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

File No. \* SR 2023 - \* 16

Amendment No. (req. for Amendments \*)

Filing by NYSE American LLC

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

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

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| <input type="checkbox"/> 19b-4(f)(1) | <input type="checkbox"/> 19b-4(f)(4) |
| <input type="checkbox"/> 19b-4(f)(2) | <input type="checkbox"/> 19b-4(f)(5) |
| <input type="checkbox"/> 19b-4(f)(3) | <input type="checkbox"/> 19b-4(f)(6) |

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

Section 806(e)(2) \*

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

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

### Description

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

Proposal to modify Rule 900.2NY and to adopt new Rules 964NYP, 964.1NYP, and 964.2NYP

### Contact Information

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

First Name \* Kathleen Last Name \* Murphy

Title \* Senior Counsel, NYSE Group Inc.

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

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

### Signature

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

Date 02/27/2023

(Title \*)

By Martha Redding

Associate General Counsel

(Name \*)

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

Martha Redding

Digitally signed by Martha Redding  
Date: 2023.02.27 14:08:11 -05'00'

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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Ex. 1 SEC Sub of NYSE American 19

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

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

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

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

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

Exhibit Sent As Paper Document

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

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

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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Ex. 5 SEC Sub of NYSE American 19t

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

- (a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NYSE American LLC (“NYSE American” or the “Exchange”) proposes to modify Rule 900.2NY (Definitions) and to adopt new Rules 964NYP (Order Ranking, Display, and Allocation), 964.1NYP (Directed Orders and DOMM Quoting Obligations), and 964.2NYP (Participation Entitlement of Specialist Pool and Designation of Primary Specialist) to reflect the transition of the Exchange’s options market to the Pillar trading platform.

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

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

2. Procedures of the Self-Regulatory Organization

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

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

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

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

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

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

(a) Purpose

**Background**

The Exchange plans to transition its options trading platform to its Pillar trading platform. The Exchange’s affiliated options exchange, NYSE Arca, Inc. (“NYSE Arca” or “Arca Options”) is currently operating on Pillar, as are the Exchange’s national securities exchange affiliates’ cash equity markets.<sup>3</sup> For this transition, the Exchange proposes to use the same Pillar technology already in operation on Arca Options.<sup>4</sup> In doing so, the Exchange will be able to offer not only common specifications for connecting to both of its equity and options markets, but also common trading functions across the Exchange and its affiliated options exchange, NYSE Arca Options.

The Exchange plans to roll out the new Pillar technology platform over a period of time based on a range of underlying symbols, anticipated for the fourth quarter of 2023 or the first quarter of 2024. As was the case for Arca Options when it transitioned to Pillar, the Exchange anticipates a multi-week roll-out period and will announce by Trader Update<sup>5</sup> when underlying symbols will be transitioning to the Pillar trading platform. With this transition, certain rules would continue to be applicable to options overlying symbols trading on the current trading platform - the “Exchange System,”<sup>6</sup> but would not be

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<sup>3</sup> The Exchange’s national securities exchange affiliates’ cash equity markets include: the New York Stock Exchange LLC, NYSE Arca Inc., NYSE National, Inc., and NYSE Chicago, Inc. (collectively, the “NYSE Equities Exchanges”).

<sup>4</sup> See, e.g., Securities Exchange Act Release No. 94072 (January 26, 2022), 87 FR 5592 (February 1, 2022) (Notice of filing Notice of Filing of Amendment No. 4 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 4, approving new rules applicable to single-leg options trading on Pillar) (SR-NYSEArca-2021-47) (the “Arca Options Approval Order”). See, e.g., , 6.76P-O (Order Ranking and Display), and 6.76AP-O (Order Execution and Routing) (together, the “Arca Priority Rules”); and Rules 6.37AP-O (Market Maker Quotations), 6.40P-O (Pre-Trade and Activity-Based Risk Controls), 6.41P-O (Price Reasonability Checks - Orders and Quotes), 6.62P-O (Orders and Modifiers), 6.64P-O (Auction Process) (collectively, the “Arca non-Priority Rules”). See also NYSE Arca Rules 1.1 (Definitions) (which includes definitions that describe terms applicable to options trading on Pillar).

<sup>5</sup> Trader Updates are available here: <https://www.nyse.com/trader-update/history>. Anyone can subscribe to email updates of Trader Updates, available here: <https://www.nyse.com/subscriptions>.

<sup>6</sup> Rule 900.2NY defines “Exchange System” or “System” as referring to the Exchange’s “current electronic order delivery, execution, and reporting system for designated option issues through which orders and quotes of Users are consolidated for execution and/or display.” With the transition to Pillar, the Exchange would no longer use the terms

applicable to options overlying symbols that have transitioned to trading on Pillar.

Instead, the Exchange proposes new rules to reflect how options would trade on the Exchange once Pillar is implemented. These proposed rule changes will (1) use Pillar terminology that is substantively identical to Pillar terminology governing options trading on NYSE Arca; and (2) provide for common functionality on both its options markets.<sup>7</sup>

#### Proposed use of “P” modifier

As proposed, new rules governing options trading on Pillar would have the same numbering as current rules that address the same functionality, but with the modifier “P” appended to the rule number. For example, Rule 964NY, governing Display, Priority and Order Allocation - Trading Systems, would remain unchanged and continue to apply to any trading in symbols on the Exchange System. Proposed Rule 964NYP would govern Display, Priority and Order Allocation for trading in options symbols migrated to the Pillar trading platform. All other current rules that have not had a version added with a “P” modifier will be applicable to how trading functions on both the Exchange System and Pillar. Once options overlying all symbols have migrated to the Pillar trading platform, the Exchange will file a separate rule proposal to delete rules that are no longer operative because they apply only to trading on the Exchange System.

To reflect how the “P” modifier would operate, the Exchange proposes to add rule text immediately following the title “Section 900NY. Rules Principally Applicable to Trading of Option Contracts,” and before “Rule 900.1NY. Applicability”), which would provide that rules with a “P” modifier would be operative for symbols that are trading on the Pillar trading platform. As further proposed, and consistent with the handling of the transition to Pillar by Arca Options, if a symbol (and the option overlying such symbol) is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier would no longer be operative for that symbol.<sup>8</sup> The Exchange believes that adding this explanation regarding the “P” modifier in Exchange rules would provide

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“Exchange System” or “System.” Once the transition is complete, the Exchange will file a subsequent proposed rule change to delete references to (and the defined term) the “Exchange System” and “System” from the rulebook. See also Rule 900.2NY (providing substantially identical to definition “Consolidated Book”, which is defined as “the Exchange’s electronic book of orders and quotes” and further provides that “all orders and quotes that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 964NY.”).

<sup>7</sup> The current proposal seeks to adopt rules based on the Arca Priority rules, as well as certain definitions that describe terms applicable to options trading on Pillar set forth in NYSE Arca Rule 1.1. The Exchange plans to file separate rule proposals to adopt new rules substantively identical to the Arca non-Priority Rules as well as to Arca Options Rule 6.91P-O regarding complex trading on Pillar.

<sup>8</sup> NYSE Arca used the same description when it transitioned its options platform to Pillar. See Arca Options Approval Order.

transparency regarding which rules would be operative during the symbol migration to Pillar.

### Summary of Proposed Rule changes

In this filing, the Exchange proposes the following new Pillar rules: Rules 964NYP (Order Ranking, Display, and Allocation), 964.1NYP (Directed Orders and DOMM Quoting Obligations), and 964.2NYP (Participation Entitlement of Specialist Pool and Designation of Primary Specialist).<sup>9</sup> The Exchange also proposes to amend Rule 900.2NY to add new definitions that would be applicable for options trading on Pillar as well as to modify one additional definition as set forth below. These proposed rules would set forth the foundation of the Exchange's options trading model on Pillar and, among other things, would use existing Pillar terminology and functionality currently in effect on Arca Options.<sup>10</sup>

However, because the Exchange has (and will continue to have) a priority and allocation scheme that differs from the price-time model on Arca Options, the proposed rules will reflect the Exchange's existing (Customer priority and pro rata allocation) model, which will be carried over to Pillar and operate in a substantively identical manner. As discussed in greater detail below, the Exchange is not proposing fundamentally different functionality applicable to options trading on Pillar than is currently available on the Exchange System. However, with Pillar, the Exchange would introduce new terminology and, as applicable, new or updated functionality that would be available for options trading.

To promote clarity and transparency, the Exchange further proposes to add a preamble to the following current rules specifying that they would not be applicable to trading on Pillar: Rules 964NY (Display, Priority and Order Allocation - Trading Systems), and 964.1NY (Directed Orders), and 964.2NY (Participation Entitlement of Specialists and e-Specialists).

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<sup>9</sup> As described herein, to streamline rule text regarding participation guarantees, the Exchanges proposes to include in new Rule 964NYP much of the information that is set forth in current Rules 964.1NY (Directed Orders), and 964.2NY (Participation Entitlement of Specialists and e-Specialists). In some instances, the Exchange is proposing to delete from Rules 964.1NY and 964.2NY information that is duplicative of rule text being carried over from current Rule 964NY.

<sup>10</sup> See supra note 7 (regarding separate rule filing to address Complex Order trading on Pillar in a proposed Rule 980NYP). See, e.g., Securities Exchange Act Release No. 92563 (August 4, 2021), 86 FR 43704 (August 10, 2021) (Notice of Filing of Amendment Nos. 1 and 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to Adopt New Exchange Rule 6.91P-O, regarding complex order trading on Pillar) (Arca Options stand-alone filing to address Complex Order trading on Pillar).

## **Proposed Rule Changes**

### **Proposed Rule 900.2NY: Definitions**

Rule 900.2NY sets forth definitions that are applicable to options trading. In connection with the transition of options trading to Pillar, the Exchange proposes the following amendments to Rule 900.2NY.

- **Away Market**: The Exchange proposes to adopt the defined term of “Away Market,” which would refer to “any Trading Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to orders routed from the Exchange.” This proposed definition is identical to how this term is defined in NYSE Arca Rule 1.1.<sup>11</sup>
- **“Away Market BBO” or “ABBO”**: The Exchange proposes to adopt the defined term “Away Market BBO” or “ABBO,” which would refer to the best bid(s) or offer(s) disseminated by Away Markets and calculated by the Exchange based on market information the Exchange receives from OPRA. Consistent with this proposal, the Exchange also proposes that the term “ABB” would mean the best Away Market bid and the term “ABO” would mean the best Away Market offer. This proposed definition is identical to how this term is defined in NYSE Arca Rule 1.1.

In addition, also consistent with NYSE Arca Rule 1.1, the Exchange proposes that it would adjust its calculation of the ABBO for options traded on the Exchange in the same manner that the Exchange would calculate the NBBO (as described herein). Accordingly, the Exchange proposes that, unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away

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<sup>11</sup> This proposed definition is also based on the definition of “NOW Recipient,” which is currently defined as “any Market Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to NOW Orders routed from the System. The Exchange shall designate from time to time those Market Centers that qualify as NOW Recipients and shall periodically publish such information via its website.” The Exchange proposes four non-substantive differences for the Pillar options trading definition of “Away Market”: (1) use the Pillar term of “Away Market” instead of the term “NOW Recipient;” (2) use the term “Trading Center” instead of “Market Center”; (3) refer to “orders routed from the Exchange” instead of “NOW Orders routed from the System”; and (4) delete the text relating to the Exchange designating and publishing to its website certain Away Markets. The Exchange does not believe that this text needs to be included in the definition of Away Market because such markets are by definition those with which the Exchange maintains electronic linkage (i.e., pursuant to the Options Order Protection and Locked/Crossed Market Plan). The Exchange will file a separate rule filing to remove the definition of “NOW Recipient” after it transitions to Pillar.

Markets, and certain orders received by the Exchange.<sup>12</sup>

- Consolidated Book. The Exchange proposes to modify the defined term “Consolidated Book” to include references to new Rule 964NYP. Rule 900.2NY defines “Consolidated Book” as “the Exchange’s electronic book of orders and quotes” and further provides that “all orders and quotes that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 964NY.” The Exchange proposes to add to the end of this definition the phrase “or Rule 964NYP, as applicable.” This proposed change would add transparency and internal consistency to Exchange rules.
- Customer and Professional Customer. The Exchange proposes to modify the defined term “Professional Customer,” which is defined as an “individual or organization that (i) is not a Broker/Dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).” This definition further provides that a Professional Customer will be treated in the same manner as a non-Customer for purposes of enumerated rules of the Exchange, including current Rule 964NY (regarding priority and allocation) and certain provisions of Rule 964.2NY (regarding guaranteed participation of Specialists). To address the addition of proposed Rule 964NYP, which would incorporate the provisions of Rule 964.2NY, the Exchange proposes to add to the list of applicable rules references “Rule 964NYP (Order Ranking, Display, and Allocation), 964NYP(h)(2)(A) and (B) (Specialist Pool Guaranteed Participation). The Exchange also proposes to add reference to Rule 980NYP (Electronic Complex Order Trading), which new rule will address Complex Order trading on Pillar and will be filed separately.<sup>13</sup> This proposed change would add transparency and internal consistency to Exchange rules.
- Directed Order Market Maker or DOMM. The Exchange proposes to modify the defined term “Directed Order Market Maker,” which refers to a Market Maker that receives a Directed Order, to include reference to the shorthand “DOMM.” This proposed change would add transparency and internal consistency to Exchange rules.
- Market Participant Identifier or MPID: The Exchange proposes to adopt the defined term of “Market Participant Identifier” or “MPID”, which would refer to the identifier assigned to the orders and quotes of a single ATP Holder for the execution and clearing of trades on the Exchange by that permit holder. The

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<sup>12</sup> Although the Exchange has not presently identified any circumstances under which it would use an unadjusted ABBO, it has included the “[u]nless otherwise specified” text to allow for this possibility once the Exchange migrates to the Pillar trading platform. Should the Exchange opt to utilize an unadjusted ABBO for purposes of a specified rule, it would file a subsequent rule change to this effect.

<sup>13</sup> See supra notes 7 and 10.



definition would further provide that an ATP Holder may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID. This proposed definition is substantively identical to how this term is defined in NYSE Arca Rule 1.1.

- NBBO. The Exchange proposes to modify the defined term “NBBO,” which refers to the national best bid (NBB) or national best offer (NBO), to specify that, unless otherwise specified, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. This proposed text reflects how the Exchange currently calculates the NBBO for options trading and is substantively identical to how Arca Options describes its calculation of the NBBO per NYSE Arca Rule 1.1. The Exchange believes that adding this detail to the proposed definition of NBBO would promote clarity and transparency in Exchange rules and across its affiliated options exchanges. The Exchange further notes that there are limited circumstances when the Exchange would not adjust its calculation of the NBBO and will specify in its rules when it would not be using an adjusted NBBO for purposes of a specific rule.

#### Proposed Rule 964NYP: Order Ranking, Display, and Allocation

Rule 964NY, titled “Display, Priority and Order Allocation - Trading Systems,” governs order ranking, display and allocation for the current Exchange options trading system. Proposed Rule 964NYP would address order ranking, display, and allocation for options trading on Pillar. The Exchange proposes that the title for new Rule 964NYP would be “Order Ranking, Display and Allocation” instead of “Display, Priority and Order Allocation - Trading Systems,” because the Exchange does not propose to use the Trading Systems, which term is not defined in current Exchange rules, in connection with Pillar.

Current Rule 964NY sets forth the priority for the allocation of incoming orders to resting interest (orders or quotes) at a particular price in the Exchange System.<sup>14</sup> Specifically, per Rule 964NY, the priority for the allocation of incoming orders at the same price is as follows: (1) resting Customer orders; (2) Directed Order Market Makers (or DOMMs), provided they satisfy the criteria to be eligible to receive a Directed Order;<sup>15</sup> (3) the

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<sup>14</sup> See Rule 964NY(b) and (c) (regarding priority, allocation and execution of incoming interest (and the balance thereof) against orders and quotes resting in the Consolidated Book. The Consolidated Book is the Exchange’s electronic book of orders and quotes. See Rule 900.2NY.

<sup>15</sup> Rule 900.2NY defines a Directed Order Market Maker as a Market Maker that receives a Directed Order. See Rule 964.1NY (Directed Orders) (providing that “Specialists and Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of this Rule 964.1NY” and describing the potential allocation of Directed Orders, as well as the DOMM’s heightened quoting requirements).

Specialist Pool (including for Directed Orders if not allocated to the DOMM);<sup>16</sup> and (4) non-Customer interest (on a size pro rata basis).<sup>17</sup> Under the current Rule, a DOMM or the Specialist Pool may be entitled to guaranteed participation with an incoming order for up to 40% of that order, provided, among other requirements, the DOMM or the Specialist Pool is quoting at the NBBO and the execution price is at the NBBO.<sup>18</sup> If the DOMM qualifies for the participation guarantee with an incoming Directed Order, the Specialist Pool is not entitled to guaranteed participation.<sup>19</sup> Whether the DOMM or Specialist Pool receives the participation guarantee, that participant(s) is entitled to the greater of 40% of the incoming order or their size pro rata share, which allocation is not to exceed each participants disseminated size.<sup>20</sup>

On Pillar, orders and quotes will be ranked and maintained in the same way that such interest is ranked and maintained on the Exchange System, including participation guarantees to DOMMs or the Specialist Pool, with one difference. Today, same-priced displayed orders and quotes are ranked ahead of same-priced non-displayed orders and quotes, with displayed Customer orders afforded first priority to trade ahead of same-priced non-Customer interest and, non-displayed interest, orders and quotes are ranked in time priority with no priority afforded to Customer interest.

On Pillar, because the Exchange is adopting the same priority categories as are utilized by Arca Options, i.e., Priority 1 - Market Order, Priority 2 - Displayed Orders and Priority 3 - Non-displayed Orders (the “Pillar Priority categories”), Customer orders in each priority category will have first priority to trade ahead of same-priced non-Customer interest in that priority category.<sup>21</sup> For example, same-priced interest ranked Priority 1 - Market Orders will afford Customer orders at a price first priority, followed by same-

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<sup>16</sup> Rule 900.2NY defines the Specialist Pool as the aggregated size of the best bid and best offer, in a given series, amongst the Specialist and e-Specialists that match in price; and defines a “Specialist” as an individual or entity deemed qualified by the Exchange to make transactions in accordance with Rule 920NY and meets the requirements of Rule 927NY(b). Each Specialist must be registered with the Exchange as a Market Maker, and any ATP Holder so registered is eligible to be qualified as a Specialist. Per Rule 927.4NY, the Exchange may designate one or more e-Specialists per options class to fulfill certain Specialist’s obligations.

<sup>17</sup> See Rule 964NY(b)(3) (setting forth size pro rata formula and application).

<sup>18</sup> See Rule 964NY(b)(2)(B) and (C). See Rule 964.1NY(i), (ii) (Directed Orders) and Rule 964.2NY (Participation Entitlement of Specialists and e-Specialists).

<sup>19</sup> See Rule 964NY(b)(2)(B); Rule 964.2NY(b)(4).

<sup>20</sup> See Rule 964NY(b)(2)(B)(iii) and (C)(iii). The Primary Specialist may be afforded additional weighting in the Specialist Pool. See Rule 964.2NY(a) and (b)(3) (regarding criteria considered in the selection of the Primary Specialist and its entitlement to additional weighting, respectively).

<sup>21</sup> See Arca Options Rule 6.76P-O(e).

priced non-Customer interest. And the same concept holds true for each of the Priority 2 and Priority 3 interest. The Exchange believes that the proposed new rule is consistent with the Exchange Customer-centric allocation model and affords Customers priority at a price regardless of order type utilized. As discussed in detail below, the proposed rule also provides transparency with respect to how the Exchange’s Customer priority and pro rata allocation model would operate through the use of new terminology applicable to all orders and quotes on the Pillar trading platform.

Proposed Rule 964NYP(a) would set forth definitions for purposes of all “Options Trading” on the Pillar trading platform. The proposed definitions are identical to definitions utilized on Arca Options to describe order ranking and display.<sup>22</sup> The Exchange believes that these proposed definitions would provide transparency regarding how the Exchange would operate its options platform on Pillar and serve as the foundation for how orders/quotes and modifiers would be described for options trading on Pillar.<sup>23</sup> In addition, the Exchange believes that while the proposed Rule uses Pillar terminology that is identical to terminology used in Arca Options Rule 6.76P-O, the definitions that are described in these proposed rules do not differ in substance from the operation of current Rule 964NY relating to options trading.

