations to facilitate their own compliance with Rule 10b-18.

⁵⁴ A last-sale eligible trade must be of at least one round lot.

⁵⁵ A consolidated last-sale eligible trade is the last-sale eligible trade reported to the responsible single plan processor.

availability of this modifier to Non-Routable Limit Orders would simplify the operation of this modifier, while at the same time achieving the goal of the modifier, which is to provide an instruction to facilitate compliance with the safe harbor provisions of Rule 10b-18. Like the BMZP instruction, the proposed Last Sale Peg Order would be available only for buy orders. For completeness, and in anticipation of the Exchange's separate proposed rule change to introduce auctions on Pillar, the Exchange proposes that a Last Sale Peg Order would not participate in any auctions.

Proposed Rule 7.31(i)(4)(A) would provide that the working price of a Last Sale Peg Order would be pegged to the lower of the last-sale price, the limit price of the order, or the PBO. To reflect which last-sale price would be applicable, proposed Rule 7.31(i)(4)(A) would further provide that the working price of a resting Last Sale Peg Order would not be adjusted until an Aggressing Order is fully processed. In other words, if an Aggressing Order trades at multiple prices, the Exchange would wait for the last price at which such order trades to determine the last-sale price for purposes of re-pricing the working price of a resting Last Sale Peg Order.

The rule would further provide that if the last-sale price is not at a permissible MPV, the working price of the order would be rounded down to the nearest MPV. This last provision would be applicable, for example, if the last-sale price were at the midpoint of a penny-spread security, which would not be in two decimals. In such case, the Exchange would round the working price of the Last Sale Peg Order down to the MPV for the security. This proposed rule text would be new for Pillar and the Exchange believes that it would promote transparency regarding how a Last Sale Peg Order would be displayed on the Exchange Book in a manner to facilitate compliance with the safe-

harbor provisions of Rule 10b-18.

Proposed Rule 7.31(i)(4)(B) would provide that the display price of a Last Sale Peg Order would be the same as the working price, unless the working price is pegged to the PBO, in which case, the display price would be determined under paragraph (e)(1) of Rule 7.31. Rule 7.31(e)(1) describes how a Non-Routable Limit Order to buy that, at the time of entry and after trading with any sell orders in the Exchange Book priced at or below the PBO is priced.⁵⁶ Because a Last Sale Peg Order would be a Non-Routable Limit Order, it would follow the pricing instructions of such order.

Proposed Rule 7.31(i)(4)(C) would provide that a Last Sale Peg Order may be designated with an STP Modifier and would be rejected if combined with any other modifiers or if there is no last-sale price. This proposed rule text promotes transparency that a Non-Routable Limit Order with a Last Sale Peg Modifier can include an STP, but could not be combined with any other modifiers described in Rule 7.31.

The Exchange proposes that Last Sale Peg Orders would be eligible for execution only during the Core Trading Session. As further proposed, similar to Primary Pegged Orders, the Exchange proposes that Last Sale Peg Orders would be accepted prior to the commencement of the Core Trading Session, but would not be eligible for execution until

⁵⁶ Under Rule 7.31(e)(1), Non-Routable Limit Orders would be re-priced as follows: (i) it will have a working price of the PBO (PBB) of an Away Market and a display price one MPV below (above) that PBO (PBB); (ii) if the PBO (PBB) of an Away Market re-prices higher (lower), it will be assigned a new working price of the updated PBO (PBB) and a new display price of one MPV below (above) that updated PBO (PBB); (iii) if the PBO (PBB) of an Away Market re-prices to be equal to or lower (higher) than its last display price, its display price will not change, but the working price will be adjusted to be equal to its display price; or (iv) if its limit price no longer locks or crosses the PBO (PBB) of an Away Market, it will be assigned a working price and display price equal to its limit price and will not be assigned a new working price or display price based on changes to the PBO (PBB).

the Core Trading Session begins. To effect this change, the Exchange proposes to amend Rule 7.34(c)(1)(A) to add Last Sale Peg Orders to the description of orders that may be accepted but not eligible to trade during the Early Trading Session.

Proposed Yielding Modifier

The Exchange proposes to add a second new order type modifier, the Yielding Modifier, under paragraph (i)(5) of Rule 7.31, for trading on Pillar. Today, the Exchange offers Floor brokers g-Quotes⁵⁷ for trading in Exchange-listed securities only. The proposed Yielding Modifier is based on how g-Quotes currently function and as with g-Quotes, would be available only to Floor brokers.

Currently, g-Quotes are designed to assist Floor brokers with compliance with Section 11(a)(1) of the Act,⁵⁸ which generally prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or any account over which it or an associated person exercises discretion. Subsection (G) of Section 11(a)(1) provides an exemption from this prohibition, allowing an exchange member to have its own floor broker execute a proprietary order, also known as a “G order,” provided such order yields priority, parity, and precedence (the “G Rule”). For Exchange-listed securities, the Exchange offers g-Quotes, which are an electronic method for Floor brokers to represent orders that yield priority, parity and precedence based on size to all other displayed and non-displayed orders on the Exchange Book, in compliance with the G Rule.⁵⁹

⁵⁷ See Rule 70(a)(ii) and (iii).

⁵⁸ 15 U.S.C. 78k(a)(1).

⁵⁹ Under the G Rule, G orders are not required to yield to other orders that are for the account of a member, e.g., Designated Market Maker (“DMM”) interest or other g-Quotes.

