

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-96735; File No. SR-NYSENAT-2023-04)

January 23, 2023

Self-Regulatory Organizations; NYSE National, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 7.31(i)(2)

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that on January 19, 2023, NYSE National, Inc. (“NYSE National” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rule 7.31(i)(2) to enhance the Exchange’s existing Self Trade Prevention (“STP”) modifiers. The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 7.31(i)(2) to enhance the Exchange’s existing Self Trade Prevention (“STP”) modifiers. Specifically, the Exchange proposes to allow ETP Holders the option to apply STP modifiers to orders submitted not only from the same MPID, as the current rule provides, but also to orders submitted from (i) the same subidentifier of a particular MPID; (ii) other MPIDs associated with the same Client ID (as designated by the ETP Holder); and (iii) Affiliates of the ETP Holder.

Background

Currently, Rule 7.31(i)(2) offers optional anti-internalization functionality to ETP Holders in the form of STP modifiers that enable an ETP Holder to prevent two of its orders from executing against each other. Currently, ETP Holders can set the STP modifier to apply at the market participant identifier (“MPID”) level. The STP modifier on the order with the most recent time stamp controls the interaction between two orders marked with STP modifiers. STP functionality assists market participants by allowing firms to better prevent unintended executions with themselves and to reduce the potential for “wash sales” that may occur as a result of the velocity of trading in a high-speed marketplace. STP functionality also assists market participants in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm.

The Exchange notes that several equities exchanges – including IEX, Nasdaq, Nasdaq BX, Nasdaq Phlx, and MIAX Pearl Equities – have all recently amended their rules to provide additional levels at which orders may be grouped for the purposes of applying their anti-internalization rules. As such, the proposed changes herein are not novel and are familiar to market participants.⁴

Proposed Amendment

The Exchange proposes to amend the Rule 7.31(i)(2) in three ways, each of which would enhance ETP Holders’ flexibility over the levels at which orders may be grouped for the purposes of applying the Exchange’s existing STP modifiers.

First, the Exchange proposes to amend the rule to permit an ETP Holder to set the STP modifiers to apply at the level of a subidentifier of an MPID. This change would allow ETP Holders to prevent orders sent from the same subidentifier of a particular MPID from executing against each other, but permit orders sent from different subidentifiers of the same MPID to interact.⁵

⁴ Several other equity exchanges recently amended their rules to allow affiliate grouping for their own anti-internalization functionality. See, e.g., Securities Exchange Act Release Nos. 96187 (October 31, 2022), 87 FR 66764 (November 4, 2022) (SR-IEX-2022-08); 96156 (October 25, 2022), 87 FR 65633 (October 31, 2022) (SR-BX-2022-020); 96154 (October 25, 2022), 87 FR 65631 (October 31, 2022) (SR-Phlx-2022-43); 96069 (October 13, 2022), 87 FR 63558 (October 19, 2022) (SR-NASDAQ-2022-56, implemented by SR-NASSDAQ-2022-60); and 96334 (November 16, 2022), 87 FR 71368 (November 22, 2022) (SR-PEARL-2022-48).

⁵ This functionality exists on the Exchange’s affiliate exchange Arca Options, and as such is not novel and is familiar to market participants. See Arca Options Rule 6.62P-O(i)(2) (“An Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in this paragraph will be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier from the same MPID, and, if specified, any subidentifier of that MPID.”).

Second, the Exchange proposes to amend Rule 7.31(i)(2) to permit an ETP Holder to set the STP modifiers to prevent orders from different MPIDs from executing against each other. The proposed amendment would address this by allowing ETP Holders to apply STP modifiers at the level of “Client ID,” which would be an identifier designated by the ETP Holder. As proposed, a Client ID would function similarly to an MPID in that it would be a unique identifier assigned to an ETP Holder. The Exchange believes that this proposed enhancement would provide ETP Holders with greater flexibility in how they instruct the Exchange to apply STP modifiers to their orders. The Exchange notes that it is not novel for an exchange to provide its members with multiple methods by which to designate anti-internalization instructions.⁶

Third, the Exchange proposes to amend Rule 7.31(i)(2) to permit ETP Holders to direct orders not to execute against orders entered across MPIDs associated with Affiliates of the ETP Holder that are also ETP Holders.⁷ This change would expand the availability of the STP functionality to ETP Holders that have divided their business activities between separate corporate entities without disadvantaging them when compared to ETP Holders that operate their business activities within a single corporate entity.