Proposed Rule 964NYP(a)(1) would define the term “display price” to mean the price at which an order or quote ranked “Priority 2 - Display Orders”<sup>24</sup> or Market Order is displayed, which price may be different from the limit price or working price of the order (i.e., if it is a non-routable Limit Order). This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(1), but the Exchange notes that, like on Arca Options, Market Orders are included as interest that may have a display price (for example, consistent with current functionality, a Market Order could be displayed at its Trading Collar).<sup>25</sup>

- Proposed Rule 964NYP(a)(2) would define the term “limit price” to mean the highest (lowest) specified price at which a Limit Order or quote to buy (sell) is eligible to trade. The limit price is designated by the order sender. As noted in

<sup>22</sup> See Arca Options Rule 6.76P-O(a)(1)-(5).

<sup>23</sup> The Exchange will file a separate rule change to adopt proposed Rule 900.3NYP that will describe orders and modifiers available to Exchange market participants on the Pillar trading platform (the “Pillar Order Type Filing”). Similar to Arca Options Rule 6.62P-O, relating to orders and modifiers, proposed Rule 900.3NYP would specify whether an order or quote would be displayable, i.e., ranked Priority 2 Display Orders, or non-displayable, i.e., ranked Priority 3 - Non-Display Orders, and would set forth modifier instructions available for each order type (e.g., DAY, GTC, IOC, etc.).

<sup>24</sup> The term “Priority 2 - Display Orders” is described in more detail below.

<sup>25</sup> Current Trading Collar functionality is set forth in Rule 967NY(a), as noted herein the Pillar Order Type Filing will separately adopt new Rule 900.3NYP, which will describe how Trading Collars would be applied (including to Market Orders) on Pillar.

the proposed definitions of display price and working price, the limit price designated by the order sender may differ from the price at which the order/quote would be displayed or eligible to trade. This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(2).

- Proposed Rule 964NYP(a)(3) would define the term “working price” to mean the price at which an order or quote is eligible to trade at any given time, which may be different from the limit price or display price of an order. This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(3). The Exchange believes that the term “working price” would provide clarity regarding the price at which an order/quote may be executed at any given time. Specifically, the Exchange believes that use of the term “working” denotes that this is a price that is subject to change, depending on the circumstances. The Exchange will be using this term in connection with orders/quotes and modifiers available on Pillar, which (as noted herein) will be the subject of a separate rule filing.<sup>26</sup>
- Proposed Rule 964NYP(a)(4) would define the term “working time” to mean the effective time sequence assigned to an order or quote for purposes of determining its priority ranking. The Exchange proposes to use the term “working time” in its rules for trading on the Pillar trading platform instead of terms such as “time sequence” or “time priority,” which are used in rules governing options trading on the Exchange’s current system. The Exchange believes that use of the term “working” denotes that this is a time assigned to an order/quote for purposes of ranking and is subject to change, depending on circumstances. This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(4).
- Proposed Rule 964NYP(a)(5) would define an “Aggressing Order” or “Aggressing Quote” to mean a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. The proposed terms would therefore refer to orders or quotes that are marketable against other orders or quotes on the Consolidated Book. These terms would be applicable to incoming orders or quotes, orders that have returned unexecuted after routing, or resting orders or quotes that become marketable due to one or more events. For the most part, resting orders or quotes will have already traded with contra-side interest against which they are marketable.

To maximize the potential for orders or quotes to trade, the Exchange continually evaluates whether resting interest may become marketable. Events that could trigger a resting order to become marketable include updates to the working price of such order or quote, updates to the NBBO, changes to other interest resting on the Consolidated Book, or processing of inbound messages. To address such circumstances, the Exchange proposes to include in proposed Rule 964NYP(a)(5)

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See supra note 23 regarding Pillar Order Type Filing.

that a resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, if the NBBO is updated, because of changes to other orders or quotes on the Consolidated Book, or when processing inbound messages.

This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76-O(a)(5). The Exchange believes that these proposed definitions would promote transparency in Exchange rules by providing detail regarding circumstances when a resting order or quote may become marketable, and thus would be an Aggressing Order or Aggressing Quote.

Under current Rule 964NY(a), the Exchange System displays all non-marketable limit orders in the Display Order Process, unless indicated otherwise.<sup>27</sup> Proposed Rule 964NYP(b) would govern the display of non-marketable Limit Orders and quotes. As proposed, the Exchange would display “all non-marketable Limit Orders and quotes ranked Priority 2 –Display Orders unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed,” which functionality is the same as that set forth in the first sentence of Rule 964NYP(b), except that the proposed rule includes reference to quotes, uses Pillar Priority categories to describe the same functionality, and does not include reference to the Display Order Process. Proposed Rule 964NYP(b) is substantively identical to Arca Options Rule 6.76P-O(b).

Proposed Rule 964NYP(b)(1) is substantially identical to the second sentence of current Rule 964NY(a), and mirroring that text, the proposed rule would provide that the Exchange would “disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Trading Centers, consistent with the Plan for

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The Exchange notes that current Rule 964NY(a) refers to the display of non-marketable limit orders “in the Display Order Process,” but that concept is not defined nor referenced elsewhere in Rule 964NY and is not being utilized in proposed Rule 964NYP. As indicated below, Rules 964NY(b)(2)(E) and (c)(2)(D) refer to orders in the “Working Order File,” but (as with the Display Order Process) that concept is not defined nor referenced elsewhere in current Rule 964NY. With regard to the Working Order Process, it appears that detail regarding this concept was deleted at some point because this concept is described in the Commission’s order approving options listing and trading rules on American Stock Exchange LLC (“Amex”) -- the Exchange’s predecessor exchange.. See, e.g., Securities Exchange Act No. No. 59472 (February 27, 2009), 74 FR 9843, at 9845- 9846 (SR-NYSEALTR-2008-14) (approving, among other rules, Rule 964NY(b)(2)(E), which provides that the Working Order Process ranks/prioritizes Reserve Orders, AON Orders, Stop/ Stop Limit Orders, and Stock Contingency Orders). The Exchange believes that these undefined (obsolete) concepts are of no import and reference to them in current Rule 964NY is likely the result of an oversight. As such, the Exchange does not propose to include the concepts of the “Display Order Process” or “Working Order File” in proposed Rule 964NYP, which exclusion would add clarity, transparency and internal consistency to Exchange rules.

Reporting of Consolidated Options Last Sale Reports and Quotation Information.”<sup>28</sup>  
Proposed Rule 964NYP(b)(2) is identical to Arca Options Rule 6.76P-O(b)(2).

Finally, proposed Rule 964NYP(b)(2) would provide that if “an Away Market locks or crosses the Exchange BBO, the Exchange will not change the display price of any Limit Orders or quotes ranked Priority 2 - Display Orders and any such orders will be eligible to be displayed as the Exchange’s BBO.” This proposed rule describes Pillar functionality, which is the same as current functionality. The Exchange believes that including this text in the proposed rules would promote clarity and granularity because this proposed concept, which is identical to Arca Options Rule 6.76P-O(b)(3), makes clear that resting displayed interest that did not cause a locked or crossed market condition can stand its ground and maintain priority at the price at which it was originally displayed.

Proposed Rule 964NYP(c) would describe the Exchange’s general process for ranking orders and quotes. Current Rule 964NY(b) describes Customer Priority, i.e., Customer orders get first priority at a price, followed (in second priority) by any guaranteed participation of either a DOMM or the Specialist Pool (as described further below), next (and third priority) is any non-Customer interest, which may be allocated pro rata (as described in proposed Rule 964NYP(i) below); and finally, to orders “in the Working Order File, if eligible for execution,” except that such orders “do not have any priority or standing until they are eligible for execution and/or display.”<sup>29</sup>

As proposed, Rule 964NYP(c), which is identical to Arca Options Rule 6.76-O(c), would provide that all non-marketable orders and quotes would be ranked and maintained in the Consolidated Book according to price-time priority in the following manner: (1) price; (2) priority category; (3) time; and (4) ranking restrictions applicable to an order/quote or modifier condition. Accordingly, orders and quotes would be first ranked by price. Next, at each price level, orders and quotes would be assigned a Pillar Priority category and, within each priority category, interest would be ranked by time. The general requirements for ranking per proposed Rule 964NYP(c) are applicable to all orders and quotes, unless an order or quote or modifier has a specified exception to this ranking methodology (per proposed paragraph (g) as described below).

Proposed Rule 964NYP(d), which is identical to Arca Options Rule 6.76-O(d), would describe how orders and quotes would be ranked based on price, which additional detail

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<sup>28</sup> The second sentence of current Rule 964NY(a) states, “[t]he System also will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Market Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.” The Exchange proposes a difference to use the term “Trading Centers” instead of “Market Centers.”

<sup>29</sup> See note 27, *supra* (regarding reference to undefined concept of a “Working Order File,” which concept the Exchange does not plan to include in proposed Rule 964NYP).

would provide transparency regarding the Exchange’s price-ranking process. Specifically, as proposed, all orders and quotes would be ranked based on the working price of an order or quote. Orders and quotes to buy would be ranked from highest working price to lowest working price and orders and quotes to sell would be ranked from lowest working price to highest working price. The proposed rule would further provide that if the working price of an order or quote changes, the price priority of an order or quote would change. This proposed pricing priority is current functionality (not included in the rule), but the new rule would add detail regarding the concept of “working price” and its impact on priority and would use Pillar terminology.

Proposed Rule 964NYP(e) would describe the proposed Pillar Priority categories for ranking purposes, which added detail and terminology would be new for the Exchange. As proposed, at each price, all orders and quotes would be assigned a priority category and, within each priority category would be ranked pursuant to Customer Priority (per proposed Rule 964NYP(a)(6)). If, at a price, there are no remaining orders or quotes in a priority category, then same-priced interest in the next category would have priority. Proposed Rule 964NYP(e) is based on Arca Options Rule 6.76P-O(e), except that the Exchange’s rule specifies its distinct Customer priority model, which affords Customer orders in each Pillar Priority Category first priority at a price (over same-price non-Customer interest), which differs from the price-time model on Arca Options.

The proposed Pillar Priority categories would be:

- Proposed Rule 964NYP(e)(1) would specify “Priority 1 – Market Orders,” which provides that unexecuted Market Orders would have priority over all other same-side orders with the same working price. For example, a Market Order subject to a Trading Collar would be displayed on the Consolidated Book. In such circumstances, the displayed Market Order would have priority over all other resting orders at that price. Under current options trading functionality, Market Orders have priority over all other same-side orders with the same working price. The proposed level of detail and Pillar Priority categorization is identical to Arca Options Rule 6.76P-O(e)(1) and the Exchange believes that the proposed rule change would add transparency and specificity to Exchange rules without changing functionality.
- Proposed Rule 964NYP(e)(2) would specify “Priority 2 – Display Orders.” As proposed, non-marketable Limit Orders or quotes with a displayed working price would have second priority, which treatment of displayed orders and quotes is consistent with current functionality. For an order or quote that has a display price that differs from the working price of the order or quote, the order or quote would be ranked Priority 3 - Non-Display Orders at the working price.<sup>30</sup> This aspect of the proposed rule is consistent with current functionality. The proposed

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<sup>30</sup> See supra note 23 regarding the Pillar Order Type Filing, which will include a description of Non-Routable Limit Orders, which order type will function in substantially the same manner as set forth in Arca Options Rule 6.62P-O(e)(1).

level of detail and priority categorization would be new for options trading and the Exchange believes that it would add transparency and specificity to Exchange rules. The proposed level of detail and use of Pillar Priority categorization is identical to Arca Options Rule 6.76P-O(e)(2) and the Exchange believes that the proposed rule change would add transparency and specificity to Exchange rules without changing functionality.

- Proposed Rule 964NYP (e)(3) would specify “Priority 3 – Non-Display Orders.” As proposed, non-marketable Limit Orders or quotes for which the working price is not displayed would have third priority. This proposed rule is consistent with current functionality as described in current Rule 964NY(b)(2)(E), which affords last priority to orders that are not displayed (except, as noted herein, non-Displayed Customer orders are ranked ahead of non-Customer orders in this category). The proposed level of detail and Pillar priority categorization is identical to Arca Options Rule 6.76P-O(e)(2) and the Exchange believes that it would add transparency and specificity to Exchange rules.

Proposed Rule 964NYP(f) would set forth that at each price level within each priority category, orders and quotes would be ranked based on time priority. This proposed rule is identical to Arca Options Rule 6.76P-O(f). The proposed changes set forth below are consistent with current functionality and would add detail not included in existing Rule 964NY.

- Proposed Rule 964NYP(f)(1) would provide that an order or quote would be assigned a working time when it is first added to the Consolidated Book based on the time such order or quote is received by the Exchange. This proposed process of assigning a working time to orders is current functionality, although not specified in current Rule 964NY. This proposed rule uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(f)(1). To provide transparency in Exchange rules, the Exchange further proposes to include in proposed Rule 964NYP(f)(1) how the working time would be determined for orders that are routed, which is consistent with current options trading functionality. As proposed:
  - Proposed Rule 964NYP(f)(1)(A) would specify that an order that is fully routed to an Away Market on arrival, per proposed Rule 964NYP(k)(1) (described below), would not be assigned a working time unless and until any unexecuted portion of the order returns to the Consolidated Book. The Exchange notes that this is the current process for assigning a working time to an order, although not described in current Rule 964NY. This proposed rule is also consistent with current Rule 964NY(c)(2)(E)(ii), which provides that when an order or portion of an order has been routed away and is not executed either in whole or in part at the other Market Center, it will be ranked and displayed in the Consolidated Book in accordance with the terms of the order.
  - Proposed Rule 964NYP(f)(1)(B) would specify that for an order that, on



arrival, is partially routed to an Away Market, the portion that is not routed would be assigned a working time. If any unexecuted portion of the order returns to the Consolidated Book and joins any remaining resting portion of the original order, the returned portion of the order would be assigned the same working time as the resting portion of the order. If the resting portion of the original order has already executed and any unexecuted portion of the order returns to the Consolidated Book, the returned portion of the order would be assigned a new working time. This process for assigning a working time to routed orders that return to the Exchange is the same as currently used on the Exchange.<sup>31</sup> This proposed rule uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(f)(1)(B).

- Proposed Rule 964NYP(f)(2) would provide that an order or quote would be assigned a new working time if: (A) the display price of an order or quote changes, even if the working price does not change, or (B) the working price of an order or quote changes, unless the working price is adjusted to be the same as the display price of an order or quote. This proposed text would be new and the Exchange believes that adjusting the working time any time the display price of an order or quote changes, would respect the priority of orders/quotes that were previously displayed at the price to which the display price is changing. In addition, the Exchange believes it is appropriate to adjust the working time of an order or quote any time its working price changes, unless the display price does not change. In addition to being identical to Arca Options Rule 6.76P-O(f)(2), this proposed order handling in Exchange rules is consistent with the rules of other options exchanges.<sup>32</sup>
- Proposed Rule 964NYP(f)(3), which is identical to Arca Options Rule 6.76P-O(f)(3), would provide that an order or quote would be assigned a new working time if the size of an order or quote increases and that an order or quote retains its working time if the size of the order or quote is decreased. This proposed detail about the process for assigning (or not) a new working time when the size of an order changes is not currently described in the current Rule 964NY and is consistent with existing functionality for how orders (but not quotes) are

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<sup>31</sup> See, e.g., Rule 964NY(c)(2)(E)(ii) (providing that when an order that was routed away and is not fully executed, upon its return such order will be “will not have time standing relative to other orders received at the same price” while it was routed away and outside the Exchange).

<sup>32</sup> See, e.g., Cboe BZX (“BZX”) Rule 11.9(g)(1)(B) (providing that, for orders subject to “display price sliding,” BZX “will re-rank an order at the same price as the displayed price in the event such order’s displayed price is locked or crossed by a Protected Quotation of an external market” and that “[s]uch event will not result in a change in priority for the order at its displayed price”).

processed on the Exchange System and would use Pillar terminology.<sup>33</sup>

Proposed Rule 964NYP(g), which identical to Arca Options Rule 6.76P-O(g), would specify that the Exchange would apply ranking restrictions applicable to specific order, quote or modifier instructions as provided for in Rule 900.3NYP.<sup>34</sup>

Proposed Rule 964NYP(h), “Allocation of Resting Interest: Participation Entitlements and Pro Rata Pool,” describes the Exchange’s participation entitlements and participants constituting the Size Pro Rata Pool. Unless otherwise specified, proposed Rule 964NYP(h) reflects current functionality for allocating non-Customer interest, including participation guarantees, and the “Size Pro Rata Pool” as set forth in Rule 964NY(b)(2)(B)(C) and (D) as well as Rules 964.1NY and 964.2NY.<sup>35</sup>

Proposed Rule 964NYP(h)(1) is consistent with current functionality (with one new feature described below) and would provide that when the execution price is the NBBO, a DOMM may be entitled to guaranteed participation for its quote(s) to be matched against the balance of a Directed Order (the “DOMM Guarantee”).<sup>36</sup> Such DOMM Guarantee would be 40% of the Directed Order, unless otherwise determined by the Exchange and announced by Trader Update, which is current functionality.<sup>37</sup> If the DOMM does not qualify to receive the DOMM Guarantee, the bids and offers of that DOMM will be included in the “Size Pro Rata Pool” (as described below in proposed Rule 964NYP(h)(3)).<sup>38</sup> The proposed rule would further provide that, in the absence of a DOMM Guarantee, the Specialist Pool (which takes priority behind the DOMM) may be

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<sup>33</sup> Currently, on the Exchange System, if the size of a quote is reduced, the Exchange processes the reduced quantity as a new quote that is assigned a new effective time sequence. By contrast, orders reduced in size are not assigned a new working time by the Exchange System. The Exchange proposes that, on Pillar, both quotes and orders reduced in size would not receive a new working time. The proposed provision would provide for consistent handling of orders and quotes when the size of such interest is reduced.

<sup>34</sup> As discussed, supra note 23, the Exchange will file a separate Pillar Order Type Filing. On Pillar, and consistent with Arca Options Rule 6.62P-O (Orders and Modifiers), the Exchange proposes that new Rule 900.3NYP (Order Types and Modifiers) would similarly maintain much of the basic order type functionality while adding detail regarding which Pillar Priority category of each order type as well as additional detail about each such order type would be handled on Pillar.

<sup>35</sup> As noted supra note 9, the Exchange notes that much of the text contained in current Rules 964.1NY and 964.2NY is repetitive of information in current Rule 964NY. As such, the Exchange proposes to streamline proposed Rule 964NYP so as to include in this single rule the salient information related to the participation guarantees.

<sup>36</sup> See Rule 964NY(b)(2)(B)(i).

<sup>37</sup> See Rule 964NY(b)(2)(B)(ii).

<sup>38</sup> See Rule 964NY(b)(2)(B)(i); Rule 964.1NY(i).

entitled to a guaranteed allocation (as described below in proposed paragraph (h)(2)), which is current functionality.<sup>39</sup>

- Proposed Rule 964NYP(h)(1)(A) is the same as current functionality and would provide that a DOMM will be allocated a number of contracts equal to the greater of the DOMM Guarantee or their “size pro rata” allocation as provided in this Rule 964NYP(i) (described below), but in either case, no greater than the DOMM’s disseminated size.<sup>40</sup>
  - Proposed Rule 964NYP(h)(1)(A)(i) would provide that if the result of applying the DOMM Guarantee is a fractional allocation of contracts, the DOMM Guarantee would be rounded down to the nearest contract. Further this proposed Rule would provide that if the result of applying the DOMM Guarantee results in less than one contract, the DOMM Guarantee will be equal to one contract. The Exchange believes that including this additional detail (which is based on current functionality) in the proposed rule would add transparency to Exchange rules. This methodology is also consistent with Arca Options Rule 6.76AP-O(a)(1)(C) regarding the analogous Lead Market Maker participation guarantee.<sup>41</sup>
  - Proposed Rule 964NYP(h)(1)(A)(ii) would provide that if a DOMM has more than one eligible quote, each quote will receive a pro rata share of the DOMM Guarantee, which text would add granularity and transparency to Exchange rules. This text would be new and reflects that on Pillar, the Exchange would permit multiple quotes from the same DOMM at the same price and that each eligible quote would be entitled to a pro rata share of the DOMM Guarantee consistent with the Exchange’s allocation model.<sup>42</sup>
  - Proposed Rule 964NYP(h)(1)(B) would provide for all Directed Orders of five (5) contracts or fewer, if the DOMM is also the Primary Specialist (as determined per Rule 964.2NYP(b)), such DOMM will be allocated the

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<sup>39</sup> See Rule 964NY(b)(2)(C).