Like g-Quotes, the proposed Yielding Modifier would aid Floor brokers in complying with the G Rule when trading on Pillar. Proposed Rule 7.31(i)(5) would set forth the general requirements for the Yielding Modifier and would provide that a Limit Order, Non-Routable Limit Order, Reserve Order, or Closing D Order may be designated with a Yielding Modifier, which for purposes of this Rule, would be referred to as a “Yielding Order.” This proposed rule text is based on how the Exchange currently functions, because a g-Quote is a form of an e-Quote, and pursuant to Rule 70.25, e-Quotes may be displayed or non-displayed and routable or non-routable. The proposed rule text uses Pillar terminology to reflect these functions. Proposed Rule 7.31(i)(5) would also provide that a Yielding Order would yield priority to all other displayed and non-displayed orders at the same price, and, similar to g-Quotes, may be entered by a Floor broker only.

Proposed Rule 7.31(i)(5) would also provide that a Yielding Order would be ranked Priority 4 - Yielding Orders. The Exchange would make a related amendment to Rule 7.36(e) to add this additional priority category. Proposed Rule 7.36(e)(4) would provide that Priority 4 - Yielding Orders would have fourth priority. The Exchange believes that these proposed priority categories are consistent with current g-Quote functionality because Yielding Orders would be ranked behind all other displayed and non-displayed orders.

Proposed Rule 7.31(i)(5)(A) and (B) would describe how an Aggressing Yielding Order would trade. Proposed Rule 7.31(i)(5)(A) would provide that an Aggressing Yielding Order to buy (sell) with a limit price higher (lower) than the limit price of a resting order to buy (sell) would trade ahead of such resting order. This proposed rule

text is consistent with how g-Quotes are ranked and traded in an auction; a better-priced g-Quote will trade ahead of an at-priced limit order because it has price priority.⁶⁰ The Exchange proposes to make this explicit in the rules for all executions of a Yielding Order. For example, if the Exchange has a Non-Displayed Limit Order to buy with a limit price of 10.00 (“Order 1”) that is locked by an ALO Order to sell at 10.00 (“Order 2”), an arriving Yielding Order to buy with a limit price of 10.03 (“Order 3”) would trade with Order 2 at 10.00. Because Order 3 is willing to trade at a more aggressive price than Order 1 and therefore has price priority, the Exchange believes that Order 3 would not need to yield to Order 1 when trading at 10.00. The Exchange therefore believes that this proposed execution would be consistent with the G Rule.⁶¹

Proposed Rule 7.31(i)(5)(B) would provide that an Aggressing Yielding Order to buy (sell) with a limit price equal to the limit price of a resting order to buy (sell) would either: (i) trigger the resting order to become an Aggressing Order, unless the order to sell (buy) is an MPL-ALO Order,⁶² or an MPL Order with an MTS Modifier, in which case neither the Yielding Order nor the same-side resting order would trade; or (ii) trade ahead of such resting order if such resting order is not eligible to trade (e.g., an ALO Order or an order with an MTS Modifier).

In the first scenario, the Exchange believes that triggering the resting order to

⁶⁰ See Rule 115A(a)(1) and Rule 123C(7)(a)(vii).

⁶¹ See, e.g., Securities Exchange Act Release No. 67686 (August 17, 2012), 77 FR 51596, 51599 (August 24, 2012) (SR-NYSE-2012-19) (Approval Order) (approving the Exchange’s proposal that better-priced G Orders would be guaranteed to participate in a closing auction and would have priority over same-side limit orders on the Exchange Book that are at the same price as the closing auction).

⁶² See Rule 7.31(e)(2) for a description of the ALO Order. An MPL Order may be designated with the ALO modifier. See Rule 7.31(d)(3)(E).

trade ahead of the Yielding Order would respect the priority of the resting order at that price. Neither order would trade if the contra-side order is either an MPL ALO or MPL Order with an MTS Modifier and has a conditional instruction that does not allow it to trade at that price. The Exchange believes that not permitting either order to trade in this circumstance would ensure that the Yielding Order does not trade ahead of a same-priced resting order in accordance with the G Rule.

In the second scenario, the Exchange believes that if a resting order has a condition that has not been met and is therefore not eligible to trade, such order cedes execution priority to a same-side Yielding Order at the same price, and therefore, the Yielding Order would not be trading ahead of such order in violation of the G Rule. The execution of both an ALO Order and an order with an MTS Modifier are both contingent on a pre-condition being met. The ALO Order requires that the contra-side order be a liquidity remover and the order with a MTS Modifier requires that the contra-side order be of a certain size to meet its minimum quantity condition. Because the condition of either resting order has not been met and such order cannot participate in an execution, the Exchange believes this order cedes execution priority to the Yielding Order and the Yielding Order would not be required to yield to it under the G Rule.

The following example illustrates how an order with a Yielding Modifier would interact with conditional orders, such as ALO orders, MPL ALO orders, or MPL orders with an MTS Modifier.

- If the PBBO is \$10.00 by \$10.20 resulting in a Midpoint Price of \$10.10, a Limit Order to buy 40 shares at \$10.10 is entered and is placed on the Exchange Book (“Order 1”), and an MPL ALO order to sell 100 shares at 10.00 is then entered

(“Order 2”) and placed on the Exchange Book at the Midpoint Price, the Exchange Book would become internally locked because Order 2 cannot trade with Order 1.⁶³ Next, a Floor broker enters a Yielding Order to buy 50 shares at \$10.10 (“Order 3”). Order 3 would not execute against Order 2 because Order 3 is priced equal to Order 1 and must yield priority, parity and precedence to Order 1. Order 3 would be placed on the Exchange Book at \$10.10.

- If the Away Market PBB is \$10.00, a Non-Displayed Limit Order to sell 1,000 shares at \$10.00 is entered (“Order 1”), and an ALO order to buy 100 shares at \$10.00 is entered (“Order 2”), Order 2 would not trade with Order 1 because it cannot act as a liquidity remover. Order 2 would be placed on the Exchange Book at \$10.00. Next, a Yielding Order to buy 1,000 shares at \$10.00 is entered (“Order 3”), which would execute 1,000 shares against Order 1 at \$10.00. Order 3 would not be required to yield to Order 2 because Order 2 was an ALO order that chose to forgo the execution in favor of being placed on the Exchange Book and acting as a liquidity provider.

Similar to the Last Sale Peg Order, proposed Rule 7.31(i)(5)(C) would provide that a Yielding Order may be designated with an STP Modifier and would be rejected if combined with any other modifiers.

The Exchange also proposes to amend Rule 7.37(b) to describe how orders with a Yielding Modifier would participate in the allocation process. As described above, the

⁶³ See Rule 7.31(d)(3)(E)(i) (providing that “[a]n Aggressing MPL-ALO Order to buy (sell) will trade with resting orders to sell (buy) with a working price below (above) the midpoint of the PBBO at the working price of the resting orders, but will not trade with resting orders to sell (buy) priced at the midpoint of the PBBO.”).

Exchange proposes that after all other displayed and non-displayed orders are allocated, D Orders would be allocated on parity. The Exchange proposes to amend Rule 7.37(b)(1) to add subparagraph (G) to provide that after D Orders have been allocated, the display quantity of orders ranked Priority 4 - Yielding Orders would be allocated based on time. The Exchange would further add subparagraph (H) to provide that next, the non-display quantity of orders ranked Priority 4 - Yielding Orders would be allocated on time. This proposed allocation process is based in part on how g-Quotes are allocated after all other displayed and non-displayed orders in Exchange-listed securities. The Exchange proposes new functionality for Pillar that within each Yielding Order priority ranking, orders would be allocated on time rather than on parity. The Exchange believes that this proposed difference would streamline and simplify the allocation of Yielding Orders and is consistent with their intended compliance with the G Rule.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act,⁶⁴ in general, and furthers the objectives of Sections 6(b)(5) of the Act,⁶⁵ 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

⁶⁴ 15 U.S.C. 78f(b).

⁶⁵ 15 U.S.C. 78f(b)(5).

The proposed rule change extends the availability of orders and modifiers currently available for trading of Exchange-listed securities to trading of UTP Securities on Pillar. Specifically, the proposed D Order, Last Sale Peg Modifier, and Yielding Modifier that the Exchange proposes for Pillar would operate in a similar manner as d-Quotes, BMZP, and g-Quotes, respectively, which are currently available for trading in Exchange-listed securities. In addition, the proposed changes to Auction-Only Orders would introduce on Pillar order types and modifiers that are currently available for Exchange-listed securities. Specifically, these changes would introduce three new order types on Pillar: the Opening D Order, Closing D Order, and Closing IO Order, each of which are based on existing order types available for trading in Exchange-listed securities. The proposed rule changes are all based on existing functionality with differences in rule text only to reflect Pillar terminology.

D Orders. The Exchange believes that the proposed D Order would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because it would expand existing functionality available to trading of Exchange-listed securities to trading of UTP Securities on Pillar. This proposed rule change would also ensure that this functionality would continue to be available to Floor brokers when the Exchange transitions trading of Exchange-listed securities to Pillar. The Exchange notes that D Orders would operate in a manner similar to d-Quotes. For example, a D Order would be eligible to trade at an undisplayed, discretionary price. In addition, D Orders could still be designated as routable or non-routable and could be combined with a Reserve Order. However, the Exchange proposes to simplify and streamline D Order functionality as

compared to how d-Quotes function. More specifically, the Exchange proposes to cap the discretionary price range to the midpoint of the PBBO, define the discretionary price range of such order based on the limit price, limit the circumstances when a D Order would be triggered to exercise discretion, and peg the display price of a D Order to the same-side PBBO.

The Exchange believes that these proposed differences would simplify the operation of D Orders as compared to d-Quotes, while at the same time allow such orders to both contribute to the display of liquidity at the Exchange and offer price improvement opportunities to contra-side orders. Accordingly, the Exchange believes that the proposed D Order would remove impediments to and perfect the mechanism of a free and open market and a national market system by promoting price improvement to incoming orders, thereby improving execution opportunities for market participants. These increased price improvement opportunities are designed to attract additional order flow to the Exchange.

The Exchange believes that making the proposed D Order available to Floor brokers only is not designed to permit unfair discrimination among customers, issuers, brokers, or dealers. First, D Orders are based on current d-Quote functionality, which is available only to Floor brokers and is designed to replicate electronically the Floor broker's agency role to exercise price discretion on an order on behalf of a customer.⁶⁶ Floor brokers fulfill an agency broker role on behalf of their customers without conflicts and fill a void for firms that have chosen to allocate resources away from trading desks.

⁶⁶ See, e.g., Securities Exchange Act Release No. 34-60251 (July 7, 2009), 74 FR 34068 (July 14, 2009) (Approval Order) (noting that d-Quotes provide Floor brokers with similar functionality that was previously available to Floor brokers).

In addition to this role, Floor brokers provide services for more illiquid securities, which upstairs trading desks may not be staffed to manage. Importantly, when providing such agency trading services, a Floor broker is unconflicted because a Floor broker is not trading for the member's own account and does not sell research to customers. Floor brokers therefore can focus on price discovery and volume discovery on behalf of their customers, while at the same time managing their customers' order flow to ensure that it does not impact pricing on the market (e.g., executing large positions on behalf of a customer). Use of the D Order would facilitate this agency function by allowing Floor brokers to enter orders on behalf of their customers without pricing impact because the discretionary price range would be undisplayed. When managing such customer order flow, Floor brokers trading in UTP Securities would continue to be subject to Exchange rules that are unique to Floor brokers, including Rules 95, 122, 123, and paragraphs (d) – (j) of Rule 134. In addition, any member organization can choose to have a Floor broker operation and thus have direct access to D Orders on behalf of its customers.