<sup>40</sup> See Rule 964NY(b)(2)(B)(iii).

<sup>41</sup> See Arca Options Rule 6.76A-OP(a)(1)(C) (providing that, “[i]f the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee is rounded down to the nearest contract. If the result of applying the LMM Guarantee results in less than one contract, the LMM Guarantee will be equal to one contract.”).

<sup>42</sup> See Rule 925.1N (a)(1) (providing that a Market Maker’s same-side quote will update its previously displayed quote). The ability for Market Makers to send multiple quotes will be new functionality under Pillar and addressed in a separate rule filing. Similar to Arca Options, the Exchange plans to file a separate rule filing to address the handling of Market Maker Quotations on the Exchange, including that such Market Makers can have more than one quote in a series on Pillar. See, e.g., Arca Options Rule 6.37AP-O(a)(1).

balance of the Directed Order up to the DOMM’s disseminated size or, if the DOMM has more than one eligible quote, each quote will receive a pro rata share. This proposed functionality would be new but is consistent with the guaranteed participation entitlement afforded to Primary Specialists in the Specialist Pool.<sup>43</sup> As such, the Exchange believes this proposed functionality would add internal consistency to Exchange rules.

- Proposed Rule 964NYP(h)(2) is the same as current functionality and would provide that when the execution price is the NBBO participants in the Specialist Pool may be entitled to guaranteed participation of its quote(s) to be matched against the balance of an Aggressing Order or Aggressing Quote (the “Specialist Pool Guarantee”).<sup>44</sup> Such Specialist Pool Guarantee would be 40% of the balance of an Aggressing Order or Aggressing Quote, unless otherwise determined by the Exchange and announced by Trader Update.<sup>45</sup> However, the Specialist Pool will not receive a guaranteed allocation if a DOMM has received a guaranteed allocation.<sup>46</sup> Further, if a DOMM has received a guaranteed allocation, the bids and offers of the Specialist Pool will be included in the “Size Pro Rata Pool” as described in proposed Rule 964NYP(h)(3) below.<sup>47</sup> Conversely, in the absence of a DOMM Guarantee, the Specialist Pool (which takes priority behind the DOMM) may be entitled to the Specialist Pool Guarantee as described below.<sup>48</sup>
- Proposed Rule 964NYP(h)(2)(A) is the same as current functionality and would provide that the Specialist Pool would be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee or their “size pro rata” allocation as provided in proposed Rule 964NYP(i), but in either case, no greater than the Specialist’s Pool disseminated size.<sup>49</sup>
  - Proposed Rule 964NYP(h)(2)(A)(i) would provide that if the result of applying the Specialist Pool Guarantee is a fractional allocation of contracts, the Specialist Pool Guarantee is rounded down to the nearest

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<sup>43</sup> See Rule 964NY(b)(2)(C) (providing that “[f]or all orders of five (5) contracts or fewer, the Primary Specialist will be allocated the balance after any allocation to Customers, not to exceed the size of their quote, provided the Primary Specialist is quoting at the NBBO, and the order was not originally allocated to a Directed Order Market Maker.”). See also Rule 964.2NY(b)(3)(B) (same).

<sup>44</sup> See Rule 964NY(b)(2)(C); Rule 964.2NY(b)(2).

<sup>45</sup> See Rule 964NY(b)(2)(C)(ii); Rule 964.2NY(b)(2).

<sup>46</sup> See Rule 964NY(b)(2)(C); Rule 964.2NY(b)(4).

<sup>47</sup> See Rule 964NY(b)(2)(C).

<sup>48</sup> See Rule 964NY(b)(2)(C).

<sup>49</sup> See Rule 964.2NY(b)(1)(iv).

contract. Further this proposed Rule would provide that if the result of applying the Specialist Pool Guarantee results in less than one contract, the Specialist Pool Guarantee would be equal to one contract. The Exchange believes that including this additional detail (which is based on current functionality) in the proposed rule would add transparency to Exchange rules. This methodology is also consistent with Arca Options Rule 6.76AP-O(a)(1)(C) regarding the analogous Lead Market Maker participation guarantee.<sup>50</sup>

- Proposed Rule 964NYP(h)(2)(A)(ii) is the same as current functionality and would provide that the size pro rata participation for the Primary Specialist (as determined per 964.2NYP(b)) in the Specialist Pool will receive additional weighting, as determined by the Exchange, and announced by Trader Update (the “Additional Weighting”).<sup>51</sup>
- Proposed Rule 964NYP(h)(2)(A)(iii) is the same as current functionality and would provide that each Specialist or e-Specialist in the Specialist Pool will be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee or their “size pro rata” allocation as provided in Rule 964NYP(i), but in either case, no greater than the Specialist’s disseminated size.<sup>52</sup>
  - Proposed Rule 964NYP(h)(2)(A)(iii)(a) is the same as current functionality and would provide that if there is only one Specialist or e-Specialist in Specialist Pool, that Specialist or e-Specialist would be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee (i.e., the entire 40%) or their “size pro rata” allocation as provided in proposed Rule 964NYP(i), no greater than the size of their disseminated size.<sup>53</sup>
- Proposed Rule 964NYP(h)(2)(A)(iv) would provide that if a Specialist has more than one eligible quote in the Specialist Pool, each such quote will receive a pro rata share of the Specialist Pool Guarantee, no greater than

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<sup>50</sup> See Arca Options Rule 6.76AP-O(a)(1)(C) (providing that, “[i]f the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee is rounded down to the nearest contract. If the result of applying the LMM Guarantee results in less than one contract, the LMM Guarantee will be equal to one contract.”).

<sup>51</sup> See Rule 964.2NY(b)(3)(A). The Exchange notes that it is not proposing to include in the proposed rule the now obsolete caveat that “if all participants in the Specialist Pool are quoting the same size, this additional weighting will be no greater than 66 2/3% if there is only one e-Specialist, and no greater than 50% if there are two or more e-Specialists” as the Exchange does not currently impose these limits nor does it plan to do so on Pillar.

<sup>52</sup> See Rule 964.2NY(b)(1)(ii).

<sup>53</sup> See Rule 964.2NY(b)(2).

the size of their disseminated size. This would be new text to address the fact that (as noted above), on Pillar, Specialists will have the ability to submit more than one quote in a series at the same time.<sup>54</sup>

- Proposed Rule 964NYP(h)(2)(A)(iv)(a) is new text and would provide that if the Primary Specialist has more than one eligible quote, each quote will receive Additional Weighting on its pro rata share of the Specialist Pool Guarantee. This would be new text to address the fact that (as noted above), on Pillar, Specialists will have the ability to submit more than one quote in a series at the same time<sup>55</sup> and, consistent with current functionality the Primary Specialist is entitled to Additional Weighting.<sup>56</sup>
- Proposed Rule 964NYP(h)(2)(B) is the same as current functionality but uses Pillar terminology and would provide that for all Aggressing Orders or Aggressing Quotes of five (5) contracts or fewer, the Primary Specialist (as determined per Rule 964.2NYP(b)) would be allocated the balance of the Aggressing Order or Aggressing Quote, not to exceed the Primary Specialist’s disseminated size, or, if the Primary Specialist has more than one eligible quote, each quote will receive a pro rata share.<sup>57</sup> The Exchange also proposes to add Commentary .01 to the proposed rule (which is substantively identical to Commentary .01 of current Rule 964NY) to make clear that on a quarterly basis, the Exchange would evaluate what percentage of the volume executed on the Exchange comprised of orders of five (5) contracts or fewer that was allocated to the Primary Specialist and would reduce the size of the orders included in this provision if such percentage is over 40%.<sup>58</sup>

Proposed Rule 964NYP(h)(3) is substantially the same as current Rule 964NY(b)(2)(D) and would describe interest that is included in the “Size Pro Rata Pool.” As proposed if there are multiple orders and quotes of non-Customers

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<sup>54</sup> See supra note 42 (regarding Pillar functionality that allows Market Makers to enter more than one quote in the same series, which would update current functionality that limits Specialists (including the Primary Specialist) to sending a single quote in their assigned series using a single unique identifier).

<sup>55</sup> See id.

<sup>56</sup> See infra, discussion of proposed Rule 964NYP(h)(2)(A)(ii).

<sup>57</sup> See Rule 964NY(b)(2)(C)(iv). An “Aggressing Order” or “Aggressing Quote” refers to a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. See proposed Rule 964NYP(a)(5).

<sup>58</sup> See proposed Rule 964NYP, Commentary .01, which will not include cross-reference that appears in the current rule Commentary .01 to Rule 964NY, because cross-reference was superfluous (and would be obsolete) and the Exchange opted to remove excess verbiage.

(including Professional Customers) that are displayed in the Consolidated Book at the same price, then such orders and quotes will be afforded priority on a “size pro rata” basis, and will comprise the “Size Pro Rata Pool.”<sup>59</sup>

Proposed Rule 964NYP(i) is the same as current functionality and would set forth the pro rata formula and example of its application to same-priced interest in the Size Pro Rata Pool.<sup>60</sup>

- Proposed Rule 964NYP(i)(1) would add a non-substantive change to add a heading for the “Size Pro Rata Formula and Example of Application,” which would add clarity and transparency to Exchange rules.
- Proposed Rule 964NYP(i)(2) is consistent with current functionality and would provide that the pro rata share allocated to each participant in the Size Pro Rata Pool will be rounded down to the nearest contract, if applicable and that any residual contracts to be filled after the size pro rata calculation has been completed will be allocated one contract per participant in the following sequence:<sup>61</sup>
  - Proposed Rule 964NYP(i)(2)(A) would provide that the participant in the Size Pro Rata Pool who has the largest remaining size (based on the pro rata calculation) will receive the first contract, and each successive contract (if any) will be allocated to each subsequent participant based on size (largest to smallest).<sup>62</sup>
  - Proposed Rule 964NYP(i)(2)(A)(i) would provide that if there are two or more participants with the same remaining size, then the participant with the first time priority in the Size Pro Rata Pool will be allocated the next contract and then each successive contract (if any) will be allocated in the same manner.<sup>63</sup>

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<sup>59</sup> See Rule 964NY(b)(2)(D).

<sup>60</sup> See Rule 964NY(b)(3)(A).

<sup>61</sup> See Rule 964NY(b)(3)(B). The Exchange proposes that rather than refer to the size pro rata share being “rounded down to a whole number” that such share be “rounded down to the nearest contract” as the latter formulation is more precise and would add clarity and transparency to Exchange rules. See proposed Rule 964NYP(i)(2).

<sup>62</sup> See Rule 964NY(b)(3)(B)(i). The Exchange proposes to replace reference to the participant with the “largest fractional amount” with reference to the “largest remaining size” as the Exchange believes this latter formulation is more accurate and would add clarity and transparency to Exchange rules. See proposed Rule 964NYP(i)(2)(A).

<sup>63</sup> See Rule 964NY(b)(3)(B)(ii). The Exchange proposes to replace reference to the participant with the “fractional amount and initial quotes size” with reference to the “same remaining size,” which reflects Pillar functionality and would add clarity and

Proposed Rule 964NYP(j) would set forth how orders and quotes are matched for execution on Pillar. Proposed Rule 964NY(j) and its subparagraphs would set forth the Exchange's order execution process. The Exchange proposes to use Pillar terminology of "Aggressing Order" and "Aggressing Quote" rather than "inbound order" because (as described above) the proposed terms allow for interest to be (or become) marketable even after arrival (i.e., not limited to "inbound" interest).<sup>64</sup>

Current Rule 964NY(c) sets forth how orders and quotes are executed on the Exchange. Rule 964NY(c)(1) provides that an "an inbound order that is marketable will be immediately executed against bids and offers in the Consolidated Book, provided the execution price is at the NBBO." Rule 964NY(c)(2)-(A)-(D) sets forth the sequence and manner in which an inbound order will be executed against interest resting in the Consolidated Book at a price -- first with displayed Customers; second per the DOMM Guarantee or Specialist Pool Guarantee, if applicable; third with non-Customer interest on a size pro rata basis; for to "orders in the Working File in the order of their ranking at the limit price." The Exchange believes the proposed method of Order Execution on Pillar is substantially similar to the current execution scheme, with the difference being that, at a price, both Customer and non-Customer interest within each priority category executes until all interest in that Pillar Priority Category is exhausted before an Aggressing Order or Aggressing Quote then executes with same-priced interest in the next Pillar Priority Category.

Proposed Rule 964NYP(j) would specify that, at each price, an Aggressing Order or Aggressing Quote in an option series that is open for trading would be allocated against contra-side orders or quotes in the Consolidated Book as follows.

- First, to Customer orders ranked Priority 1 - Market Orders based on time (proposed Rule 964NYP(j)(1));
- Second, to non-Customer orders ranked Priority 1 - Market Orders on a size pro rata basis pursuant to paragraph (i) of this Rule (proposed Rule 964NYP(j)(2));
- Third, to Customer orders ranked Priority 2 - Displayed Limit Orders based on time (proposed Rule 964NYP(j)(3));
- Fourth, to interest ranked Priority 2 - Displayed Limit Orders that is eligible for the DOMM Guarantee or the Specialist Pool Guarantee, as applicable, pursuant to paragraph (h) of this Rule provided that the execution price is the NBBO; (proposed Rule 964NYP(j)(4));
- Fifth, to non-Customer orders and quotes in the Pro Rata Pool ranked Priority 2 -

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transparency to Exchange rules. See proposed Rule 964NYP(i)(2)(A)(i).

<sup>64</sup>

An "Aggressing Order" or "Aggressing Quote" refers to a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. See proposed Rule 964NYP(a)(5). See Rule 964NY (c)(1)-(2) regarding the execution of an "inbound order").



Displayed Limit Orders on a size pro rata basis pursuant to paragraph (i) of this Rule (proposed Rule 964NYP(j)(5));

- Sixth, to Customer orders ranked Priority 3 - Non-Displayed Orders based on time (proposed Rule 964NYP(j)(6)); and
- Finally, to non-Customer orders and quotes ranked Priority 3 - Non-Display Orders based on time (proposed Rule 964NYP(j)(7)).

The proposed allocation set forth in proposed Rule 964NYP(j)(1) - (7) is consistent with the Exchange's current Customer priority and pro rata allocation model.<sup>65</sup> However, unlike current functionality, proposed Rule 964NYP(j)(1)-(7) provides that "at a price" interest within each of the Pillar Priority Categories is exhausted (first Customer then non-Customer) before moving to same-priced interest in the next Pillar Priority Category.<sup>66</sup> Under current Rule 964NY, Customer orders at a price are given first priority to trade and this can result in Customer Market Orders and Customer Limit Orders executing first at that price.<sup>67</sup> Proposed Rule 964NY(j) differs from current functionality in that, for example, at a price, both Customer and non-Customer Market Orders trade and then same-priced Customer Limit Orders trade. Further, at a price, non-displayed Customer orders will trade before same-priced non-Customer interest that is not displayed.

Proposed Rule 964NYP(k) would set forth the Exchange's routing process, which is addressed in current Rule 964NY(c)(2)(E) and provides that any unexecuted portion of an order that is eligible to route is routed to another Market Center.<sup>68</sup> Similarly, proposed Rule 964NYP(k) would provide that, absent an instruction not to route, the Exchange would route marketable orders to Away Market(s) after such orders are matched for execution with any contra-side interest in the Consolidated Book in accordance with proposed paragraph (j) of this Rule regarding Order Execution. In addition, the proposed

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<sup>65</sup> See, e.g., Rule 964NY(c)(2)(A)-(E) providing that after executing first with displayed Customer interest, inbound orders will trade with interest based on DOMM or Specialist Pool guaranteed and then will be traded on a size pro rata basis, with resting non-Customer interest, with any remaining size of the inbound order being traded with "orders in the Working Order File," by ranking at the limit price.

<sup>66</sup> The Exchange notes that the concept of "Split-Price Executions" as set forth in current Rule 964NY(c)(3) is common practice in electronic trading, as orders, at a price, trade up and down the Book to the extent possible (or route). As such, the Exchange is not referring to this concept explicitly but believes it is consistent with proposed Rule 964NYP generally and, more specifically, with proposed paragraph (j).

<sup>67</sup> See, e.g., Rule 964NY(c)(2)(A) providing that an inbound order will be executed first against "all available displayed Customer interest in the Consolidated Book."

<sup>68</sup> Under the current rule, each eligible order is routed "as limit order equal to the price and up to the size of the quote published by the Market Center(s)" See Rule 964NY(c)(2)(E)(ii). In the proposed Pillar rule, the Exchange proposes to use the term "Away Market" instead of "Market Center."

rule would provide that while determining the venue(s) to which the order(s) would be routed, such order(s) may be held non-displayed at the contra-side ABBO and ranked in its respective priority category, per proposed Rule 964NYP(e), behind displayed interest at that price in that priority category. Proposed Rule 964NYP(k) is substantively the same as Arca Options Rule 6.76AP-O(b), except that it removes the word “any” and states that the impacted order would be ranked “behind displayed interest at that price in that priority category,” which difference is meant to refer to the Customer priority ranking within Pillar Priority Category.<sup>69</sup>

The proposed rule would then set forth additional details regarding routing that are consistent with current routing functionality, but are not described in current rules:

- Proposed Rule 964NYP(k)(1) would provide that an order that cannot meet the pricing parameters of proposed Rule 964NYP(j) (i.e., cannot trade with interest on the Consolidated Book) may be routed to Away Market(s) before being matched for execution against contra-side orders and quotes in the Consolidated Book. The Exchange believes that this proposed rule text, which is consistent with current functionality, provides transparency that an order may be routed before being matched for execution, for example, to prevent locking or crossing or trading through the NBBO. This rule uses Pillar terminology and is identical to Arca Options Rule 6.76AP-O(b)(1).
- Proposed Rule 964NYP(k)(2) would provide that an order with an instruction not to route would be processed as provided for in proposed Rule 900.3NYP.<sup>70</sup>
- Proposed Rule 964NYP(k)(3) would provide that any order or portion thereof that has been routed would not be eligible to trade on the Consolidated Book, unless all or a portion of the order returns unexecuted. This routing methodology is current functionality and covers the same subject as current Rule 964NY(c)(2)(E) and is based on Arca Options Rule 6.76AP-O(b)(3). Rule 964NY(c)(2)(E) provides that an order that routed away and returns is ranked and displayed in the Consolidated Book but does not have time standing relative to orders at the same price that arrived while the order was routed. Because, as discussed above, the working time assigned to orders that are routed is being proposed to be addressed in new Rule 964NYP(f)(1)(A) and (B), the Exchange does not propose to include (and restate) such information in the proposed Rule.
- Proposed Rule 964NYP(k)(4) would provide that requests to cancel an order that has been routed in whole or part would not be processed unless and until all or a portion of the order returns unexecuted. This added detail is the same as current functionality and is substantively the same as Arca Options Rule 6.76AP-O(b)(4).

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<sup>69</sup> As specified herein, proposed 964NYP(e) provides, in relevant part, that “[a]t each price, all orders and quotes are assigned a priority category and, within each priority category, Customer orders are ranked ahead of non-Customer”.

<sup>70</sup> See supra note 23 regarding Pillar Order Type Filing.

Proposed Rule 964NYP(l), regarding residual interest, would provide that after trading with eligible contra-side interest on the Consolidated Book and/or returning unexecuted after routing to Away Market(s), any unexecuted non-marketable portion of an order would be ranked consistent with new Rule 964NYP(a)-(e). This rule represents current functionality as set forth in Rule 964NY generally and paragraph (c)(2)(E), as it pertains to orders that were routed away and then returned unexecuted in whole or part to the Exchange without any substantive differences. This proposed rule operates substantively the same as Rule Arca Options Rule 6.76AP-O(c).

Proposed Rule 964NYP(m) would be applicable to “Orders Executed Manually” and would contain the same text as set forth in Rule 964NY(e) without any differences.

The Exchange notes that current Rule 964NY(d)(1), (2), regarding Prohibited Conduct Related to Crossing Orders, provides that “Brokers may not execute as principal orders they represent as agent” unless the agency orders meet the exposure requirements of Rule 935NY; or, the Broker executes the orders pursuant to Rule 934NY. The Exchange does not propose to include this provision in new Rule 964NYP because the information is not related to priority and allocation. Moreover, the Exchange believes it would be duplicative and is unnecessary to state that Brokers must comply with Rules 934NY and 935NY as such compliance is required by those rules and need not be restated. As such, the Exchange believes that not including this language in the proposed rule would add clarity, transparency and internal consistency to Exchange Rules.

Finally, the Exchange does not propose to include Commentary .02 to Rule 964NY regarding Self-Trade Prevention (STP) Modifiers in proposed Rule 964NYP as the Exchange will add this modifier to proposed Rule 900.3NYP with slight enhancements, consistent with Arca Options Rule 6.62P-O(i)(2).<sup>71</sup>

#### Proposed Rule 964.1NYP (Directed Orders and DOMM Quoting Obligations)

Current Rule 964.1NY, titled “Directed Orders,” governs Directed Orders, including how such orders may be allocated pursuant to Rule 964NY, as well as DOMM quoting obligations. The Exchange proposes that the new title for Rule 964.1NYP would be “Directed Orders and DOMM Quoting Obligations,” as this title is a more apt description. The Exchange proposes to maintain the current preamble to Rule 964.1NY in proposed Rule 964.1NYP(a) but would update the relevant cross-references, such that the new rule would provide that “Specialists and Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of Rule 964NYP(h), (j) and this Rule 964.1NYP.”

The Exchange also proposes that proposed Rule 964.1NYP(b)(1) and (2) would be identical to current Rule 964N.1(iv), with the only difference being the paragraph

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<sup>71</sup> See supra note 23 regarding Pillar Order Type Filing.

numbering.

As noted here, much of the information in current Rule 964.1NY is duplicative and repeats information already contained in current (and separate) Rule 964NY or has been added to new Rule 964NYP to consolidate information relevant to the DOMM Guarantee into the proposed rule, which would add clarity and consistency to Exchange rules making them easier to navigate. As such, the Exchange does not propose to include in proposed Rule 964.1NYP (duplicative) information contained in Rule 964.1NY(i)-(iii) regarding the possible execution of Directed Orders (i.e., being allocated per the DOMM Guarantee, if available, the Specialist Pool (if no DOMM Guarantee), or as part of the Specialist Pool). The Exchange believes having this information in two different rules is inefficient and also would increase the possibility of inconsistencies when rules are updated which may lead to confusion for market participants. As such, the Exchange believes that proposed Rule 964.1NYP in connection with proposed Rule 964NYP, sufficiently describe the potential allocation of Directed Orders, as well as the quoting obligations of each DOMM.

Proposed Rule 964.2NYP (Participation Entitlement of Specialist Pool and Designation of Primary Specialist)

Current Rule 964.2NY, titled “Participation Entitlement of Specialists and e-Specialists,” governs participation entitlement for Specialists including the criteria for selecting the Primary Specialist, the Additional Weighting accorded to the Primary Specialist’s pro rata allocation, and the potential allocation of orders of five contracts or fewer to the Primary Specialist. The Exchange proposes that the title for new Rule 964.2NYP would be “Participation Entitlement of Specialists, e-Specialists, and Primary Specialist” instead of “Participation Entitlement of Specialists and e-Specialists” because the current title doesn’t indicate that details about the Primary Specialist are included in the current rule.

Proposed Rule 964.2NYP(a) would provide that “the Exchange may establish from time to time a participation entitlement formula that is applicable to all Specialists and e-Specialists, collectively the Specialist Pool as defined in Rule 900.2NY, pursuant to Rule 964NYP(h)(2),” which is substantively the same as current Rule 964.2NY(b) but is updated to reflect new paragraph (h)(2). In addition, proposed Rule 964.2NYP(b) would include verbatim the information from current Rule 964.2NY(a) regarding the criteria for selecting the Primary Specialist.

As noted here, much of the information in current Rule 964.2NY (i.e., paragraphs (b)(1)-(4)), is duplicative of current Rule 964NY or, would be duplicative of information that the Exchange proposes to include in proposed Rule 964NYP (i.e., detailed information related to the participation guarantees). As such, the Exchange does not propose to include in proposed Rule 964.2NYP the (duplicative) information contained in Rule 964.2NY(b)(1)-(4) regarding the application of the Specialist Pool Guarantee to Specialists, e-Specialists and the Primary Specialist as well as the fact the Specialist Pool Guarantee is not available when the DOMM Guarantee is provided. The Exchange believes having this information in two different rules is inefficient and also would

increase the possibility of inconsistencies when rules are updated, which may lead to confusion for market participants. As such, the Exchange believes that proposed Rule 964.2NYP in connection with proposed Rule 964NYP, sufficiently describe the application of the Specialist Pool Guarantee to Specialists, e-Specialists and the Primary Specialist. Moreover, the Exchange believe that including in one rule (i.e., proposed Rule 964NYP) all of the pertinent information regarding the participation guarantees, the criteria for achieving such guarantees, as well as how interest the trades pursuant to the guarantees would be allocated would add clarity and consistency to Exchange rules making them easier to navigate.

Finally, the Exchange will not include in proposed Rule 964.2NYP the provision in current rule current rule 964.2NY(b)(1)(v) that provides that an e-Specialist is not eligible for the Special Pool Guarantee with respect to orders or quotes represented in open outcry on the Trading Floor. This provision is inapplicable on Pillar.

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As discussed above, because of the technology changes associated with the migration to the Pillar trading platform, subject to approval of this proposed rule change, the Exchange will announce by Trader Update when rules with a “P” modifier will become operative and for which symbols. The Exchange believes that keeping existing rules on the rulebook pending the full migration of Pillar will reduce confusion because it will ensure that the rules governing trading on the Exchange will continue to be available pending the full migration to Pillar.

(b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>72</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>73</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, to protect investors and the public interest. The Exchange believes that the proposed rules to support Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rules would promote transparency in Exchange rules by using consistent terminology governing trading on both the Exchange’s cash equity and options trading platforms, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange’s rulebook and better understand how options trading is conducted on the Exchange.

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

<sup>73</sup> 15 U.S.C. 78f(b)(5).

Generally, the Exchange believes that adding new rules with the modifier “P” to denote those rules that would be operative for the Pillar trading platform would remove impediments to and perfect the mechanism of a free and open market and a national market system by providing transparency of which rules would govern trading once a symbol has been migrated to the Pillar trading platform. The Exchange similarly believes that adding a preamble to those current rules that would not be applicable to trading on Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote transparency regarding which rules would govern trading on the Exchange during and after the transition to Pillar.

In addition, the Exchange believes that incorporating functionality currently available on Arca Options would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange would be able to offer consistent functionality across both its options trading platforms. Accordingly, with the transition to Pillar, the Exchange will be able to offer additional features to its ATP Holders that are currently available on Arca Options. For similar reasons, the Exchange believes that using Pillar terminology for the proposed new rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote consistency in trading rules on both the Exchange and its affiliated options exchange, NYSE Arca Options.

#### *Proposed Rule 900.2NY*

The Exchange believes that the proposed amendments to Rule 900.2NY would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to promote clarity and transparency in Exchange rules. Specifically, the Exchange believes that new terms it proposes to include in Rule 900.2NY (e.g., Away Market, ABBO, and MPID) in connection with the migration to Pillar would promote clarity and transparency in Exchange rules making them easier for the investing public to navigate. The proposed new definitions would also remove impediments to, and perfect the mechanism of, a free and open market and a national market system because the definitions are substantively identical to how the same concepts are described in NYSE Arca Rule 1.1. The proposed modifications to current definitions would add clarity, transparency and internal consistency to Exchange rules, including by adding reference to new Pillar rules.

#### *Proposed Rules 964NY, 964.1NY and 964.2NY*

The Exchange believes that proposed new Rule 964NYP would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange plans to retain the fundamental method by which the Exchange would rank and display orders and quotes on Pillar as compared to the current Exchange system. Rather, the proposed revisions to the Exchange’s options trading rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to simplify the

structure of the Exchange's options rules and use consistent Pillar terminology for trading rules on both the Exchange and its affiliated options exchange, NYSE Arca Options. For example, the Exchange believes the proposed definitions set forth in Rule 964NYP, i.e., display price, limit price, working price, working time, and Aggressing Order/Aggressing Quote, would promote transparency in Exchange rules and make them easier to navigate because these proposed definitions would be used in other proposed Pillar options trading rules. The Exchange notes that these proposed definitions are identical to the definitions set forth in Arca Options Rule 6.76P-O.

Moreover, the Exchange is not proposing any functional changes to how it would rank and display orders and quotes on Pillar as compared to current functionality, except (as noted herein) with regard to the treatment of reduced quote sizes which would be handled the same as orders with reduced size under Pillar, which would add consistency and transparency to Exchange rules.<sup>74</sup> The Exchange believes that using new terminology to describe ranking and display, including the proposed priority categories of Priority 1 - Market Orders, Priority 2 - Display Orders, and Priority 3- Non-Display Orders, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would provide more granularity and use Pillar terminology to describe functionality that is consistent with the Exchange System currently set forth in Rule 964NY.

The Exchange believes that proposed new Rule 964NYP generally and paragraph (j) in particular would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would set forth a priority model on Pillar that is consistent with the Exchange Customer-centric allocation model and affords Customers priority at a price regardless of order type utilized. In each Pillar Priority Category, Customers trade first at a price.

The Exchange believes that the proposed modifications to the DOMM Guarantee and Specialist Pool Guarantee would remove impediments to and perfect the mechanism of a free and open market and a national market system because it provides clarity of how multiple quotes from a DOMM or Specialists (including the Primary Specialist) would be allocated. The Exchange similarly believes that eliminating duplicative text from Rules 964.1NY and 964.2NY would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would streamline the Exchange's rules. The Exchange notes that the remaining differences in proposed Rule 964NYP relating to the DOMM Guarantee and the Specialist Pool Guarantee are designed to promote clarity and transparency in Exchange rules and would not introduce new functionality.

The Exchange believes that proposed new Rules 964.1NYP and 964.2NYP would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would not repeat information that is duplicative of

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<sup>74</sup> See proposed Rule 964NYP(f)(3) See supra note 33 (regarding existing handling of quotes with reduced size).

current Rule 964NY but would include information solely related to Direct Orders and the provisions of proposed Rule 964NYP that must be satisfied to receive such orders (i.e., proposed Rules 964NYP(h), (j), in particular and Rule 964.1NYP generally) as well as information regarding the provisions of the proposed Rule 964NYP that must be satisfied to receive the Specialist Pool Guarantee. As a result, new Rules 964.1NYP and 964.2NYP would provide information about Direct Orders and DOMM quoting obligations as well as the Primary Specialist criteria in a more streamlined manner, which would add clarity and consistency to Exchange rules making them easier to navigate.

The Exchange believes that the structure and content of the rule text in proposed Rules 964NYP, 964.1NYP, and 964.2NYP promote transparency by using consistent Pillar terminology. The Exchange also believes that adding more detail regarding current functionality in new Rule Rules 964NYP, as described above, would promote transparency by providing notice of when orders would be executed or routed by the Exchange.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. The Exchange believes that the transition to Pillar would promote competition among options exchanges by offering a low-latency, deterministic trading platform. The proposed rule changes would support that inter-market competition by allowing the Exchange to offer additional functionality to its ATP Holders, thereby potentially attracting additional order flow to the Exchange. Otherwise, the proposed changes are not designed to address any competitive issues, but rather to amend the Exchange's rules relating to options trading to support the transition to Pillar. As discussed in detail above, with this rule filing, the Exchange is not proposing to change its core functionality regarding its priority model, and in particular, how it would rank, display, execute or route orders and quotes. Rather, the Exchange believes that the proposed rule changes would promote consistent use of terminology to support options trading on the Exchange, making the Exchange's rules easier to navigate. The Exchange does not believe that the proposed rule changes would raise any intra-market competition as the proposed rule changes would be applicable to all ATP Holders, and reflects the Exchange's existing priority model, including existing the DOMM Guarantee and Specialist Pool Guarantee.

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

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



6. Extension of Time Period for Commission Action

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

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

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 Federal Register

Exhibit 5 – Text of Proposed Rule Change

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-NYSEAMER-2023-16)

[Date]

Self-Regulatory Organizations; NYSE American LLC; Notice of Filing of Proposed Change to Modify Rule 900.2NY and to Adopt New Rules 964NYP, 964.1NYP, and 964.2NYP

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on February 27, 2023, NYSE American LLC (“NYSE American” 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 modify Rule 900.2NY (Definitions) and to adopt new Rules 964NYP (Order Ranking, Display, and Allocation), 964.1NYP (Directed Orders and DOMM Quoting Obligations), and 964.2NYP (Participation Entitlement of Specialist Pool and Designation of Primary Specialist) to reflect the transition of the Exchange’s options market to the Pillar trading platform. The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

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

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

**Background**

The Exchange plans to transition its options trading platform to its Pillar trading platform. The Exchange’s affiliated options exchange, NYSE Arca, Inc. (“NYSE Arca” or “Arca Options”) is currently operating on Pillar, as are the Exchange’s national securities exchange affiliates’ cash equity markets.<sup>4</sup> For this transition, the Exchange proposes to use the same Pillar technology already in operation on Arca Options.<sup>5</sup> In doing so, the Exchange will be able to

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<sup>4</sup> The Exchange’s national securities exchange affiliates’ cash equity markets include: the New York Stock Exchange LLC, NYSE Arca Inc., NYSE National, Inc., and NYSE Chicago, Inc. (collectively, the “NYSE Equities Exchanges”).

<sup>5</sup> See, e.g., Securities Exchange Act Release No. 94072 (January 26, 2022), 87 FR 5592 (February 1, 2022) (Notice of filing Notice of Filing of Amendment No. 4 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 4, approving new rules applicable to single-leg options trading on Pillar) (SR-NYSEArca-2021-47) (the “Arca Options Approval Order”). See, e.g., , 6.76P-O (Order Ranking and Display), and 6.76AP-O (Order Execution and Routing) (together, the “Arca Priority Rules”); and Rules 6.37AP-O (Market Maker Quotations), 6.40P-O (Pre-Trade and Activity-Based Risk Controls), 6.41P-O (Price Reasonability Checks - Orders and Quotes), 6.62P-O (Orders and Modifiers), 6.64P-O (Auction Process) (collectively, the “Arca non-Priority Rules”). See also NYSE Arca Rules 1.1 (Definitions) (which includes definitions that describe terms applicable to options trading on Pillar).

offer not only common specifications for connecting to both of its equity and options markets, but also common trading functions across the Exchange and its affiliated options exchange, NYSE Arca Options.

The Exchange plans to roll out the new Pillar technology platform over a period of time based on a range of underlying symbols, anticipated for the fourth quarter of 2023 or the first quarter of 2024. As was the case for Arca Options when it transitioned to Pillar, the Exchange anticipates a multi-week roll-out period and will announce by Trader Update<sup>6</sup> when underlying symbols will be transitioning to the Pillar trading platform. With this transition, certain rules would continue to be applicable to options overlying symbols trading on the current trading platform - the “Exchange System,”<sup>7</sup> but would not be applicable to options overlying symbols that have transitioned to trading on Pillar.

Instead, the Exchange proposes new rules to reflect how options would trade on the Exchange once Pillar is implemented. These proposed rule changes will (1) use Pillar terminology that is substantively identical to Pillar terminology governing options trading on NYSE Arca; and (2) provide for common functionality on both its options markets.<sup>8</sup>

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<sup>6</sup> Trader Updates are available here: <https://www.nyse.com/trader-update/history>. Anyone can subscribe to email updates of Trader Updates, available here: <https://www.nyse.com/subscriptions>.

<sup>7</sup> Rule 900.2NY defines “Exchange System” or “System” as referring to the Exchange’s “current electronic order delivery, execution, and reporting system for designated option issues through which orders and quotes of Users are consolidated for execution and/or display.” With the transition to Pillar, the Exchange would no longer use the terms “Exchange System” or “System.” Once the transition is complete, the Exchange will file a subsequent proposed rule change to delete references to (and the defined term) the “Exchange System” and “System” from the rulebook. See also Rule 900.2NY (providing substantially identical to definition “Consolidated Book”, which is defined as “the Exchange’s electronic book of orders and quotes” and further provides that “all orders and quotes that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 964NY.”).

<sup>8</sup> The current proposal seeks to adopt rules based on the Arca Priority rules, as well as

Proposed use of “P” modifier

As proposed, new rules governing options trading on Pillar would have the same numbering as current rules that address the same functionality, but with the modifier “P” appended to the rule number. For example, Rule 964NY, governing Display, Priority and Order Allocation - Trading Systems, would remain unchanged and continue to apply to any trading in symbols on the Exchange System. Proposed Rule 964NYP would govern Display, Priority and Order Allocation for trading in options symbols migrated to the Pillar trading platform. All other current rules that have not had a version added with a “P” modifier will be applicable to how trading functions on both the Exchange System and Pillar. Once options overlying all symbols have migrated to the Pillar trading platform, the Exchange will file a separate rule proposal to delete rules that are no longer operative because they apply only to trading on the Exchange System.

To reflect how the “P” modifier would operate, the Exchange proposes to add rule text immediately following the title “Section 900NY. Rules Principally Applicable to Trading of Option Contracts,” and before “Rule 900.1NY. Applicability”), which would provide that rules with a “P” modifier would be operative for symbols that are trading on the Pillar trading platform. As further proposed, and consistent with the handling of the transition to Pillar by Arca Options, if a symbol (and the option overlying such symbol) is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier would no longer be operative for that symbol.<sup>9</sup> The Exchange believes that adding this explanation regarding the “P” modifier

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certain definitions that describe terms applicable to options trading on Pillar set forth in NYSE Arca Rule 1.1. The Exchange plans to file separate rule proposals to adopt new rules substantively identical to the Arca non-Priority Rules as well as to Arca Options Rule 6.91P-O regarding complex trading on Pillar.

<sup>9</sup> NYSE Arca used the same description when it transitioned its options platform to Pillar.

in Exchange rules would provide transparency regarding which rules would be operative during the symbol migration to Pillar.

#### Summary of Proposed Rule changes

In this filing, the Exchange proposes the following new Pillar rules: Rules 964NYP (Order Ranking, Display, and Allocation), 964.1NYP (Directed Orders and DOMM Quoting Obligations), and 964.2NYP (Participation Entitlement of Specialist Pool and Designation of Primary Specialist).<sup>10</sup> The Exchange also proposes to amend Rule 900.2NY to add new definitions that would be applicable for options trading on Pillar as well as to modify one additional definition as set forth below. These proposed rules would set forth the foundation of the Exchange's options trading model on Pillar and, among other things, would use existing Pillar terminology and functionality currently in effect on Arca Options.<sup>11</sup>

However, because the Exchange has (and will continue to have) a priority and allocation scheme that differs from the price-time model on Arca Options, the proposed rules will reflect the Exchange's existing (Customer priority and pro rata allocation) model, which will be carried over to Pillar and operate in a substantively identical manner. As discussed in greater detail

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See Arca Options Approval Order.

<sup>10</sup> As described herein, to streamline rule text regarding participation guarantees, the Exchanges proposes to include in new Rule 964NYP much of the information that is set forth in current Rules 964.1NY (Directed Orders), and 964.2NY (Participation Entitlement of Specialists and e-Specialists). In some instances, the Exchange is proposing to delete from Rules 964.1NY and 964.2NY information that is duplicative of rule text being carried over from current Rule 964NY.

<sup>11</sup> See supra note 8 (regarding separate rule filing to address Complex Order trading on Pillar in a proposed Rule 980NYP). See, e.g., Securities Exchange Act Release No. 92563 (August 4, 2021), 86 FR 43704 (August 10, 2021) (Notice of Filing of Amendment Nos. 1 and 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, to Adopt New Exchange Rule 6.91P-O, regarding complex order trading on Pillar) (Arca Options stand-alone filing to address Complex Order trading on Pillar).

below, the Exchange is not proposing fundamentally different functionality applicable to options trading on Pillar than is currently available on the Exchange System. However, with Pillar, the Exchange would introduce new terminology and, as applicable, new or updated functionality that would be available for options trading.

To promote clarity and transparency, the Exchange further proposes to add a preamble to the following current rules specifying that they would not be applicable to trading on Pillar: Rules 964NY (Display, Priority and Order Allocation - Trading Systems), and 964.1NY (Directed Orders), and 964.2NY (Participation Entitlement of Specialists and e-Specialists).