In addition, the Exchange notes that while D Orders would be available only to Floor brokers, such orders would not receive any execution priority or benefit when trading at a discretionary price. To the contrary, as proposed, if a D Order were to exercise discretion and trade at an undisplayed, discretionary price, such D Order would be ranked behind all other same-side orders at that price, except for a Yielding Order, which by definition yields to all other orders and can only be entered by another Floor broker. The Exchange therefore believes that the proposed changes to Rule 7.37, which sets forth the allocation process for D Orders, would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system by providing

transparency regarding the priority of such orders.

More specifically, the Exchange believes it would remove impediments to and perfect the mechanism of a free and open market and a national market system for a D Order trading at a discretionary price to yield to other orders at that price because any such resting order, whether displayed (which could only be an odd-lot sized order) or non-displayed, would have time priority over the D Order trading at a discretionary price. To reflect this time priority, the Exchange proposes to assign a D Order a temporary working time associated with the discretionary price, which the Exchange believes would respect the priority of the working times of orders that may have a working price equal to the D Order's discretionary price. By assigning a temporary working time, the D Order would be ranked behind other orders at that price. The Exchange further believes that maintaining the working time of a D Order if it trades at its displayed price would reflect that even if triggered to exercise discretion, it would remain displayed at the same-side PBBO until it is executed. If a D Order that is triggered to exercise discretion is not fully executed, it would remain available for execution at its displayed price. Because that display price would not be changing, the Exchange believes it is reasonable to maintain time priority for that D Order if it were to execute at that displayed price.

The Exchange believes that the manner by which the discretionary price for a D Order would be determined would remove impediments to and perfect the mechanism of a free and open market and a national market system because the principles are the same as how d-Quotes function, which is to provide price improvement while exercising the least amount of price discretion. Consistent with that current behavior, a proposed D Order would be able to trade at a discretionary price that provides price improvement

over resting orders on the Exchange Book, subject to a cap at the Midpoint Price.

The Exchange also believes it is reasonable for D Orders to be allocated among multiple Floor brokers at a price based on parity as such model is consistent with the Exchange's current parity allocation for Floor brokers. As noted above, this parity allocation is only among the Floor broker D Orders - other resting orders at that price, whether displayed or undisplayed, would have first priority. The Exchange further believes that with this parity allocation, it would be appropriate to create a separate allocation wheel for D Orders when more than one D Order is eligible to trade at the same discretionary price. The Exchange further believes that it is appropriate for the most aggressively-priced D Order to establish the first position on any such allocation wheel as it would encourage the entry of aggressively-priced orders available to provide price improvement to contra-side orders.

Auction-Only Orders. The Exchange believes that the proposed changes to Auction-Only Orders would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest by introducing on Pillar existing order types currently available for trading of Exchange-listed securities. As noted above, currently, the Exchange trades only UTP Securities on Pillar. The Exchange anticipates transitioning Exchange-listed securities to Pillar and the Exchange intends to introduce auction functionality on Pillar pursuant to a separate proposed rule change. In anticipation of that transition, the Exchange proposes to amend Rule 7.31(c) now to expand the Auction-Only Orders available on Pillar to include order types currently available on the Exchange.

The Exchange believes that amending the descriptions of existing order types on

Pillar -- LOOs, MOOs, LOCs, and MOCs -- would remove impediments to and perfect the mechanism of a free and open market and a national market system by providing transparency regarding how such orders would function depending on whether such order would be for a UTP Security or an Auction-Eligible Security. As is the case today, LOOs, MOOs, LOCs, and MOCs in UTP securities would be routed to the primary listing exchange for that security. And as is the case today for Exchange-listed securities, these same orders in Exchange-listed securities would participate in auctions on the Exchange.

The proposed Opening and Closing D Orders, which the Exchange now proposes to define separately under Auction-Only Orders in the Pillar rules, are based on existing d-Quote functionality as described in Rule 70.25(a)(ii). The Exchange believes that that these proposed order types would remove impediments to and perfect the mechanisms of a free and open market and a national market system because they would ensure continuity of available order types for when Exchange-listed securities transition to Pillar. The proposed differences between these orders and d-Quote functionality are largely non-substantive to provide additional transparency regarding how such order type would function. Like d-Quotes, an Opening or Closing D Order in an Exchange-listed security would be available to Floor brokers only and would be triggered to exercise discretion only in an auction. For example, a Closing D Order entered prior to the Closing Auction would function as a Limit Order and would be eligible for execution or routing based on its limit price during continuous trading. The Exchange notes that the proposed Opening and Closing D Orders would not have any execution priority compared to other orders trading in an auction. Today, all better-priced orders are guaranteed to participate in an auction, and the Exchange proposes to maintain that auction logic when it transitions to

Pillar. If the discretionary price of an Opening or Closing D Order were better-priced than the price of the auction, it would participate in that auction just as any other better-priced order would participate in such auction. Therefore, Opening and Closing D Orders do not present any new or novel issues.

The Exchange further believes that the proposed difference from d-Quotes to reject both the entry *and* cancellation of D Orders and Closing D Orders that are entered ten seconds or less before the scheduled time for the Closing Auction would remove impediments to and perfect the mechanism of a free and open market and a national market system by promoting transparency and would also promote fair and orderly auctions by reducing the potential for a D Order to be changed leading into the close.