### **Proposed Rule Changes**

#### **Proposed Rule 900.2NY: Definitions**

Rule 900.2NY sets forth definitions that are applicable to options trading. In connection with the transition of options trading to Pillar, the Exchange proposes the following amendments to Rule 900.2NY.

- Away Market: The Exchange proposes to adopt the defined term of “Away Market,” which would refer to “any Trading Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to orders routed from the Exchange.” This proposed definition is identical to how this term is defined in NYSE Arca Rule 1.1.<sup>12</sup>

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<sup>12</sup> This proposed definition is also based on the definition of “NOW Recipient,” which is currently defined as “any Market Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to NOW Orders routed from the System. The Exchange shall designate from time to time those Market Centers that qualify as NOW Recipients and shall periodically publish such information via its website.” The Exchange proposes four non-substantive differences for the Pillar options trading definition of “Away Market”: (1) use the Pillar term of “Away Market” instead of the term “NOW Recipient;” (2) use the term “Trading Center” instead of “Market Center”; (3) refer to “orders routed from the Exchange” instead of “NOW Orders routed

- “Away Market BBO” or “ABBO”: The Exchange proposes to adopt the defined term “Away Market BBO” or “ABBO,” which would refer to the best bid(s) or offer(s) disseminated by Away Markets and calculated by the Exchange based on market information the Exchange receives from OPRA. Consistent with this proposal, the Exchange also proposes that the term “ABB” would mean the best Away Market bid and the term “ABO” would mean the best Away Market offer. This proposed definition is identical to how this term is defined in NYSE Arca Rule 1.1.

In addition, also consistent with NYSE Arca Rule 1.1, the Exchange proposes that it would adjust its calculation of the ABBO for options traded on the Exchange in the same manner that the Exchange would calculate the NBBO (as described herein). Accordingly, the Exchange proposes that, unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange.<sup>13</sup>

- Consolidated Book. The Exchange proposes to modify the defined term

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from the System”; and (4) delete the text relating to the Exchange designating and publishing to its website certain Away Markets. The Exchange does not believe that this text needs to be included in the definition of Away Market because such markets are by definition those with which the Exchange maintains electronic linkage (i.e., pursuant to the Options Order Protection and Locked/Crossed Market Plan). The Exchange will file a separate rule filing to remove the definition of “NOW Recipient” after it transitions to Pillar.

<sup>13</sup> Although the Exchange has not presently identified any circumstances under which it would use an unadjusted ABBO, it has included the “[u]nless otherwise specified” text to allow for this possibility once the Exchange migrates to the Pillar trading platform. Should the Exchange opt to utilize an unadjusted ABBO for purposes of a specified rule, it would file a subsequent rule change to this effect.



“Consolidated Book” to include references to new Rule 964NYP. Rule 900.2NY defines “Consolidated Book” as “the Exchange’s electronic book of orders and quotes” and further provides that “all orders and quotes that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 964NY.” The Exchange proposes to add to the end of this definition the phrase “or Rule 964NYP, as applicable.” This proposed change would add transparency and internal consistency to Exchange rules.

- Customer and Professional Customer. The Exchange proposes to modify the defined term “Professional Customer,” which is defined as an “individual or organization that (i) is not a Broker/Dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).” This definition further provides that a Professional Customer will be treated in the same manner as a non-Customer for purposes of enumerated rules of the Exchange, including current Rule 964NY (regarding priority and allocation) and certain provisions of Rule 964.2NY (regarding guaranteed participation of Specialists). To address the addition of proposed Rule 964NYP, which would incorporate the provisions of Rule 964.2NY, the Exchange proposes to add to the list of applicable rules references “Rule 964NYP (Order Ranking, Display, and Allocation), 964NYP(h)(2)(A) and (B) (Specialist Pool Guaranteed Participation). The Exchange also proposes to add reference to Rule 980NYP (Electronic Complex Order Trading), which new rule will address Complex Order trading on Pillar and will be filed separately.<sup>14</sup> This proposed

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<sup>14</sup> See supra notes 8 and 11.

change would add transparency and internal consistency to Exchange rules.

- Directed Order Market Maker or DOMM. The Exchange proposes to modify the defined term “Directed Order Market Maker,” which refers to a Market Maker that receives a Directed Order, to include reference to the shorthand “DOMM.” This proposed change would add transparency and internal consistency to Exchange rules.
- Market Participant Identifier or MPID: The Exchange proposes to adopt the defined term of “Market Participant Identifier” or “MPID”, which would refer to the identifier assigned to the orders and quotes of a single ATP Holder for the execution and clearing of trades on the Exchange by that permit holder. The definition would further provide that an ATP Holder may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID. This proposed definition is substantively identical to how this term is defined in NYSE Arca Rule 1.1.
- NBBO. The Exchange proposes to modify the defined term “NBBO,” which refers to the national best bid (NBB) or national best offer (NBO), to specify that, unless otherwise specified, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. This proposed text reflects how the Exchange currently calculates the NBBO for options trading and is substantively identical to how Arca Options describes its calculation of the NBBO per NYSE Arca Rule 1.1. The Exchange believes that adding this detail to the proposed definition of NBBO would promote clarity and

transparency in Exchange rules and across its affiliated options exchanges. The Exchange further notes that there are limited circumstances when the Exchange would not adjust its calculation of the NBBO and will specify in its rules when it would not be using an adjusted NBBO for purposes of a specific rule.

Proposed Rule 964NYP: Order Ranking, Display, and Allocation

Rule 964NY, titled “Display, Priority and Order Allocation - Trading Systems,” governs order ranking, display and allocation for the current Exchange options trading system. Proposed Rule 964NYP would address order ranking, display, and allocation for options trading on Pillar. The Exchange proposes that the title for new Rule 964NYP would be “Order Ranking, Display and Allocation” instead of “Display, Priority and Order Allocation - Trading Systems,” because the Exchange does not propose to use the Trading Systems, which term is not defined in current Exchange rules, in connection with Pillar.

Current Rule 964NY sets forth the priority for the allocation of incoming orders to resting interest (orders or quotes) at a particular price in the Exchange System.<sup>15</sup> Specifically, per Rule 964NY, the priority for the allocation of incoming orders at the same price is as follows: (1) resting Customer orders; (2) Directed Order Market Makers (or DOMMs), provided they satisfy the criteria to be eligible to receive a Directed Order;<sup>16</sup> (3) the Specialist Pool (including for

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<sup>15</sup> See Rule 964NY(b) and (c) (regarding priority, allocation and execution of incoming interest (and the balance thereof) against orders and quotes resting in the Consolidated Book. The Consolidated Book is the Exchange’s electronic book of orders and quotes. See Rule 900.2NY.

<sup>16</sup> Rule 900.2NY defines a Directed Order Market Maker as a Market Maker that receives a Directed Order. See Rule 964.1NY (Directed Orders) (providing that “Specialists and Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of this Rule 964.1NY” and describing the potential allocation of Directed Orders, as well as the DOMM’s heightened quoting requirements).

Directed Orders if not allocated to the DOMM);<sup>17</sup> and (4) non-Customer interest (on a size pro rata basis).<sup>18</sup> Under the current Rule, a DOMM or the Specialist Pool may be entitled to guaranteed participation with an incoming order for up to 40% of that order, provided, among other requirements, the DOMM or the Specialist Pool is quoting at the NBBO and the execution price is at the NBBO.<sup>19</sup> If the DOMM qualifies for the participation guarantee with an incoming Directed Order, the Specialist Pool is not entitled to guaranteed participation.<sup>20</sup> Whether the DOMM or Specialist Pool receives the participation guarantee, that participant(s) is entitled to the greater of 40% of the incoming order or their size pro rata share, which allocation is not to exceed each participants disseminated size.<sup>21</sup>

On Pillar, orders and quotes will be ranked and maintained in the same way that such interest is ranked and maintained on the Exchange System, including participation guarantees to DOMMs or the Specialist Pool, with one difference. Today, same-priced displayed orders and quotes are be ranked ahead of same-priced non-displayed orders and quotes, with displayed

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<sup>17</sup> Rule 900.2NY defines the Specialist Pool as the aggregated size of the best bid and best offer, in a given series, amongst the Specialist and e-Specialists that match in price; and defines a “Specialist” as an individual or entity deemed qualified by the Exchange to make transactions in accordance with Rule 920NY and meets the requirements of Rule 927NY(b). Each Specialist must be registered with the Exchange as a Market Maker, and any ATP Holder so registered is eligible to be qualified as a Specialist. Per Rule 927.4NY, the Exchange may designate one or more e-Specialists per options class to fulfill certain Specialist’s obligations.

<sup>18</sup> See Rule 964NY(b)(3) (setting forth size pro rata formula and application).

<sup>19</sup> See Rule 964NY(b)(2)(B) and (C). See Rule 964.1NY(i), (ii) (Directed Orders) and Rule 964.2NY (Participation Entitlement of Specialists and e-Specialists).

<sup>20</sup> See Rule 964NY(b)(2)(B); Rule 964.2NY(b)(4).

<sup>21</sup> See Rule 964NY(b)(2)(B)(iii) and (C)(iii). The Primary Specialist may be afforded additional weighting in the Specialist Pool. See Rule 964.2NY(a) and (b)(3) (regarding criteria considered in the selection of the Primary Specialist and its entitlement to additional weighting, respectively).

Customer orders afforded first priority to trade ahead of same-priced non-Customer interest and, non-displayed interest, orders and quotes are ranked in time priority with no priority afforded to Customer interest.

On Pillar, because the Exchange is adopting the same priority categories as are utilized by Arca Options, i.e., Priority 1 - Market Order, Priority 2 - Displayed Orders and Priority 3 - Non-displayed Orders (the “Pillar Priority categories”), Customer orders in each priority category will have first priority to trade ahead of same-priced non-Customer interest in that priority category.<sup>22</sup> For example, same-priced interest ranked Priority 1 - Market Orders will afford Customer orders at a price first priority, followed by same-priced non-Customer interest. And the same concept holds true for each of the Priority 2 and Priority 3 interest. The Exchange believes that the proposed new rule is consistent with the Exchange Customer-centric allocation model and affords Customers priority at a price regardless of order type utilized. As discussed in detail below, the proposed rule also provides transparency with respect to how the Exchange’s Customer priority and pro rata allocation model would operate through the use of new terminology applicable to all orders and quotes on the Pillar trading platform.

Proposed Rule 964NYP(a) would set forth definitions for purposes of all “Options Trading” on the Pillar trading platform. The proposed definitions are identical to definitions utilized on Arca Options to describe order ranking and display.<sup>23</sup> The Exchange believes that these proposed definitions would provide transparency regarding how the Exchange would operate its options platform on Pillar and serve as the foundation for how orders/quotes and modifiers would be described for options trading on Pillar.<sup>24</sup> In addition, the Exchange believes

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<sup>22</sup> See Arca Options Rule 6.76P-O(e).

<sup>23</sup> See Arca Options Rule 6.76P-O(a)(1)-(5).

<sup>24</sup> The Exchange will file a separate rule change to adopt proposed Rule 900.3NYP that will

that while the proposed Rule uses Pillar terminology that is identical to terminology used in Arca Options Rule 6.76P-O, the definitions that are described in these proposed rules do not differ in substance from the operation of current Rule 964NY relating to options trading.

Proposed Rule 964NYP(a)(1) would define the term “display price” to mean the price at which an order or quote ranked “Priority 2 - Display Orders”<sup>25</sup> or Market Order is displayed, which price may be different from the limit price or working price of the order (i.e., if it is a non-routable Limit Order). This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(1)., but the Exchange notes that, like on Arca Options, Market Orders are included as interest that may have a display price (for example, consistent with current functionality, a Market Order could be displayed at its Trading Collar).<sup>26</sup>

- Proposed Rule 964NYP(a)(2) would define the term “limit price” to mean the highest (lowest) specified price at which a Limit Order or quote to buy (sell) is eligible to trade. The limit price is designated by the order sender. As noted in the proposed definitions of display price and working price, the limit price designated by the order sender may differ from the price at which the order/quote would be displayed or eligible to trade. This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(2).

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describe orders and modifiers available to Exchange market participants on the Pillar trading platform (the “Pillar Order Type Filing”). Similar to Arca Options Rule 6.62P-O, relating to orders and modifiers, proposed Rule 900.3NYP would specify whether an order or quote would be displayable, i.e., ranked Priority 2 Display Orders, or non-displayable, i.e., ranked Priority 3 - Non-Display Orders, and would set forth modifier instructions available for each order type (e.g., DAY, GTC, IOC, etc.).

<sup>25</sup> The term “Priority 2 - Display Orders” is described in more detail below.

<sup>26</sup> Current Trading Collar functionality is set forth in Rule 967NY(a), as noted herein the Pillar Order Type Filing will separately adopt new Rule 900.3NYP, which will describe how Trading Collars would be applied (including to Market Orders) on Pillar.

- Proposed Rule 964NYP(a)(3) would define the term “working price” to mean the price at which an order or quote is eligible to trade at any given time, which may be different from the limit price or display price of an order. This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(3). The Exchange believes that the term “working price” would provide clarity regarding the price at which an order/quote may be executed at any given time. Specifically, the Exchange believes that use of the term “working” denotes that this is a price that is subject to change, depending on the circumstances. The Exchange will be using this term in connection with orders/quotes and modifiers available on Pillar, which (as noted herein) will be the subject of a separate rule filing.<sup>27</sup>
- Proposed Rule 964NYP(a)(4) would define the term “working time” to mean the effective time sequence assigned to an order or quote for purposes of determining its priority ranking. The Exchange proposes to use the term “working time” in its rules for trading on the Pillar trading platform instead of terms such as “time sequence” or “time priority,” which are used in rules governing options trading on the Exchange’s current system. The Exchange believes that use of the term “working” denotes that this is a time assigned to an order/quote for purposes of ranking and is subject to change, depending on circumstances. This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(a)(4).
- Proposed Rule 964NYP(a)(5) would define an “Aggressing Order” or

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<sup>27</sup> See supra note 24 regarding Pillar Order Type Filing.

“Aggressing Quote” to mean a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. The proposed terms would therefore refer to orders or quotes that are marketable against other orders or quotes on the Consolidated Book. These terms would be applicable to incoming orders or quotes, orders that have returned unexecuted after routing, or resting orders or quotes that become marketable due to one or more events. For the most part, resting orders or quotes will have already traded with contra-side interest against which they are marketable.

To maximize the potential for orders or quotes to trade, the Exchange continually evaluates whether resting interest may become marketable. Events that could trigger a resting order to become marketable include updates to the working price of such order or quote, updates to the NBBO, changes to other interest resting on the Consolidated Book, or processing of inbound messages. To address such circumstances, the Exchange proposes to include in proposed Rule 964NYP(a)(5) that a resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, if the NBBO is updated, because of changes to other orders or quotes on the Consolidated Book, or when processing inbound messages.

This proposed definition uses Pillar terminology and is identical to Arca Options Rule 6.76-O(a)(5). The Exchange believes that these proposed definitions would promote transparency in Exchange rules by providing detail regarding circumstances when a resting order or quote may become marketable, and thus would be an Aggressing Order or Aggressing Quote.



Under current Rule 964NY(a), the Exchange System displays all non-marketable limit orders in the Display Order Process, unless indicated otherwise.<sup>28</sup> Proposed Rule 964NYP(b) would govern the display of non-marketable Limit Orders and quotes. As proposed, the Exchange would display “all non-marketable Limit Orders and quotes ranked Priority 2 –Display Orders unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed,” which functionality is the same as that set forth in the first sentence of Rule 964NYP(b), except that the proposed rule includes reference to quotes, uses Pillar Priority categories to describe the same functionality, and does not include reference to the Display Order Process. Proposed Rule 964NYP(b) is substantively identical to Arca Options Rule 6.76P-O(b).

Proposed Rule 964NYP(b)(1) is substantially identical to the second sentence of current Rule 964NY(a), and mirroring that text, the proposed rule would provide that the Exchange would “disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the

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<sup>28</sup> The Exchange notes that current Rule 964NY(a) refers to the display of non-marketable limit orders “in the Display Order Process,” but that concept is not defined nor referenced elsewhere in Rule 964NY and is not being utilized in proposed Rule 964NYP. As indicated below, Rules 964NY(b)(2)(E) and (c)(2)(D) refer to orders in the “Working Order File,” but (as with the Display Order Process) that concept is not defined nor referenced elsewhere in current Rule 964NY. With regard to the Working Order Process, it appears that detail regarding this concept was deleted at some point because this concept is described in the Commission’s order approving options listing and trading rules on American Stock Exchange LLC (“Amex”) -- the Exchange’s predecessor exchange.. See, e.g., Securities Exchange Act No. No. 59472 (February 27, 2009), 74 FR 9843, at 9845- 9846 (SR-NYSEALTR-2008-14) (approving, among other rules, Rule 964NY(b)(2)(E), which provides that the Working Order Process ranks/prioritizes Reserve Orders, AON Orders, Stop/ Stop Limit Orders, and Stock Contingency Orders).The Exchange believes that these undefined (obsolete) concepts are of no import and reference to them in current Rule 964NY is likely the result of an oversight. As such, the Exchange does not propose to include the concepts of the “Display Order Process” or “Working Order File” in proposed Rule 964NYP, which exclusion would add clarity, transparency and internal consistency to Exchange rules.

Exchange and other Trading Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.”<sup>29</sup> Proposed Rule 964NYP(b)(2) is identical to Arca Options Rule 6.76P-O(b)(2).

Finally, proposed Rule 964NYP(b)(2) would provide that if “an Away Market locks or crosses the Exchange BBO, the Exchange will not change the display price of any Limit Orders or quotes ranked Priority 2 - Display Orders and any such orders will be eligible to be displayed as the Exchange’s BBO.” This proposed rule describes Pillar functionality, which is the same as current functionality. The Exchange believes that including this text in the proposed rules would promote clarity and granularity because this proposed concept, which is identical to Arca Options Rule 6.76P-O(b)(3), makes clear that resting displayed interest that did not cause a locked or crossed market condition can stand its ground and maintain priority at the price at which it was originally displayed.

Proposed Rule 964NYP(c) would describe the Exchange’s general process for ranking orders and quotes. Current Rule 964NY(b) describes Customer Priority, i.e., Customer orders get first priority at a price, followed (in second priority) by any guaranteed participation of either a DOMM or the Specialist Pool (as described further below), next (and third priority) is any non-Customer interest, which may be allocated pro rata (as described in proposed Rule 964NYP(i) below); and finally, to orders “in the Working Order File, if eligible for execution,” except that such orders “do not have any priority or standing until they are eligible for execution and/or

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<sup>29</sup> The second sentence of current Rule 964NY(a) states, “[t]he System also will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Market Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.” The Exchange proposes a difference to use the term “Trading Centers” instead of “Market Centers.”

display.”<sup>30</sup>

As proposed, Rule 964NYP(c), which is identical to Arca Options Rule 6.76-O(c), would provide that all non-marketable orders and quotes would be ranked and maintained in the Consolidated Book according to price-time priority in the following manner: (1) price; (2) priority category; (3) time; and (4) ranking restrictions applicable to an order/quote or modifier condition. Accordingly, orders and quotes would be first ranked by price. Next, at each price level, orders and quotes would be assigned a Pillar Priority category and, within each priority category, interest would be ranked by time. The general requirements for ranking per proposed Rule 964NYP(c) are applicable to all orders and quotes, unless an order or quote or modifier has a specified exception to this ranking methodology (per proposed paragraph (g) as described below).

Proposed Rule 964NYP(d), which is identical to Arca Options Rule 6.76-O(d), would describe how orders and quotes would be ranked based on price, which additional detail would provide transparency regarding the Exchange’s price-ranking process. Specifically, as proposed, all orders and quotes would be ranked based on the working price of an order or quote. Orders and quotes to buy would be ranked from highest working price to lowest working price and orders and quotes to sell would be ranked from lowest working price to highest working price. The proposed rule would further provide that if the working price of an order or quote changes, the price priority of an order or quote would change. This proposed pricing priority is current functionality (not included in the rule), but the new rule would add detail regarding the concept of “working price” and its impact on priority and would use Pillar terminology.

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<sup>30</sup> See note 28, *supra* (regarding reference to undefined concept of a “Working Order File,” which concept the Exchange does not plan to include in proposed Rule 964NYP).

Proposed Rule 964NYP(e) would describe the proposed Pillar Priority categories for ranking purposes, which added detail and terminology would be new for the Exchange. As proposed, at each price, all orders and quotes would be assigned a priority category and, within each priority category would be ranked pursuant to Customer Priority (per proposed Rule 964NYP(a)(6)). If, at a price, there are no remaining orders or quotes in a priority category, then same-priced interest in the next category would have priority. Proposed Rule 964NYP(e) is based on Arca Options Rule 6.76P-O(e), except that the Exchange's rule specifies its distinct Customer priority model, which affords Customer orders in each Pillar Priority Category first priority at a price (over same-price non-Customer interest), which differs from the price-time model on Arca Options.

The proposed Pillar Priority categories would be:

- Proposed Rule 964NYP(e)(1) would specify "Priority 1 – Market Orders," which provides that unexecuted Market Orders would have priority over all other same-side orders with the same working price. For example, a Market Order subject to a Trading Collar would be displayed on the Consolidated Book. In such circumstances, the displayed Market Order would have priority over all other resting orders at that price. Under current options trading functionality, Market Orders have priority over all other same-side orders with the same working price. The proposed level of detail and Pillar Priority categorization is identical to Arca Options Rule 6.76P-O(e)(1) and the Exchange believes that the proposed rule change would add transparency and specificity to Exchange rules without changing functionality.
- Proposed Rule 964NYP(e)(2) would specify "Priority 2 – Display Orders." As

proposed, non-marketable Limit Orders or quotes with a displayed working price would have second priority, which treatment of displayed orders and quotes is consistent with current functionality. For an order or quote that has a display price that differs from the working price of the order or quote, the order or quote would be ranked Priority 3 - Non-Display Orders at the working price.<sup>31</sup> This aspect of the proposed rule is consistent with current functionality. The proposed level of detail and priority categorization would be new for options trading and the Exchange believes that it would add transparency and specificity to Exchange rules. The proposed level of detail and use of Pillar Priority categorization is identical to Arca Options Rule 6.76P-O(e)(2) and the Exchange believes that the proposed rule change would add transparency and specificity to Exchange rules without changing functionality.

- Proposed Rule 964NYP (e)(3) would specify “Priority 3 – Non-Display Orders.” As proposed, non-marketable Limit Orders or quotes for which the working price is not displayed would have third priority. This proposed rule is consistent with current functionality as described in current Rule 964NY(b)(2)(E), which affords last priority to orders that are not displayed (except, as noted herein, non-Displayed Customer orders are ranked ahead of non-Customer orders in this category). The proposed level of detail and Pillar priority categorization is identical to Arca Options Rule 6.76P-O(e)(2) and the Exchange believes that it would add transparency and specificity to Exchange rules.

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<sup>31</sup> See supra note 24 regarding the Pillar Order Type Filing, which will include a description of Non-Routable Limit Orders, which order type will function in substantially the same manner as set forth in Arca Options Rule 6.62P-O(e)(1).

Proposed Rule 964NYP(f) would set forth that at each price level within each priority category, orders and quotes would be ranked based on time priority. This proposed rule is identical to Arca Options Rule 6.76P-O(f). The proposed changes set forth below are consistent with current functionality and would add detail not included in existing Rule 964NY.

- Proposed Rule 964NYP(f)(1) would provide that an order or quote would be assigned a working time when it is first added to the Consolidated Book based on the time such order or quote is received by the Exchange. This proposed process of assigning a working time to orders is current functionality, although not specified in current Rule 964NY. This proposed rule uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(f)(1). To provide transparency in Exchange rules, the Exchange further proposes to include in proposed Rule 964NYP(f)(1) how the working time would be determined for orders that are routed, which is consistent with current options trading functionality. As proposed:
  - Proposed Rule 964NYP(f)(1)(A) would specify that an order that is fully routed to an Away Market on arrival, per proposed Rule 964NYP(k)(1) (described below), would not be assigned a working time unless and until any unexecuted portion of the order returns to the Consolidated Book. The Exchange notes that this is the current process for assigning a working time to an order, although not described in current Rule 964NY. This proposed rule is also consistent with current Rule 964NY(c)(2)(E)(ii), which provides that when an order or portion of an order has been routed away and is not executed either in whole or in part at the other Market

Center, it will be ranked and displayed in the Consolidated Book in accordance with the terms of the order.

- Proposed Rule 964NYP(f)(1)(B) would specify that for an order that, on arrival, is partially routed to an Away Market, the portion that is not routed would be assigned a working time. If any unexecuted portion of the order returns to the Consolidated Book and joins any remaining resting portion of the original order, the returned portion of the order would be assigned the same working time as the resting portion of the order. If the resting portion of the original order has already executed and any unexecuted portion of the order returns to the Consolidated Book, the returned portion of the order would be assigned a new working time. This process for assigning a working time to routed orders that return to the Exchange is the same as currently used on the Exchange.<sup>32</sup> This proposed rule uses Pillar terminology and is identical to Arca Options Rule 6.76P-O(f)(1)(B).
- Proposed Rule 964NYP(f)(2) would provide that an order or quote would be assigned a new working time if: (A) the display price of an order or quote changes, even if the working price does not change, or (B) the working price of an order or quote changes, unless the working price is adjusted to be the same as the display price of an order or quote. This proposed text would be new and the

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See, e.g., Rule 964NY(c)(2)(E)(ii) (providing that when an order that was routed away and is not fully executed, upon its return such order will be “will not have time standing relative to other orders received at the same price” while it was routed away and outside the Exchange).

Exchange believes that adjusting the working time any time the display price of an order or quote changes, would respect the priority of orders/quotes that were previously displayed at the price to which the display price is changing. In addition, the Exchange believes it is appropriate to adjust the working time of an order or quote any time its working price changes, unless the display price does not change. In addition to being identical to Arca Options Rule 6.76P-O(f)(2), this proposed order handling in Exchange rules is consistent with the rules of other options exchanges.<sup>33</sup>

- Proposed Rule 964NYP(f)(3), which is identical to Arca Options Rule 6.76P-O(f)(3), would provide that an order or quote would be assigned a new working time if the size of an order or quote increases and that an order or quote retains its working time if the size of the order or quote is decreased. This proposed detail about the process for assigning (or not) a new working time when the size of an order changes is not currently described in the current Rule 964NY and is consistent with existing functionality for how orders (but not quotes) are processed on the Exchange System and would use Pillar terminology.<sup>34</sup>

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<sup>33</sup> See, e.g., Cboe BZX (“BZX”) Rule 11.9(g)(1)(B) (providing that, for orders subject to “display price sliding,” BZX “will re-rank an order at the same price as the displayed price in the event such order’s displayed price is locked or crossed by a Protected Quotation of an external market” and that “[s]uch event will not result in a change in priority for the order at its displayed price”).

<sup>34</sup> Currently, on the Exchange System, if the size of a quote is reduced, the Exchange processes the reduced quantity as a new quote that is assigned a new effective time sequence. By contrast, orders reduced in size are not assigned a new working time by the Exchange System. The Exchange proposes that, on Pillar, both quotes and orders reduced in size would not receive a new working time. The proposed provision would provide for consistent handling of orders and quotes when the size of such interest is reduced.



Proposed Rule 964NYP(g), which identical to Arca Options Rule 6.76P-O(g), would specify that the Exchange would apply ranking restrictions applicable to specific order, quote or modifier instructions as provided for in Rule 900.3NYP.<sup>35</sup>

Proposed Rule 964NYP(h), “Allocation of Resting Interest: Participation Entitlements and Pro Rata Pool,” describes the Exchange’s participation entitlements and participants constituting the Size Pro Rata Pool. Unless otherwise specified, proposed Rule 964NYP(h) reflects current functionality for allocating non-Customer interest, including participation guarantees, and the “Size Pro Rata Pool” as set forth in Rule 964NY(b)(2)(B)(C) and (D) as well as Rules 964.1NY and 964.2NY.<sup>36</sup>

Proposed Rule 964NYP(h)(1) is consistent with current functionality (with one new feature described below) and would provide that when the execution price is the NBBO, a DOMM may be entitled to guaranteed participation for its quote(s) to be matched against the balance of a Directed Order (the “DOMM Guarantee”).<sup>37</sup> Such DOMM Guarantee would be 40% of the Directed Order, unless otherwise determined by the Exchange and announced by Trader Update, which is current functionality.<sup>38</sup> If the DOMM does not qualify to receive the DOMM Guarantee, the bids and offers of that DOMM will be included in the “Size Pro Rata

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<sup>35</sup> As discussed, supra note 24, the Exchange will file a separate Pillar Order Type Filing. On Pillar, and consistent with Arca Options Rule 6.62P-O (Orders and Modifiers), the Exchange proposes that new Rule 900.3NYP (Order Types and Modifiers) would similarly maintain much of the basic order type functionality while adding detail regarding which Pillar Priority category of each order type as well as additional detail about each such order type would be handled on Pillar.

<sup>36</sup> As noted supra note 10, the Exchange notes that much of the text contained in current Rules 964.1NY and 964.2NY is repetitive of information in current Rule 964NY. As such, the Exchange proposes to streamline proposed Rule 964NYP so as to include in this single rule the salient information related to the participation guarantees.

<sup>37</sup> See Rule 964NY(b)(2)(B)(i).

<sup>38</sup> See Rule 964NY(b)(2)(B)(ii).

Pool” (as described below in proposed Rule 964NYP(h)(3)).<sup>39</sup> The proposed rule would further provide that, in the absence of a DOMM Guarantee, the Specialist Pool (which takes priority behind the DOMM) may be entitled to a guaranteed allocation (as described below in proposed paragraph (h)(2)), which is current functionality.<sup>40</sup>

- Proposed Rule 964NYP(h)(1)(A) is the same as current functionality and would provide that a DOMM will be allocated a number of contracts equal to the greater of the DOMM Guarantee or their “size pro rata” allocation as provided in this Rule 964NYP(i) (described below), but in either case, no greater than the DOMM’s disseminated size.<sup>41</sup>
  - Proposed Rule 964NYP(h)(1)(A)(i) would provide that if the result of applying the DOMM Guarantee is a fractional allocation of contracts, the DOMM Guarantee would be rounded down to the nearest contract. Further this proposed Rule would provide that if the result of applying the DOMM Guarantee results in less than one contract, the DOMM Guarantee will be equal to one contract. The Exchange believes that including this additional detail (which is based on current functionality) in the proposed rule would add transparency to Exchange rules. This methodology is also consistent with Arca Options Rule 6.76AP-O(a)(1)(C) regarding the analogous Lead Market Maker participation guarantee.<sup>42</sup>

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<sup>39</sup> See Rule 964NY(b)(2)(B)(i); Rule 964.1NY(i).

<sup>40</sup> See Rule 964NY(b)(2)(C).

<sup>41</sup> See Rule 964NY(b)(2)(B)(iii).

<sup>42</sup> See Arca Options Rule 6.76A-OP(a)(1)(C) (providing that, “[i]f the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee is rounded down to the nearest contract. If the result of applying the LMM Guarantee results in less

- Proposed Rule 964NYP(h)(1)(A)(ii) would provide that if a DOMM has more than one eligible quote, each quote will receive a pro rata share of the DOMM Guarantee, which text would add granularity and transparency to Exchange rules. This text would be new and reflects that on Pillar, the Exchange would permit multiple quotes from the same DOMM at the same price and that each eligible quote would be entitled to a pro rata share of the DOMM Guarantee consistent with the Exchange’s allocation model.<sup>43</sup>
- Proposed Rule 964NYP(h)(1)(B) would provide for all Directed Orders of five (5) contracts or fewer, if the DOMM is also the Primary Specialist (as determined per Rule 964.2NYP(b)), such DOMM will be allocated the balance of the Directed Order up to the DOMM’s disseminated size or, if the DOMM has more than one eligible quote, each quote will receive a pro rata share. This proposed functionality would be new but is consistent with the guaranteed participation entitlement afforded to Primary Specialists in the Specialist Pool.<sup>44</sup> As such, the Exchange believes this proposed

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than one contract, the LMM Guarantee will be equal to one contract.”).

<sup>43</sup> See Rule 925.1N (a)(1) (providing that a Market Maker’s same-side quote will update its previously displayed quote). The ability for Market Makers to send multiple quotes will be new functionality under Pillar and addressed in a separate rule filing. Similar to Arca Options, the Exchange plans to file a separate rule filing to address the handling of Market Maker Quotations on the Exchange, including that such Market Makers can have more than one quote in a series on Pillar. See, e.g., Arca Options Rule 6.37AP-O(a)(1).

<sup>44</sup> See Rule 964NY(b)(2)(C) (providing that “[f]or all orders of five (5) contracts or fewer, the Primary Specialist will be allocated the balance after any allocation to Customers, not to exceed the size of their quote, provided the Primary Specialist is quoting at the NBBO, and the order was not originally allocated to a Directed Order Market Maker.”). See also Rule 964.2NY(b)(3)(B) (same).

functionality would add internal consistency to Exchange rules.

- Proposed Rule 964NYP(h)(2) is the same as current functionality and would provide that when the execution price is the NBBO participants in the Specialist Pool may be entitled to guaranteed participation of its quote(s) to be matched against the balance of an Aggressing Order or Aggressing Quote (the “Specialist Pool Guarantee”).<sup>45</sup> Such Specialist Pool Guarantee would be 40% of the balance of an Aggressing Order or Aggressing Quote, unless otherwise determined by the Exchange and announced by Trader Update.<sup>46</sup> However, the Specialist Pool will not receive a guaranteed allocation if a DOMM has received a guaranteed allocation.<sup>47</sup> Further, if a DOMM has received a guaranteed allocation, the bids and offers of the Specialist Pool will be included in the “Size Pro Rata Pool” as described in proposed Rule 964NYP(h)(3) below.<sup>48</sup> Conversely, in the absence of a DOMM Guarantee, the Specialist Pool (which takes priority behind the DOMM) may be entitled to the Specialist Pool Guarantee as described below.<sup>49</sup>
- Proposed Rule 964NYP(h)(2)(A) is the same as current functionality and would provide that the Specialist Pool would be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee or their “size pro rata”

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<sup>45</sup> See Rule 964NY(b)(2)(C); Rule 964.2NY(b)(2).

<sup>46</sup> See Rule 964NY(b)(2)(C)(ii); Rule 964.2NY(b)(2).

<sup>47</sup> See Rule 964NY(b)(2)(C); Rule 964.2NY(b)(4).

<sup>48</sup> See Rule 964NY(b)(2)(C).

<sup>49</sup> See Rule 964NY(b)(2)(C).

allocation as provided in proposed Rule 964NYP(i), but in either case, no greater than the Specialist's Pool disseminated size.<sup>50</sup>

- Proposed Rule 964NYP(h)(2)(A)(i) would provide that if the result of applying the Specialist Pool Guarantee is a fractional allocation of contracts, the Specialist Pool Guarantee is rounded down to the nearest contract. Further this proposed Rule would provide that if the result of applying the Specialist Pool Guarantee results in less than one contract, the Specialist Pool Guarantee would be equal to one contract. The Exchange believes that including this additional detail (which is based on current functionality) in the proposed rule would add transparency to Exchange rules. This methodology is also consistent with Arca Options Rule 6.76AP-O(a)(1)(C) regarding the analogous Lead Market Maker participation guarantee.<sup>51</sup>
- Proposed Rule 964NYP(h)(2)(A)(ii) is the same as current functionality and would provide that the size pro rata participation for the Primary Specialist (as determined per 964.2NYP(b)) in the Specialist Pool will receive additional weighting, as determined by the Exchange, and announced by Trader Update (the "Additional Weighting").<sup>52</sup>

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<sup>50</sup> See Rule 964.2NY(b)(1)(iv).

<sup>51</sup> See Arca Options Rule 6.76AP-O(a)(1)(C) (providing that, "[i]f the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee is rounded down to the nearest contract. If the result of applying the LMM Guarantee results in less than one contract, the LMM Guarantee will be equal to one contract.").

<sup>52</sup> See Rule 964.2NY(b)(3)(A). The Exchange notes that it is not proposing to include in the proposed rule the now obsolete caveat that "if all participants in the Specialist Pool are quoting the same size, this additional weighting will be no greater than 66 2/3% if there is only one e-Specialist, and no greater than 50% if there are two or more e-Specialists" as

- Proposed Rule 964NYP(h)(2)(A)(iii) is the same as current functionality and would provide that each Specialist or e-Specialist in the Specialist Pool will be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee or their “size pro rata” allocation as provided in Rule 964NYP(i), but in either case, no greater than the Specialist’s disseminated size.<sup>53</sup>
  - Proposed Rule 964NYP(h)(2)(A)(iii)(a) is the same as current functionality and would provide that if there is only one Specialist or e-Specialist in Specialist Pool, that Specialist or e-Specialist would be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee (i.e., the entire 40%) or their “size pro rata” allocation as provided in proposed Rule 964NYP(i), no greater than the size of their disseminated size.<sup>54</sup>
- Proposed Rule 964NYP(h)(2)(A)(iv) would provide that if a Specialist has more than one eligible quote in the Specialist Pool, each such quote will receive a pro rata share of the Specialist Pool Guarantee, no greater than the size of their disseminated size. This would be new text to address the fact that (as noted above), on Pillar, Specialists will have the ability to submit more than one quote in a series at the same time.<sup>55</sup>

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the Exchange does not currently impose these limits nor does it plan to do so on Pillar.

<sup>53</sup> See Rule 964.2NY(b)(1)(ii).

<sup>54</sup> See Rule 964.2NY(b)(2).

<sup>55</sup> See supra note 43 (regarding Pillar functionality that allows Market Makers to enter more than one quote in the same series, which would update current functionality that limits Specialists (including the Primary Specialist) to sending a single quote in their assigned

- Proposed Rule 964NYP(h)(2)(A)(iv)(a) is new text and would provide that if the Primary Specialist has more than one eligible quote, each quote will receive Additional Weighting on its pro rata share of the Specialist Pool Guarantee. This would be new text to address the fact that (as noted above), on Pillar, Specialists will have the ability to submit more than one quote in a series at the same time<sup>56</sup> and, consistent with current functionality the Primary Specialist is entitled to Additional Weighting.<sup>57</sup>
- Proposed Rule 964NYP(h)(2)(B) is the same as current functionality but uses Pillar terminology and would provide that for all Aggressing Orders or Aggressing Quotes of five (5) contracts or fewer, the Primary Specialist (as determined per Rule 964.2NYP(b)) would be allocated the balance of the Aggressing Order or Aggressing Quote, not to exceed the Primary Specialist’s disseminated size, or, if the Primary Specialist has more than one eligible quote, each quote will receive a pro rata share.<sup>58</sup> The Exchange also proposes to add Commentary .01 to the proposed rule (which is substantively identical to Commentary .01 of current Rule 964NY) to make clear that on a quarterly basis, the Exchange would evaluate what percentage of the volume executed on the Exchange comprised of orders of five (5) contracts or fewer that was allocated to

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series using a single unique identifier).

<sup>56</sup> See id.

<sup>57</sup> See infra, discussion of proposed Rule 964NYP(h)(2)(A)(ii).

<sup>58</sup> See Rule 964NY(b)(2)(C)(iv). An “Aggressing Order” or “Aggressing Quote” refers to a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. See proposed Rule 964NYP(a)(5).

the Primary Specialist and would reduce the size of the orders included in this provision if such percentage is over 40%.<sup>59</sup>

Proposed Rule 964NYP(h)(3) is substantially the same as current Rule 964NY(b)(2)(D) and would describe interest that is included in the “Size Pro Rata Pool.” As proposed if there are multiple orders and quotes of non-Customers (including Professional Customers) that are displayed in the Consolidated Book at the same price, then such orders and quotes will be afforded priority on a “size pro rata” basis, and will comprise the “Size Pro Rata Pool.”<sup>60</sup>

Proposed Rule 964NYP(i) is the same as current functionality and would set forth the pro rata formula and example of its application to same-priced interest in the Size Pro Rata Pool.<sup>61</sup>

- Proposed Rule 964NYP(i)(1) would add a non-substantive change to add a heading for the “Size Pro Rata Formula and Example of Application,” which would add clarity and transparency to Exchange rules.
- Proposed Rule 964NYP(i)(2) is consistent with current functionality and would provide that the pro rata share allocated to each participant in the Size Pro Rata Pool will be rounded down to the nearest contract, if applicable and that any residual contracts to be filled after the size pro rata calculation has been completed will be allocated one contract per participant in the following

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<sup>59</sup> See proposed Rule 964NYP, Commentary .01, which will not include cross-reference that appears in the current rule Commentary .01 to Rule 964NY, because cross-reference was superfluous (and would be obsolete) and the Exchange opted to remove excess verbiage.