The Exchange also believes that the proposed new functionality to enable a Floor broker to combine a Yielding Modifier with a Closing D Order would facilitate Floor broker order participation in the closing auction in a manner consistent with the G Rule. The Exchange further believes that limiting the availability of this functionality to Exchange-listed securities would remove impediments to and perfect the mechanism of a free and open market and a national market system because Closing D Orders in UTP Securities would be routed to the primary listing market for such security, which do not have similar yielding functionality.

Finally, the Exchange believes that the proposed Closing IO Order would remove impediments to and perfect the mechanism of a free and open market and a national market system because it is based on the CO Order described under Rule 13(c)(1), which is currently available for Exchange-listed securities. The Exchange similarly proposes to offer the Closing IO Order for Exchange-listed securities on Pillar and such order type

would ensure continuity in what auction orders would be available for when the Exchange transitions trading of Exchange-listed securities to Pillar. The Exchange proposes to include in its separate proposed rule change relating to auctions how all of these Auction-Only Orders would be allocated in an auction.

Last Sale Peg Modifier. The Exchange believes that the proposed Last Sale Peg Modifier would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because it would expand existing functionality available to trading of Exchange-listed securities to trading on Pillar, which would aid member organizations in their compliance with provision of Rule 10b-18. Today, the Exchange offers the BMZP instruction, which prevents a buy order from trading at a price higher than the last sale. As proposed, the Last Sale Peg Modifier would offer functionality based on the BMZP instruction for all orders that trade on the Exchange. Similar to the BMZP instruction, the proposed Last Sale Peg Modifier would be available to buy orders and is designed to facilitate compliance with one of the conditions of the safe harbor provision of Rule 10b-18. The Exchange believes that the proposed differences between the proposed Last Sale Peg Modifier and the BMZP instruction are designed to streamline the operation of the order modifier and promote transparency, while at the same time maintaining the core purpose of such modifier. For example, the Exchange believes that limiting this modifier to Non-Routable Limit Orders would simplify its operation because the Exchange would not be able to assist a member organization to comply with Rule 10b-18 if such order were routed to an Away Market.

Yielding Modifier. The Exchange believes that the proposed Yielding Modifier

would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because it would expand functionality currently available on the Exchange to Floor brokers in Exchange-listed securities to all securities trading on Pillar by providing Floor brokers an electronic method to represent orders on Pillar that yield priority, parity and precedence to displayed and non-displayed orders on the Exchange's book in compliance with the G Rule.⁶⁷ Today, the Exchange offers g-Quotes⁶⁸ for trading in Exchange-listed securities. The proposed Yielding Modifier is based on current g-Quote functionality, including that it would only be available to Floor brokers. The Exchange notes that there is no need to offer this modifier to non-Floor brokers because the only members with the specified G Rule obligations today are Floor brokers - the electronic, off-Floor entry of orders is subject to an exception to the G Rule.⁶⁹

The Exchange believes the proposed rule for the Yielding Modifier is designed to provide transparency of how the proposed modifier would function if there are resting orders on both sides of the Exchange book locking each other at the same price. The Exchange believes that the proposed functionality to allow an arriving Yielding Order that is priced better than a resting order that is locked with a contra-side order to trade ahead of such same-side resting order is consistent with the G Rule because in such scenario, the Yielding Order is willing to trade at a better price than the resting order, and therefore has price priority over such resting order. Likewise, the Exchange believes it

⁶⁷ See Section 11(a)(1) of the Act, 15 U.S.C. 78k(a)(1).

⁶⁸ See Rule 70(a)(ii) and (iii).

⁶⁹ See Securities Exchange Act Release No. 82945 (March 26, 2018), 83 FR 13553, 13568 (March 29, 2018) (SR-NYSE-2018-36) (Approval Order).

would be appropriate to trigger a resting order eligible to trade ahead of a same-priced, same-side Yielding Order because if such resting order is eligible to be executed and the Yielding Order does not have price priority, the resting order should have an opportunity to trade first. If it cannot trade, then neither it nor the Yielding Order would trade. Finally, the Exchange believes it would be consistent with the G Rule for a Yielding Order to trade ahead of a same-priced resting order that is unable to trade because one or more conditions cannot be met for such resting order. The Exchange believes this trading scenario would be consistent with the G Rule because the resting order is not eligible to trade, and therefore it would yield priority to the Yielding Order; the Yielding Order would not trade ahead of any orders in that execution.

Lastly, the Exchange believes the proposed changes to Rules 7.36 and 7.37 regarding the priority and parity allocation process for orders with a Yielding Modifier would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system. The Exchange believes it is reasonable to prioritize for execution and parity purposes orders with a Yielding Modifier behind all other orders at the same price because doing so is consistent with the modifier's purpose, which is to yield priority and parity to all other displayed and non-displayed orders at the same price, in compliance with the G Rule.

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

In accordance with Section 6(b)(8) of the Act,⁷⁰ the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed change extends

⁷⁰ 15 U.S.C. 78f(b)(8).

the availability of order types that are currently available for Exchange-listed securities to trading on Pillar. The Exchange operates in a highly competitive environment in which its unaffiliated exchange competitors operate under common rules for the trading of securities listed on their markets as well as those that they trade pursuant to unlisted trading privileges. By extending the availability of order types that are currently available for Exchange-listed securities to trading on Pillar, the Exchange would provide its members with consistency across trading of all securities in the Exchange. Doing so would also enable the Exchange to further compete with unaffiliated exchange competitors that also trade UTP securities.

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

Within 45 days of the date of publication of this notice in the Federal Register or 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. Please include File Number SR-NYSE-2018-52 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSE-2018-52. 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-NYSE-2018-52 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.⁷¹

Robert W. Errett
Deputy Secretary

⁷¹ 17 CFR 200.30-3(a)(12).

Additions underscored.
Deletions are [bracketed].

Rules of the New York Stock Exchange LLC

* * * * *

Pillar Platform Rules (1P - 13P)

* * * * *

Rule 7P EQUITIES TRADING

Section 1. General Provisions

* * * * *

Rule 7.16. Short Sales

* * * * *

(f) **Short Sale Price Test Pursuant to Rule 201 of Regulation SHO.** The following provisions will apply to short sales subject to the provisions of Rule 201 of Regulation SHO:

* * * * *

(5) **Re-pricing of Orders during Short Sale Period.** During the Short Sale Period, short sale orders will be handled by Exchange systems as follows:

* * * * *

(C) **D Orders, Pegged Orders and MPL Orders** —D Orders, Pegged Orders and MPL Orders, including orders marked buy, sell long and sell short exempt, will use the NBBO instead of the PBBO as the reference price. The working price of MPL Orders and the Midpoint Price of D Orders will be the mid-point of the NBBO, including situations where the mid-point is less than one minimum price increment above the NBB.

* * * * *

Section 3. Exchange Trading

* * * * *

Rule 7.31. Orders and Modifiers

* * * * *

(c) Auction-Only Order. A Limit or Market Order in an Exchange-listed security that is [only] to be traded in an auction on the Exchange[routed pursuant to Rule 7.34] An Auction-Only Order in a UTP Security will be routed on arrival to the primary listing market for that security.

(1) The Exchange will accept the following Auction-Only Orders designated for an opening or reopening auction only before the Core Trading Session begins (for the Core Open Auction) or during a halt or pause (for a Trading Halt Auction) and any quantity of such orders that are not traded in the designated auction will be cancelled.

(A) A Limit-on-Open Order ("LOO Order"). A LOO Order is a Limit Order that is to be traded only during an opening or re-opening auction.

[(2)](B) A Market-on-Open Order ("MOO Order"). A MOO Order is a Market Order that is to be traded only during an opening or re-opening auction.

[(3)](C) Opening D Order. An Opening D Order is a Limit Order to buy (sell) with an instruction to exercise discretion in the Core Open Auction or Trading Halt Auction up (down) to a designated undisplayed price.

(i) An Opening D Order may be entered by a Floor broker only.

(ii) Based on the instruction of the Floor broker, an Opening D Order in a UTP Security will be routed to the primary listing market as either a MOO or LOO Order.

(2) The Exchange will accept the following Auction-Only Orders designated for a closing auction when it begins accepting orders for a trading day as provided for in Rule 7.34(a)(1).

[(3)](A) Limit-on-Close Order ("LOC Order"). A LOC Order is a Limit Order that is to be traded only during a closing auction.

[(4)](B) Market-on-Close Order ("MOC Order"). A MOC Order is a Market Order that is to be traded only during a closing auction.

(C) Closing D Order. A Closing D Order is a Limit Order to buy (sell) with an instruction to exercise discretion in the Closing Auction up (down) to a designated undisplayed price.

(i) A Closing D Order may be entered by a Floor broker only.

(ii) On arrival, a Closing D Order will be processed as a Limit Order and may trade or route prior to the Closing Auction.

(iii) A Closing D Order in an Auction-Eligible Security may include a Yielding Modifier. Until the Closing Auction, a Closing D Order with a Yielding Modifier will be processed as a Yielding Order.

(iv) A request to enter a Closing D Order in any security or cancel or modify a Closing D Order in an Auction-Eligible Security entered 10 seconds or less before the scheduled close of trading will be rejected.

(v) Based on the instruction of the Floor broker, a Closing D Order in a UTP Security will be routed to the primary listing market as either a MOC or LOC Order.

(D) Closing Imbalance Offset Order (“Closing IO Order”). A Closing IO Order is a Limit Order to buy (sell) in an Auction-Eligible Security that is to be traded only in a Closing Auction.

(i) A Closing IO Order will participate in a Closing Auction only if: (i) there is an imbalance in the security on the opposite side of the market from the Closing IO Order after taking into account all other orders eligible to trade at the auction price; and (ii) the limit price of the Closing IO Order to buy (sell) is at or above (below) the price of the Closing Auction.

(ii) The working price of a Closing IO Order to buy (sell) will be adjusted to be equal to the price of the Closing Auction, provided that the working price of the Closing IO Order will not be higher (lower) than its limit price.

* * * * *

(d) Orders with a Conditional or Undisplayed Price and/or Size

(1) Reserve Order. A Limit Order with a quantity of the size displayed and with a reserve quantity of the size (“reserve interest”) that is not displayed. The displayed quantity of a Reserve Order is ranked Priority 2 - Display Orders and the reserve interest is ranked Priority 3 - Non-Display Orders. Both the display quantity and the reserve interest of an arriving marketable Reserve Order are eligible to trade with resting interest in the Exchange Book or route to Away Markets.

* * * * *

(C) A Reserve Order must be designated Day and may be combined with the following orders only: D Order, Non-Routable Limit Order or Primary Pegged Order.

* * * * *

(4) Discretionary Order (“D Order”). A Limit Order that may trade at an undisplayed discretionary price. A D Order must be designated Day, may be designated as routable or non-routable, and on entry, must have a minimum of one round lot displayed. A D Order is available only to Floor Brokers and is eligible to be traded in the Core Trading Session only. A D Order is eligible to participate in an auction at its limit price.