<sup>60</sup> See Rule 964NY(b)(2)(D).

<sup>61</sup> See Rule 964NY(b)(3)(A).



sequence:<sup>62</sup>

- Proposed Rule 964NYP(i)(2)(A) would provide that the participant in the Size Pro Rata Pool who has the largest remaining size (based on the pro rata calculation) will receive the first contract, and each successive contract (if any) will be allocated to each subsequent participant based on size (largest to smallest).<sup>63</sup>
- Proposed Rule 964NYP(i)(2)(A)(i) would provide that if there are two or more participants with the same remaining size, then the participant with the first time priority in the Size Pro Rata Pool will be allocated the next contract and then each successive contract (if any) will be allocated in the same manner.<sup>64</sup>

Proposed Rule 964NYP(j) would set forth how orders and quotes are matched for execution on Pillar. Proposed Rule 964NY(j) and its subparagraphs would set forth the Exchange’s order execution process. The Exchange proposes to use Pillar terminology of “Aggressing Order” and “Aggressing Quote” rather than “inbound order” because (as described above) the proposed terms allow for interest to be (or become) marketable even after arrival (i.e.,

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<sup>62</sup> See Rule 964NY(b)(3)(B). The Exchange proposes that rather than refer to the size pro rata share being “rounded down to a whole number” that such share be “rounded down to the nearest contract” as the latter formulation is more precise and would add clarity and transparency to Exchange rules. See proposed Rule 964NYP(i)(2).

<sup>63</sup> See Rule 964NY(b)(3)(B)(i). The Exchange proposes to replace reference to the participant with the “largest fractional amount” with reference to the “largest remaining size” as the Exchange believes this latter formulation is more accurate and would add clarity and transparency to Exchange rules. See proposed Rule 964NYP(i)(2)(A).

<sup>64</sup> See Rule 964NY(b)(3)(B)(ii). The Exchange proposes to replace reference to the participant with the “fractional amount and initial quotes size” with reference to the “same remaining size,” which reflects Pillar functionality and would add clarity and transparency to Exchange rules. See proposed Rule 964NYP(i)(2)(A)(i).

not limited to “inbound” interest).<sup>65</sup>

Current Rule 964NY(c) sets forth how orders and quotes are executed on the Exchange. Rule 964NY(c)(1) provides that an “an inbound order that is marketable will be immediately executed against bids and offers in the Consolidated Book, provided the execution price is at the NBBO.” Rule 964NY(c)(2)-(A)-(D) sets forth the sequence and manner in which an inbound order will be executed against interest resting in the Consolidated Book at a price -- first with displayed Customers; second per the DOMM Guarantee or Specialist Pool Guarantee, if applicable; third with non-Customer interest on a size pro rata basis; for to “orders in the Working File in the order of their ranking at the limit price.” The Exchange believes the proposed method of Order Execution on Pillar is substantially similar to the current execution scheme, with the difference being that, at a price, both Customer and non-Customer interest within each priority category executes until all interest in that Pillar Priority Category is exhausted before an Aggressing Order or Aggressing Quote then executes with same-priced interest in the next Pillar Priority Category.

Proposed Rule 964NYP(j) would specify that, at each price, an Aggressing Order or Aggressing Quote in an option series that is open for trading would be allocated against contra-side orders or quotes in the Consolidated Book as follows.

- First, to Customer orders ranked Priority 1 - Market Orders based on time (proposed Rule 964NYP(j)(1));
- Second, to non-Customer orders ranked Priority 1 - Market Orders on a size pro

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<sup>65</sup> An “Aggressing Order” or “Aggressing Quote” refers to a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. See proposed Rule 964NYP(a)(5). See Rule 964NY (c)(1)-(2) regarding the execution of an “inbound order”).

- rata basis pursuant to paragraph (i) of this Rule (proposed Rule 964NYP(j)(2));
- Third, to Customer orders ranked Priority 2 - Displayed Limit Orders based on time (proposed Rule 964NYP(j)(3));
  - Fourth, to interest ranked Priority 2 - Displayed Limit Orders that is eligible for the DOMM Guarantee or the Specialist Pool Guarantee, as applicable, pursuant to paragraph (h) of this Rule provided that the execution price is the NBBO; (proposed Rule 964NYP(j)(4));
  - Fifth, to non-Customer orders and quotes in the Pro Rata Pool ranked Priority 2 - Displayed Limit Orders on a size pro rata basis pursuant to paragraph (i) of this Rule (proposed Rule 964NYP(j)(5));
  - Sixth, to Customer orders ranked Priority 3 - Non-Displayed Orders based on time (proposed Rule 964NYP(j)(6)); and
  - Finally, to non-Customer orders and quotes ranked Priority 3 - Non-Display Orders based on time (proposed Rule 964NYP(j)(7)).

The proposed allocation set forth in proposed Rule 964NYP(j)(1) - (7) is consistent with the Exchange's current Customer priority and pro rata allocation model.<sup>66</sup>

However, unlike current functionality, proposed Rule 964NYP(j)(1)-(7) provides that "at a price" interest within each of the Pillar Priority Categories is exhausted (first Customer then non-Customer) before moving to same-priced interest in the next

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<sup>66</sup> See, e.g., Rule 964NY(c)(2)(A)-(E) providing that after executing first with displayed Customer interest, inbound orders will trade with interest based on DOMM or Specialist Pool guaranteed and then will be traded on a size pro rata basis, with resting non-Customer interest, with any remaining size of the inbound order being traded with "orders in the Working Order File," by ranking at the limit price.

Pillar Priority Category.<sup>67</sup> Under current Rule 964NY, Customer orders at a price are given first priority to trade and this can result in Customer Market Orders and Customer Limit Orders executing first at that price.<sup>68</sup> Proposed Rule 964NY(j) differs from current functionality in that, for example, at a price, both Customer and non-Customer Market Orders trade and then same-priced Customer Limit Orders trade. Further, at a price, non-displayed Customer orders will trade before same-priced non-Customer interest that is not displayed.

Proposed Rule 964NYP(k) would set forth the Exchange's routing process, which is addressed in current Rule 964NY(c)(2)(E) and provides that any unexecuted portion of an order that is eligible to route is routed to another Market Center.<sup>69</sup> Similarly, proposed Rule 964NYP(k) would provide that, absent an instruction not to route, the Exchange would route marketable orders to Away Market(s) after such orders are matched for execution with any contra-side interest in the Consolidated Book in accordance with proposed paragraph (j) of this Rule regarding Order Execution. In addition, the proposed rule would provide that while determining the venue(s) to which the order(s) would be routed, such order(s) may be held non-displayed at the contra-side ABBO and ranked in its respective priority category, per proposed

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<sup>67</sup> The Exchange notes that the concept of "Split-Price Executions" as set forth in current Rule 964NY(c)(3) is common practice in electronic trading, as orders, at a price, trade up and down the Book to the extent possible (or route). As such, the Exchange is not referring to this concept explicitly but believes it is consistent with proposed Rule 964NYP generally and, more specifically, with proposed paragraph (j).

<sup>68</sup> See, e.g., Rule 964NY(c)(2)(A) providing that an inbound order will be executed first against "all available displayed Customer interest in the Consolidated Book."

<sup>69</sup> Under the current rule, each eligible order is routed "as limit order equal to the price and up to the size of the quote published by the Market Center(s)" See Rule 964NY(c)(2)(E)(ii). In the proposed Pillar rule, the Exchange proposes to use the term "Away Market" instead of "Market Center."

Rule 964NYP(e), behind displayed interest at that price in that priority category. Proposed Rule 964NYP(k) is substantively the same as Arca Options Rule 6.76AP-O(b), except that it removes the word “any” and states that the impacted order would be ranked “behind displayed interest at that price in that priority category,” which difference is meant to refer to the Customer priority ranking within Pillar Priority Category.<sup>70</sup>

The proposed rule would then set forth additional details regarding routing that are consistent with current routing functionality, but are not described in current rules:

- Proposed Rule 964NYP(k)(1) would provide that an order that cannot meet the pricing parameters of proposed Rule 964NYP(j) (i.e., cannot trade with interest on the Consolidated Book) may be routed to Away Market(s) before being matched for execution against contra-side orders and quotes in the Consolidated Book. The Exchange believes that this proposed rule text, which is consistent with current functionality, provides transparency that an order may be routed before being matched for execution, for example, to prevent locking or crossing or trading through the NBBO. This rule uses Pillar terminology and is identical to Arca Options Rule 6.76AP-O(b)(1).
- Proposed Rule 964NYP(k)(2) would provide that an order with an instruction not to route would be processed as provided for in proposed Rule 900.3NYP.<sup>71</sup>
- Proposed Rule 964NYP(k)(3) would provide that any order or portion thereof that has been routed would not be eligible to trade on the Consolidated Book, unless

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<sup>70</sup> As specified herein, proposed 964NYP(e) provides, in relevant part, that “[a]t each price, all orders and quotes are assigned a priority category and, within each priority category, Customer orders are ranked ahead of non-Customer”.

<sup>71</sup> See supra note 24 regarding Pillar Order Type Filing.

all or a portion of the order returns unexecuted. This routing methodology is current functionality and covers the same subject as current Rule 964NY(c)(2)(E) and is based on Arca Options Rule 6.76AP-O(b)(3). Rule 964NY(c)(2)(E) provides that an order that routed away and returns is ranked and displayed in the Consolidated Book but does not have time standing relative to orders at the same price that arrived while the order was routed. Because, as discussed above, the working time assigned to orders that are routed is being proposed to be addressed in new Rule 964NYP(f)(1)(A) and (B), the Exchange does not propose to include (and restate) such information in the proposed Rule.

- Proposed Rule 964NYP(k)(4) would provide that requests to cancel an order that has been routed in whole or part would not be processed unless and until all or a portion of the order returns unexecuted. This added detail is the same as current functionality and is substantively the same as Arca Options Rule 6.76AP-O(b)(4).

Proposed Rule 964NYP(l), regarding residual interest, would provide that after trading with eligible contra-side interest on the Consolidated Book and/or returning unexecuted after routing to Away Market(s), any unexecuted non-marketable portion of an order would be ranked consistent with new Rule 964NYP(a)-(e). This rule represents current functionality as set forth in Rule 964NY generally and paragraph (c)(2)(E), as it pertains to orders that were routed away and then returned unexecuted in whole or part to the Exchange without any substantive differences. This proposed rule operates substantively the same as Rule Arca Options Rule 6.76AP-O(c).

Proposed Rule 964NYP(m) would be applicable to “Orders Executed Manually” and would contain the same text as set forth in Rule 964NY(e) without any differences.

The Exchange notes that current Rule 964NY(d)(1), (2), regarding Prohibited Conduct Related to Crossing Orders, provides that “Brokers may not execute as principal orders they represent as agent” unless the agency orders meet the exposure requirements of Rule 935NY; or, the Broker executes the orders pursuant to Rule 934NY. The Exchange does not propose to include this provision in new Rule 964NYP because the information is not related to priority and allocation. Moreover, the Exchange believes it would be duplicative and is unnecessary to state that Brokers must comply with Rules 934NY and 935NY as such compliance is required by those rules and need not be restated. As such, the Exchange believes that not including this language in the proposed rule would add clarity, transparency and internal consistency to Exchange Rules.

Finally, the Exchange does not propose to include Commentary .02 to Rule 964NY regarding Self-Trade Prevention (STP) Modifiers in proposed Rule 964NYP as the Exchange will add this modifier to proposed Rule 900.3NYP with slight enhancements, consistent with Arca Options Rule 6.62P-O(i)(2).<sup>72</sup>

Proposed Rule 964.1NYP (Directed Orders and DOMM Quoting Obligations)

Current Rule 964.1NY, titled “Directed Orders,” governs Directed Orders, including how such orders may be allocated pursuant to Rule 964NY, as well as DOMM quoting obligations. The Exchange proposes that the new title for Rule 964.1NYP would be “Directed Orders and DOMM Quoting Obligations,” as this title is a more apt description. The Exchange proposes to maintain the current preamble to Rule 964.1NY in proposed Rule 964.1NYP(a) but would update the relevant cross-references, such that the new rule would provide that “Specialists and Market Makers may receive Directed Orders in their appointed classes in accordance with the

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<sup>72</sup> See supra note 24 regarding Pillar Order Type Filing.

provisions of Rule 964NYP(h), (j) and this Rule 964.1NYP.”

The Exchange also proposes that proposed Rule 964.1NYP(b)(1) and (2) would be identical to current Rule 964N.1(iv), with the only difference being the paragraph numbering.

As noted here, much of the information in current Rule 964.1NY is duplicative and repeats information already contained in current (and separate) Rule 964NY or has been added to new Rule 964NYP to consolidate information relevant to the DOMM Guarantee into the proposed rule, which would add clarity and consistency to Exchange rules making them easier to navigate. As such, the Exchange does not propose to include in proposed Rule 964.1NYP (duplicative) information contained in Rule 964.1NY(i)-(iii) regarding the possible execution of Directed Orders (i.e., being allocated per the DOMM Guarantee, if available, the Specialist Pool (if no DOMM Guarantee), or as part of the Specialist Pool). The Exchange believes having this information in two different rules is inefficient and also would increase the possibility of inconsistencies when rules are updated which may lead to confusion for market participants. As such, the Exchange believes that proposed Rule 964.1NYP in connection with proposed Rule 964NYP, sufficiently describe the potential allocation of Directed Orders, as well as the quoting obligations of each DOMM.

Proposed Rule 964.2NYP (Participation Entitlement of Specialist Pool and Designation of Primary Specialist)

Current Rule 964.2NY, titled “Participation Entitlement of Specialists and e-Specialists,” governs participation entitlement for Specialists including the criteria for selecting the Primary Specialist, the Additional Weighting accorded to the Primary Specialist’s pro rata allocation, and the potential allocation of orders of five contracts or fewer to the Primary Specialist. The Exchange proposes that the title for new Rule 964.2NYP would be “Participation Entitlement of Specialists, e-Specialists, and Primary Specialist” instead of “Participation Entitlement of



Specialists and e-Specialists” because the current title doesn’t indicate that details about the Primary Specialist are included in the current rule.

Proposed Rule 964.2NYP(a) would provide that “the Exchange may establish from time to time a participation entitlement formula that is applicable to all Specialists and e-Specialists, collectively the Specialist Pool as defined in Rule 900.2NY, pursuant to Rule 964NYP(h)(2),” which is substantively the same as current Rule 964.2NY(b) but is updated to reflect new paragraph (h)(2). In addition, proposed Rule 964.2NYP(b) would include verbatim the information from current Rule 964.2NY(a) regarding the criteria for selecting the Primary Specialist.

As noted here, much of the information in current Rule 964.2NY (i.e., paragraphs (b)(1)-(4)), is duplicative of current Rule 964NY or, would be duplicative of information that the Exchange proposes to include in proposed Rule 964NYP (i.e., detailed information related to the participation guarantees). As such, the Exchange does not propose to include in proposed Rule 964.2NYP the (duplicative) information contained in Rule 964.2NY(b)(1)-(4) regarding the application of the Specialist Pool Guarantee to Specialists, e-Specialists and the Primary Specialist as well as the fact the Specialist Pool Guarantee is not available when the DOMM Guarantee is provided. The Exchange believes having this information in two different rules is inefficient and also would increase the possibility of inconsistencies when rules are updated, which may lead to confusion for market participants. As such, the Exchange believes that proposed Rule 964.2NYP in connection with proposed Rule 964NYP, sufficiently describe the application of the Specialist Pool Guarantee to Specialists, e-Specialists and the Primary Specialist. Moreover, the Exchange believe that including in one rule (i.e., proposed Rule 964NYP) all of the pertinent information regarding the participation guarantees, the criteria for

achieving such guarantees, as well as how interest the trades pursuant to the guarantees would be allocated would add clarity and consistency to Exchange rules making them easier to navigate.

Finally, the Exchange will not include in proposed Rule 964.2NYP the provision in current rule current rule 964.2NY(b)(1)(v) that provides that an e-Specialist is not eligible for the Special Pool Guarantee with respect to orders or quotes represented in open outcry on the Trading Floor. This provision is inapplicable on Pillar.

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As discussed above, because of the technology changes associated with the migration to the Pillar trading platform, subject to approval of this proposed rule change, the Exchange will announce by Trader Update when rules with a “P” modifier will become operative and for which symbols. The Exchange believes that keeping existing rules on the rulebook pending the full migration of Pillar will reduce confusion because it will ensure that the rules governing trading on the Exchange will continue to be available pending the full migration to Pillar.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>73</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>74</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, to protect investors and the public interest. The Exchange believes that the proposed rules to support Pillar would remove

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<sup>73</sup> 15 U.S.C. 78f(b).

<sup>74</sup> 15 U.S.C. 78f(b)(5).

impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rules would promote transparency in Exchange rules by using consistent terminology governing trading on both the Exchange's cash equity and options trading platforms, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's rulebook and better understand how options trading is conducted on the Exchange.

Generally, the Exchange believes that adding new rules with the modifier "P" to denote those rules that would be operative for the Pillar trading platform would remove impediments to and perfect the mechanism of a free and open market and a national market system by providing transparency of which rules would govern trading once a symbol has been migrated to the Pillar trading platform. The Exchange similarly believes that adding a preamble to those current rules that would not be applicable to trading on Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote transparency regarding which rules would govern trading on the Exchange during and after the transition to Pillar.

In addition, the Exchange believes that incorporating functionality currently available on Arca Options would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange would be able to offer consistent functionality across both its options trading platforms. Accordingly, with the transition to Pillar, the Exchange will be able to offer additional features to its ATP Holders that are currently available on Arca Options. For similar reasons, the Exchange believes that using Pillar terminology for the proposed new rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote consistency in trading rules on both the Exchange and its affiliated options exchange, NYSE

Arca Options.

*Proposed Rule 900.2NY*

The Exchange believes that the proposed amendments to Rule 900.2NY would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to promote clarity and transparency in Exchange rules. Specifically, the Exchange believes that new terms it proposes to include in Rule 900.2NY (e.g., Away Market, ABBO, and MPID) in connection with the migration to Pillar would promote clarity and transparency in Exchange rules making them easier for the investing public to navigate. The proposed new definitions would also remove impediments to, and perfect the mechanism of, a free and open market and a national market system because the definitions are substantively identical to how the same concepts are described in NYSE Arca Rule 1.1. The proposed modifications to current definitions would add clarity, transparency and internal consistency to Exchange rules, including by adding reference to new Pillar rules.

*Proposed Rules 964NY, 964.1NY and 964.2NY*

The Exchange believes that proposed new Rule 964NYP would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange plans to retain the fundamental method by which the Exchange would rank and display orders and quotes on Pillar as compared to the current Exchange system. Rather, the proposed revisions to the Exchange's options trading rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to simplify the structure of the Exchange's options rules and use consistent Pillar terminology for trading rules on both the Exchange and its affiliated options exchange, NYSE Arca Options. For example, the Exchange believes the proposed definitions set

forth in Rule 964NYP, i.e., display price, limit price, working price, working time, and Aggressing Order/Aggressing Quote, would promote transparency in Exchange rules and make them easier to navigate because these proposed definitions would be used in other proposed Pillar options trading rules. The Exchange notes that these proposed definitions are identical to the definitions set forth in Arca Options Rule 6.76P-O.

Moreover, the Exchange is not proposing any functional changes to how it would rank and display orders and quotes on Pillar as compared to current functionality, except (as noted herein) with regard to the treatment of reduced quote sizes which would be handled the same as orders with reduced size under Pillar, which would add consistency and transparency to Exchange rules.<sup>75</sup> The Exchange believes that using new terminology to describe ranking and display, including the proposed priority categories of Priority 1 - Market Orders, Priority 2 - Display Orders, and Priority 3- Non-Display Orders, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would provide more granularity and use Pillar terminology to describe functionality that is consistent with the Exchange System currently set forth in Rule 964NY.

The Exchange believes that proposed new Rule 964NYP generally and paragraph (j) in particular would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would set forth a priority model on Pillar that is consistent with the Exchange Customer-centric allocation model and affords Customers priority at a price regardless of order type utilized. In each Pillar Priority Category, Customers trade first at a price.

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<sup>75</sup> See proposed Rule 964NYP(f)(3) See supra note 34 (regarding existing handling of quotes with reduced size).