(A) On arrival. A Floor broker must specify one of the following instructions for a D Order:

(i) Limit Price D Order. On arrival, a Limit Price D Order to buy (sell) will trade with sell (buy) orders on the Exchange Book or, if designated as routable, route to an Away Market, up (down) to the limit price of the order. If after trading and routing the PBBO is locked or crossed or there is no PBB (PBO), a Limit Price D Order will be cancelled. For a Limit Price D Order that is partially routed to an Away Market on arrival, any returned quantity of such D Order will join the working price of the resting odd-lot quantity of the D Order.

(ii) Midpoint Price D Order. On arrival, a Midpoint Price D Order to buy (sell) will trade with sell (buy) orders on the Exchange Book up (down) to lower (higher) of the midpoint of the PBBO (“Midpoint Price”) or the limit price of the order. A Midpoint Price D Order will not route on arrival, even if designated as routable. If the PBBO is locked or crossed or if the Midpoint Price is unavailable, a Midpoint Price D Order will be rejected.

(B) Display Price. The working and display price of a D Order to buy (sell) will be pegged to the PBB (PBO). If the PBB (PBO) is higher (lower) than the limit price of a D Order to buy (sell), the working and display price will be the limit price of the order. A D Order to buy (sell) will be cancelled if there is no PBB (PBO) against which to peg. At its display price, a D Order is ranked Priority 2 - Display Orders.

(C) Exercising Discretion. A resting D Order to buy (sell) is eligible to exercise discretion up (down) to the limit price of the order. A D Order will not exercise discretion if the PBBO is locked or crossed or if there is no Midpoint Price.

(i) A D Order to buy (sell) will be triggered to exercise discretion if the price of an Aggressing Order to sell (buy) is above (below) the PBB (PBO) and at or below (above) the Midpoint Price (the “discretionary price range”).

(ii) The discretionary price at which a D Order to buy (sell) will trade will be the price of the sell (buy) order, provided that, if there is other interest to buy (sell) on the

Exchange Book priced equal to or higher (lower) than the price of the sell (buy) order, the discretionary price will be one MPV higher (lower) than the highest (lowest) priced resting order to buy (sell), capped by the Midpoint Price.

(D) Ranking and Working Time. The trigger to exercise discretion does not change the working time of such order's display and working price.

(i) At the discretionary price, a D Order will be assigned a new temporary working time that is later than any same-side resting interest at that price.

(ii) Multiple D Orders eligible to trade at the same discretionary price will be ranked by limit price and time.

(iii) Any quantity of a D Order that does not execute at a discretionary price will return to the working time associated with its working and display price.

(E) Resting D Order that Becomes Marketable. After the PBBO unlocks or uncrosses or a Midpoint Price becomes accessible, resting D Orders to buy (sell) will be ranked based on the lower (higher) of the Midpoint Price or limit price of the order to determine whether such D Order is marketable within the discretionary price range with contra-side orders on the Exchange Book.

(F) A D Order may be designated with an STP modifier and will be rejected if combined with any other modifiers or if the same-side PBBO is zero.

(G) A request to enter a D Order in any security or cancel or modify a D Order in an Auction-Eligible Security entered 10 seconds or less before the scheduled close of trading will be rejected.

* * * * *

(i) Additional Order Instruction and Modifiers:

* * * * *

(2) Self Trade Prevention Modifier ("STP"). Any incoming order to buy (sell) designated with an STP modifier will be prevented from trading with a resting order to sell (buy) also designated with an STP modifier and from the same Client ID, as designated by the member organization. The Exchange will evaluate the interaction between two orders marked with STP modifiers from the same Client ID consistent with the allocation logic applicable to the priority category of the resting order. If resting orders in a priority category do not have an STP modifier from the same Client ID, the incoming order designated with an STP modifier will trade with resting orders in that priority category before being evaluated for STP with resting orders in the next priority category. The STP modifier on the incoming order controls the interaction between two orders marked with STP modifiers.

* * * * *

(B) STP Cancel Oldest ("STPO"). An incoming order to buy (sell) marked with the STPO modifier will not trade with resting interest to sell (buy) marked with any of the STP modifiers from the same Client ID and the resting order will cancel.

* * * * *

(ii) If a resting order with an STP modifier from the same Client ID is in a priority category that allocates orders on parity, all resting orders with the STP modifier with the same Client ID in that priority category that would have been considered for an allocation will not be eligible for a parity allocation and will be cancelled. The incoming order marked with the STPO modifier will be eligible to trade on parity with orders in that priority category that do not have a matching STP modifier. Resting orders in that priority category with an STP modifier from the same Client ID that would not have been eligible for a parity allocation will remain on the Exchange Book.

(C) A resting D Order designated with an STP modifier that is triggered to exercise discretion and is not an Aggressing Order will not trade at a discretionary price if the contra-side order is also designated with an STP modifier and from the same Client ID. In such case, the D Order will not be cancelled.

* * * * *

(3) Minimum Trade Size ("MTS") Modifier. A Limit IOC Order or MPL Order may be designated with an MTS Modifier.

* * * * *

(G) A resting order with an MTS Modifier will be cancelled if it is traded in part or reduced in size and the remaining quantity is less than such order's MTS.

(4) Last Sale Peg Modifier. A Non-Routable Limit Order to buy may be designated with a Last Sale Peg Modifier ("Last Sale Peg Order"). A Last Sale Peg Order will not trade or be displayed at a price higher than the later of the most recent last-sale price in such security, which can be either a last-sale eligible trade executed on the Exchange or a consolidated last-sale eligible trade (either, a "last-sale price") and does not participate in any Auctions.