The Exchange believes that the proposed modifications to the DOMM Guarantee and Specialist Pool Guarantee would remove impediments to and perfect the mechanism of a free and open market and a national market system because it provides clarity of how multiple quotes from a DOMM or Specialists (including the Primary Specialist) would be allocated. The Exchange similarly believes that eliminating duplicative text from Rules 964.1NY and 964.2NY would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would streamline the Exchange's rules. The Exchange notes that the remaining differences in proposed Rule 964NYP relating to the DOMM Guarantee and the Specialist Pool Guarantee are designed to promote clarity and transparency in Exchange rules and would not introduce new functionality.

The Exchange believes that proposed new Rules 964.1NYP and 964.2NYP would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would not repeat information that is duplicative of current Rule 964NY but would include information solely related to Direct Orders and the provisions of proposed Rule 964NYP that must be satisfied to receive such orders (i.e., proposed Rules 964NYP(h), (j), in particular and Rule 964.1NYP generally) as well as information regarding the provisions of the proposed Rule 964NYP that must be satisfied to receive the Specialist Pool Guarantee. As a result, new Rules 964.1NYP and 964.2NYP would provide information about Direct Orders and DOMM quoting obligations as well as the Primary Specialist criteria in a more streamlined manner, which would add clarity and consistency to Exchange rules making them easier to navigate.

The Exchange believes that the structure and content of the rule text in proposed Rules 964NYP, 964.1NYP, and 964.2NYP promote transparency by using consistent Pillar

terminology. The Exchange also believes that adding more detail regarding current functionality in new Rule Rules 964NYP, as described above, would promote transparency by providing notice of when orders would be executed or routed by the Exchange.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. The Exchange believes that the transition to Pillar would promote competition among options exchanges by offering a low-latency, deterministic trading platform. The proposed rule changes would support that inter-market competition by allowing the Exchange to offer additional functionality to its ATP Holders, thereby potentially attracting additional order flow to the Exchange. Otherwise, the proposed changes are not designed to address any competitive issues, but rather to amend the Exchange's rules relating to options trading to support the transition to Pillar. As discussed in detail above, with this rule filing, the Exchange is not proposing to change its core functionality regarding its priority model, and in particular, how it would rank, display, execute or route orders and quotes. Rather, the Exchange believes that the proposed rule changes would promote consistent use of terminology to support options trading on the Exchange, making the Exchange's rules easier to navigate. The Exchange does not believe that the proposed rule changes would raise any intra-market competition as the proposed rule changes would be applicable to all ATP Holders, and reflects the Exchange's existing priority model, including existing the DOMM Guarantee and Specialist Pool Guarantee.

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 within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEAMER-2023-16 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEAMER-2023-16. 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-NYSEAMER-2023-16 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>76</sup>

J. Matthew DeLesDernier,  
Deputy Secretary.

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<sup>76</sup> 17 CFR 200.30-3(a)(12).

New text is underlined;  
Deleted text is in [brackets]

## NYSE American Rules

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### Trading of Option Contracts

#### Section 900NY. Rules Principally Applicable to Trading of Option Contracts

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

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#### Rule 900.2NY. Definitions.

Whenever and wherever used herein, unless the context requires otherwise, the following terms shall be deemed to have the meanings indicated:

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##### *Authorized Trader.*

The term “Authorized Trader” or “AT” shall mean a person who may submit orders to the Exchange on behalf of his or her ATP Holder or Sponsored Participant.

##### *Away Market.*

The term “Away Market” means any Trading Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to orders routed from the Exchange.

##### *Away Market BBO or ABBO.*

The term “Away Market BBO” or “ABBO” refers to the best bid(s) or offer(s) disseminated by Away Markets and calculated by the Exchange based on market information the Exchange receives from OPRA. Unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. The term “ABB” means the best Away Market bid and the term “ABO” means the best Away Market offer.

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*Consolidated Book or Book..*

The term “Consolidated Book” or “Book” means the Exchange’s electronic book of orders and quotes. All orders and quotes that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 964NY, or Rule 964NYP, as applicable.

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*Customer and Professional Customer.*

The term "Customer" means an individual or organization that is not a Broker/Dealer; when not capitalized, "customer" refers to any individual or organization whose order is being represented, including a Broker/Dealer.

The term “Professional Customer” means individual or organization that (i) is not a Broker/Dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Professional Customer will be treated in the same manner as a Broker/Dealer (or non-Customer) in securities for the purposes of Rules 900.3NY(j)(Facilitation Order), 904G(f) (FLEX Trading Procedures and Principles - Crossing Limitations), 934NY(Crossing), 934.1NY (Facilitation Cross Transactions), 934.2NY(At-Risk Cross Transactions), 934.3NY(Solicitation), 963NY(Priority and Order Allocation Procedures - Open Outcry), 964NY (Display, Priority and Order Allocation - Trading Systems), 964NYP (Order Ranking, Display, and Allocation), 964NYP(h)(2)(A) and (B) (Specialist Pool Guaranteed Participation), 964.2NY(b)(1)(iii)(Participation Entitlement of Specialists and e-Specialists), 964.2NY(b)(3)(B)(Allocation Of Participation Entitlement Amongst Specialist Pool), 971.1NY (Single-Leg Electronic Cross Transactions), 971.2NY (Complex Electronic Cross Transactions), 975NY(b)(1) (Obvious Errors and Catastrophic Errors), [and] Rule 980NY(b) (Electronic Complex Order Trading), and 980NYP (Electronic Complex Order Trading).

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*Directed Order Market Maker or DOMM.*

The term “Directed Order Market Maker” or “DOMM” means a Market Maker that receives a Directed Order.

\* \* \* \* \*

*Market Maker.*

The term “Market Maker” shall refer to an ATP Holder that acts as a Market Maker pursuant to Rule 920NY.

Market Participant Identifier or MPID.

The term “Market Participant Identifier” or “MPID” refers to the identifier assigned to the orders and quotes of a single ATP Holder for the execution and clearing of trades on the Exchange by that permit holder. An ATP Holder may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID.

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*NBBO.*

The term “NBBO” means the national best bid or offer. The terms “NBB” mean the national best bid and “NBO” means the national best offer.

Unless otherwise specified, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange.

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**Rule 964NY. Display, Priority and Order Allocation - Trading Systems**

*This Rule is not applicable to trading on Pillar.*

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**Rule 964NYP. Order Ranking, Display, and Allocation**

(a) Definitions for purposes of this Chapter (Trading of Option Contracts):

(1) “Display price” means the price at which an order or quote ranked Priority 2 - Display Orders or Market Order is displayed, which may be different from the limit price or working price of the order.

(2) “Limit price” means the highest (lowest) specified price at which a Limit Order or quote to buy (sell) is eligible to trade.

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

(4) “Working time” means the effective time sequence assigned to an order or quote for purposes of determining its priority ranking.

(5) “Aggressing Order” or “Aggressing Quote” means a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. A resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, the NBBO is updated, there are changes to other orders or quotes on the

Consolidated Book, or when processing inbound messages.

(b) Display. The Exchange displays all non-marketable Limit Orders and quotes ranked Priority 2 - Display Orders, unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed.

(1) The Exchange will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Trading Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.

(2) If an Away Market locks or crosses the Exchange BBO, the Exchange will not change the display price of any Limit Orders or quotes ranked Priority 2 - Display Orders and any such orders will be eligible to be displayed as the Exchange's BBO.

(c) Ranking. All non-marketable orders and quotes are ranked and maintained in the Consolidated Book according to price-time priority in the following manner: (1) price; (2) priority category; (3) time; and (4) ranking restrictions applicable to an order/quote or modifier condition.

(d) Price. All orders and quotes are ranked based on the working price of an order or quote. Orders and quotes to buy are ranked from highest working price to lowest working price. Orders and quotes to sell are ranked from lowest working price to highest working price. If the working price of an order or quote changes, the price priority of the order or quote changes.

(e) Priority Categories. At each price, all orders and quotes are assigned a priority category and, within each priority category, Customer orders are ranked ahead of non-Customer. If, at a price, there are no remaining orders or quotes in a priority category, then same-priced interest in the next priority category has 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 or quotes with a displayed working price have second priority.

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

(f) Time. At each price level within each priority category, orders and quotes are ranked based on time priority.

(1) An order or quote is assigned a working time when it is first added to the Consolidated Book based on the time such order or quote is received by the Exchange.

(A) An order that is fully routed to an Away Market on arrival per paragraph (j)(1) of this Rule, is not assigned a working time unless and until any unexecuted portion of the

order returns to the Consolidated Book.

(B) For an order that, on arrival, is partially routed to an Away Market, the portion that is not routed is assigned a working time. If any unexecuted portion of the order returns to the Consolidated Book and joins any remaining resting portion of the original order, the returned portion of the order is assigned the same working time as the resting portion of the order. If the resting portion of the original order has already executed and any unexecuted portion of the order returns to the Consolidated Book, the returned portion of the order is assigned a new working time.

(2) An order or quote is assigned a new working time if:

(A) the display price of an order or quote changes, even if the working price does not change; or

(B) the working price of an order or quote changes, unless the working price is adjusted to be the same as the display price of an order or quote.

(3) An order or quote is assigned a new working time if the size of an order or quote increases. An order or quote retains its working time if the size of the order or quote is decreased.

(g) Ranking Restrictions. The Exchange will apply ranking restrictions applicable to specific order, quote, or modifier instructions as provided for in Rule 900.3NYP.

(h) Allocation of Resting Interest: Participation Entitlements and Pro Rata Pool.

(1) Directed Order Market Maker (or DOMM) Guaranteed Participation. When the execution price is the NBBO, a DOMM may be entitled to guaranteed participation for its quote(s) to be matched against the balance of a Directed Order (“DOMM Guarantee”). Unless otherwise determined by the Exchange and announced by Trader Update, the DOMM Guarantee will be 40%. If a DOMM does not qualify to receive the DOMM Guarantee, the bids and offers of that DOMM will be included in the “Size Pro Rata Pool” as described in Rule 964NYP(h)(3). In the absence of a DOMM Guarantee, the Specialist Pool (which takes priority behind the DOMM) may be entitled to a guaranteed allocation per paragraph (h)(2) below.

(A) A DOMM will be allocated a number of contracts equal to the greater of the DOMM Guarantee or their “size pro rata” allocation as provided in this Rule 964NYP(i), but in either case, no greater than the DOMM’s disseminated size.

(i) If the result of applying the DOMM Guarantee is a fractional allocation of contracts, DOMM Guarantee is rounded down to the nearest contract. If the result of applying the DOMM Guarantee results in less than one contract, the DOMM Guarantee will be equal to one contract.

(ii) If a DOMM has more than one eligible quote, each quote will receive a pro-rata share of the DOMM Guarantee.

(B) For all Directed Orders of five (5) contracts or fewer, if the DOMM is the Primary Specialist (as determined per Rule 964.2NYP(b)) such DOMM will be allocated the balance of the Directed Order up to the DOMM's disseminated size or, if the DOMM has more than one eligible quote, each quote will receive a pro-rata share.

(2) Specialist Pool Guaranteed Participation. When the execution price is the NBBO, participants in the Specialist Pool may be entitled to guaranteed participation of its quote(s) to be matched against the balance of an Aggressing Order or Aggressing Quote ("Specialist Pool Guarantee"). Unless otherwise determined by the Exchange and announced by Trader Update, the Specialist Pool Guarantee will be 40%. The Specialist Pool will not receive a guaranteed allocation if a DOMM has received a guaranteed allocation. If a DOMM has received a guaranteed allocation, the bids and offers of the Specialist Pool will be included in the "Size Pro Rata Pool" as described in Rule 964NYP(h)(3).

(A) The Specialist Pool will be allocated a number of contracts equal to the greater of the Specialist Pool Guarantee or their "size pro rata" allocation as provided in this Rule 964NYP(i), but in either case, no greater than the Specialist Pool's disseminated size.

(i) If the result of applying the Specialist Pool Guarantee is a fractional allocation of contracts, Specialist Pool Guarantee is rounded down to the nearest contract. If the result of applying the Specialist Guarantee results in less than one contract, the Specialist Pool Guarantee will be equal to one contract.

(ii) The size pro-rata participation for the Primary Specialist (as determined per 964.2NYP(b)) in the Specialist Pool will receive additional weighting, as determined by the Exchange, and announced by Trader Update (the "Additional Weighting").

(iii) Each Specialist or e-Specialist in the Specialist Pool will be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee or their "size pro rata" allocation as provided in Rule 964NYP(i), but in either case, no greater than the individual Specialist's disseminated size.

(a) If there is only one Specialist or e-Specialist in Specialist Pool, that Specialist or e-Specialist will be allocated a number of contracts equal to the greater of their share in the Specialist Pool Guarantee (i.e., the entire 40%) or their "size pro rata" allocation as provided in Rule 964NYP(i), no greater than their disseminated size.

(iv) If a Specialist has more than one eligible quote in the Specialist Pool, each such quote will receive a pro-rata share of the Specialist Pool Guarantee, no greater than their disseminated size.

(a) If the Primary Specialist has more than one eligible quote, each quote will receive Additional Weighting on its pro-rata share of the Specialist Pool Guarantee.

(B) For all Aggressing Orders or Aggressing Quotes of five (5) contracts or fewer, the Primary Specialist (as determined per Rule 964.2NYP(b)) will be allocated the balance of the Aggressing Orders or Aggressing Quotes, not to exceed the Primary Specialist's disseminated size, or, if the Primary Specialist has more than one eligible quote, each quote will receive a pro-rata share.

(3) Size Pro Rata Pool. If there are multiple orders and quotes of non-Customers (including Professional Customers) that are displayed in the Consolidated Book at the same price, then such orders and quotes will be afforded priority on a "size pro rata" basis, and will comprise the "Size Pro Rata Pool".

(i) Size Pro Rata Allocation. Orders or quotes subject to allocation on a "size pro rata" basis will be allocated based on the following formula:

(1) Size Pro Rata Formula and Example of Application.

$$\frac{\text{(Remaining Size of Order/Quote to be Allocated)}}{\text{(Participants Aggregated Order/Quote Size)}} \times \frac{\text{(Participant's Order/Quote Size)}}{\text{(Participant's Order/Quote Size)}} = \text{Size Pro Rata Allocation}$$

For example: Assume there are 200 contracts to be allocated among three Market Makers quoting with the following sizes:

|                              |            |
|------------------------------|------------|
| <u>MM1</u>                   | <u>100</u> |
| <u>MM2</u>                   | <u>200</u> |
| <u>MM3</u>                   | <u>500</u> |
| <u>Aggregated Quote Size</u> | <u>800</u> |

Allocation Result:

MM1 receives  $(200/800) \times (100) = 25$  contracts

MM2 receives  $(200/800) \times (200) = 50$  contracts

MM3 receives  $(200/800) \times (500) = 125$  contracts

(2) The pro rata share allocated to each participant in the Size Pro Rata Pool will be rounded down to the nearest contract, if applicable. If there are residual contracts to be filled after the size pro rata calculation has been completed, such contracts will be allocated one contract per participant in the following sequence:

(A) The participant in the Size Pro Rata Pool who has the largest remaining size (based



on the pro rata calculation) will receive the first contract, and each successive contract (if any) will be allocated to each subsequent participant based on size (largest to smallest).

(i) If there are two or more participants with the same remaining size, then the participant with the first time priority in the Size Pro Rata Pool will be allocated the next contract. Each successive contract (if any) will be allocated in the same manner.

(j) Order Execution. At each price, an Aggressing Order or Aggressing Quote in an option series that is open for trading will be allocated against contra-side orders or quotes in the Consolidated Book as follows.

(1) First, to Customer orders ranked Priority 1 - Market Orders based on time.

(2) Second, to non-Customer orders ranked Priority 1 - Market Orders on a size pro rata basis pursuant to paragraph (i) of this Rule.

(3) Third, to Customer orders ranked Priority 2 - Displayed Limit Orders based on time.

(4) Fourth, to interest ranked Priority 2 - Displayed Limit Orders that is eligible for the DOMM Guarantee or the Specialist Pool Guarantee, as applicable, pursuant to paragraph (h) of this Rule, provided that the execution price is the NBBO.

(5) Fifth, to non-Customer orders and quotes in the Pro Rata Pool ranked Priority 2 - Displayed Limit Orders on a size pro rata basis pursuant to paragraph (i) of this Rule.

(6) Sixth, to Customer orders ranked Priority 3 - Non-Displayed Orders based on time.

(7) Finally, to non-Customer orders and quotes ranked Priority 3 - Non-Display Orders based on time.

(k) Routing. Unless an order has an instruction not to route, after being matched for execution with any contra-side orders or quotes in the Consolidated Book pursuant to paragraph (j) of this Rule, marketable orders will be routed to Away Market(s). While determining the venue(s) to which the order(s) will be routed, such order(s) may be held non-displayed at the contra-side ABBO and ranked in its respective priority category, per Rule 964NYP(e), behind displayed interest at that price in that priority category.

(1) An order that cannot meet the pricing parameters of paragraph (j) of this Rule may be routed to Away Market(s) before being matched for execution against contra-side orders or quotes in the Consolidated Book.

(2) An order with an instruction not to route will be processed as provided for in Rule 900.3NYP.

(3) Any order or portion thereof that has been routed is not eligible to trade on the Consolidated Book, unless all or a portion of the order returns unexecuted.

(4) Requests to cancel an order that has been routed in whole or in part will not be processed unless and until all or a portion of the order returns unexecuted.

(l) Residual Interest. After trading with eligible contra-side interest on the Consolidated Book and/or returning unexecuted after routing to an Away Market(s), any unexecuted non-marketable portion of an order will be ranked consistent with paragraphs (c)-(g) of this Rule.

(m) Orders Executed Manually.

(1) Floor Brokers representing orders in the Trading Crowd must comply with the order execution and priority principles set forth in Rule 963NY, and with the following provisions establishing priority for bids and offers by account type:

(A) Customer orders on the Consolidated Book have first priority. Multiple Customer orders at the same price are ranked based on time priority.

(B) Bids and offers of ATP Holders in the Trading Crowd have second priority. These bids and offers include those made by Market Makers and Floor Brokers (on behalf of orders they are representing).

(C) Bids and offers of Broker Dealers, Professional Customers (including Market Maker orders and quotes) on the Consolidated Book have third priority. Multiple bids and offers of broker-dealers will be executed on a size pro rata basis pursuant to Rule 964NYP(i).

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Commentary:

.01 The Exchange will evaluate on a quarterly basis what percentage of the volume executed on the Exchange comprised of orders of five (5) contracts or fewer that was allocated to the Primary Specialist and will reduce the size of the orders included in this provision if such percentage is over 40%.

#### **Rule 964.1NY. Directed Orders**

This Rule is not applicable to trading on Pillar.

\* \* \* \* \*

#### **Rule 964.1NYP. Directed Orders and DOMM Quoting Obligations**

(a) Specialists and Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of Rule 964NYP(h), (j) and this Rule 964.1NYP.

(b) A DOMM must provide continuous two-sided quotations throughout the trading day in issues for which it receives Directed Orders for 90% of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements of Rule 925NY. These obligations will apply collectively to all series in all of the issues for which the DOMM receives

Directed Orders, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a monthly basis.

(1) If a technical failure or limitation of a system of the Exchange prevents a DOMM from maintaining, or prevents a DOMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the DOMM has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

**Rule 964.2NY. Participation Entitlement of Specialists and e-Specialists**

*This Rule is not applicable to trading on Pillar.*

\* \* \* \* \*

**Rule 964.2NYP. Participation Entitlement of Specialist Pool and Designation of Primary Specialist**

(a) The Exchange may establish from time to time a participation entitlement formula that is applicable to all Specialists and e-Specialists, collectively the Specialist Pool as defined in Rule 900.2NY, pursuant to Rule 964NYP(h)(2).

(b) *Primary Specialist.* The Exchange will, on a quarterly basis, designate, from among all Specialists and e-Specialists in a class, the Primary Specialist in each class. The Primary Specialist will be determined by objective evaluation of the relative quote performance of each Specialist and e-Specialist, and would include one or more of the following factors: time and size at the NBBO, average quote width, average quote size, electronic volumes from resting quotes and orders in the Consolidated Book, and the relative share of electronic volume for a given class of options. The Exchange will publish the evaluation criteria, including the relative weighting of each factor, by Trader Update at least 5 business days prior to an evaluation period.

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