(A) The working price of a Last Sale Peg Order will be pegged to the lower of the last-sale price, the limit price of the order, or the PBO. The working price of a resting Last Sale Peg Order will not be adjusted until an Aggressing Order is fully processed. If the last-sale price is not at a permissible MPV, the working price of the order will be rounded down to the nearest MPV.

(B) The display price of a Last Sale Peg Order will be the same as the working price, unless the working price is pegged to the PBO, in which case, the display price will be determined under paragraph (e)(1) of this Rule.

(C) A Last Sale Peg Order may be designated with an STP Modifier and will be rejected if combined with any other modifiers or if there is no last-sale price.

(5) Yielding Modifier. A Limit Order, Non-Routable Limit Order, Reserve Order, or Closing D Order may be designated with a Yielding Modifier (“Yielding Order”). A Yielding Order yields priority to all other displayed and non-displayed orders at the same price and may be entered by a Floor broker only. A Yielding Order is ranked Priority 4 - Yielding Orders.

(A) An Aggressing Yielding Order to buy (sell) with a limit price higher (lower) than the limit price of a resting order to buy (sell) will trade ahead of such resting order.

(B) An Aggressing Yielding Order to buy (sell) with a limit price equal to the limit price of a resting order to buy (sell) will either:

(i) trigger such resting order to become an Aggressing Order, unless the order to sell (buy) is an MPL ALO or MPL Order with an MTS Modifier, in which case neither the Yielding Order nor the same-side resting order will trade; or

(ii) trade ahead of such resting order if such resting order is not eligible to trade (e.g., an ALO Order or order with an MTS modifier).

(C) A Yielding Order may be designated with an STP Modifier and will be rejected if combined with any other modifiers.

* * * * *

Rule 7.34. Trading Sessions

* * * * *

(c) Orders Permitted in Each Session.

(1) Early Trading Session. Unless otherwise specified in paragraphs (c)(1)(A) - (C), orders and modifiers defined in Rule 7.31 are eligible to participate in the Early Trading Session.

(A) Pegged Orders, Last Sale Peg Orders, and D Orders are not eligible to participate in the Early Trading Session. Non-Displayed Primary Pegged Orders entered before the Core Trading Session will be rejected. Primary Pegged Orders, Last Sale Peg Orders, and D Orders entered before the Core Trading Session will be accepted but will not be eligible to trade until the Core Trading Session begins.

* * * * *

Rule 7.36. Order Ranking and Display

(a) Definitions for purposes of Rule 7P Equities Trading:

* * * * *

(6) "Aggressing Order" means a buy (sell) order that is or becomes marketable against sell (buy) interest on the Exchange Book. A resting order may become an Aggressing Order if its working price changes, if the PBBO or NBBO is updated, because of changes to other orders on the Exchange Book, or when processing inbound messages.

(7) "Discretionary price" means the undisplayed price at which a D Order would trade if it exercises discretion.

* * * * *

(e) Priority Categories. At each price point, all orders are assigned a priority category. If at a price point there are no orders in a priority category, the next priority category has first priority.

(1) Priority 1 - Market Orders. Unexecuted Market Orders have priority over all other same-side orders with the same working price.

(2) Priority 2 - Display Orders. Non-marketable Limit Orders with a displayed working price have second priority.

(3) Priority 3 - Non-Display Orders. Non-marketable Limit Orders for which the working price is not displayed, including reserve interest of Reserve Orders, have third priority.

(4) Priority 4 - Yielding Orders Display. Yielding Orders have fourth priority.

* * * * *

Rule 7.37. Order Execution and Routing

* * * * *

(b) *Allocation.*

(1) At each price, an Aggressing Order will be allocated against contra-side orders as follows:

(A) Orders ranked Priority 1 - Market Orders will trade first based on time.

- (B) Next, an order with Setter Priority that has a display price and working price equal to the BBO will receive 15% of the remaining quantity of the Aggressing Order, rounded up to the next round lot size or the remaining displayed quantity of the order with Setter Priority, whichever is lower. An order with Setter Priority is eligible for allocation under this subparagraph if the BBO is no longer the same as the NBBO.
- (C) Next, orders ranked Priority 2 - Displayed Orders will be allocated on parity by Participant. Any remaining quantity of an order with Setter Priority is eligible to participate in this parity allocation, consistent with the allocation wheel position of the Participant that entered the order with Setter Priority.
- (D) Next, orders ranked Priority 3 - Non-Display Orders, other than MPL Orders with an MTS Modifier, will be allocated on parity by Participant.
- (E) Next, MPL Orders with an MTS Modifier will be allocated based on MTS size (smallest to largest) and time.
- (F) Next, D Orders trading at a discretionary price will be allocated on parity by Floor Broker Participant.
- (G) Next, the display quantity of orders ranked Priority 4 - Yielding Orders will be allocated based on time.
- (H) Next, the non-display quantity of orders ranked Priority 4 - Yielding Orders will allocated based on time.
- (2) *Allocation Wheel.* At each price on each side of the market, the Exchange maintains an "allocation wheel" of Participants with orders ranked Priority 2 - Display Orders and a separate allocation wheel of Participants with orders ranked Priority 3 - Non-Display Orders. If more than one D Order is eligible to trade at the same discretionary price, the Exchange will create an allocation wheel for D Orders at that discretionary price.
- (A) The Participant that enters the first order in a priority category at a price will establish the first position on the applicable allocation wheel for that price. If an allocation wheel no longer has any orders at a price, the next Participant to enter an order at that price will establish a new allocation wheel. For each D Order allocation wheel, the D Order to buy (sell) with the highest (lowest) limit price will establish the first position on that allocation wheel.

* * * * *