The Exchange believes that these enhancements will all provide helpful flexibility for ETP Holders by expanding their ability to apply STP modifiers at multiple levels, including

⁶ See, e.g., MIA X Pearl, LLC (“MIA X Pearl Equities”) Rule 2614(f) (specifying that Self-Trade Prevention Modifiers will be applicable to orders “from the same MPID, Exchange member identifier, trading group identifier, or Equity Member Affiliate (any such identifier, a ‘Unique Identifier’)”).

⁷ The proposed definition of “Affiliate” is identical to the one currently provided in the Exchange’s Fee Schedule. See NYSE National, Inc. Schedule of Fees and Rebates, Section I.B(c) (“For purposes of this Schedule of Fees and Rebates, the term “affiliate” shall mean any ETP Holder under 75% common ownership or control of that ETP Holder.”). This 75% threshold is not novel. See, e.g., Nasdaq PHLX LLC (“Nasdaq PHLX”) Equity 4, Rule 3307(c).

within a subidentifier of a single MPID, across multiple MPIDs of the same Client ID, and across multiple MPIDs of the ETP Holder and its Affiliates, in addition to at the MPID level as the current rule provides. These proposed changes would help ETP Holders better manage their order flow and prevent undesirable executions or the potential for “wash sales” that might otherwise occur.

To effect these changes, the Exchange proposes to amend the first sentence of Rule 7.31(i)(2) and add a new sentence as follows (proposed text underlined, deletions in brackets): “Any incoming order to buy (sell) designated with an STP modifier will be prevented from trading with a resting order to sell (buy) also designated with an STP modifier and from the same Client ID; the same MPID and, if specified, any subidentifier; or an Affiliate identifier (any such identifier, a “Unique Identifier”). For purposes of this rule, the term “Affiliate” means any ETP Holder under 75% common ownership or control of that ETP Holder.” The Exchange further proposes to replace references to “MPID” in Rules 7.31(i)(2)(A) - (D) with the term “Unique Identifier.”

While this proposal would expand how an ETP Holder can designate orders with an STP modifier, nothing in this proposal would make substantive changes to the STP modifiers themselves or how they would function with respect to two orders interacting within a relevant level.

The Exchange notes that, as with its current anti-internalization functionality, use of the proposed revised Rule 7.31(i)(2) will not alleviate or otherwise exempt ETP Holders from their best execution obligations. As such, ETP Holders using the proposed enhanced STP functionality will continue to be obligated to take appropriate steps to ensure that customer orders that do not execute because they were subject to anti-internalization ultimately receive the

same price, or a better price, than they would have received had execution of the orders not been inhibited by anti-internalization.

Timing and Implementation

The Exchange anticipates that the technology changes required to implement this proposed rule change will become available on a rolling basis, beginning less than 30 days from the date of filing, to be completed by the end of the first quarter of 2023.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁹ in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Specifically, the Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system and is consistent with the protection of investors and the public interest because enhancing how ETP Holders may apply STP modifiers will provide ETP Holders with additional

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

flexibility with respect to how they implement self-trade protections provided by the Exchange that may better support their trading strategies.

The Exchange believes that the proposed rule change does not unfairly discriminate among ETP Holders because the proposed STP protections will be available to all ETP Holders, and ETP Holders that prefer setting STP modifiers at the MPID level will still be able to do so. In addition, allowing ETP Holders to apply STP modifiers to trades submitted by their Affiliates that are also ETP Holders is intended to avoid disparate treatment of firms that have divided their various business activities between separate corporate entities as compared to firms that operate those business activities within a single corporate entity.

Finally, the Exchange notes that other equity exchanges recently amended their rules to allow affiliate grouping for their own anti-internalization functionality and similarly use a 75% threshold of common ownership for assessing whether such orders would be eligible for this enhancement.¹⁰ Consequently, the Exchange does not believe that this change raises new or novel issues not already considered by the Commission.

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. To the contrary, the proposal is designed to enhance the Exchange's competitiveness by providing additional flexibility over the levels at which orders may be grouped for STP purposes, thereby incentivizing ETP Holders to send orders to the Exchange and increase the liquidity available on the Exchange. The Exchange also notes that the proposed new STP grouping options, like the Exchange's current anti-internalization functionality, are completely optional and ETP Holders

¹⁰ See supra notes 4 and 7.

can determine whether to apply anti-internalization protections to orders submitted to the Exchange, and if so, at what level to apply those protections (e.g., MPID, subidentifier, Client ID, or Affiliate level). The proposed rule change would also improve the Exchange's ability to compete with other exchanges that recently amended their rules to expand the groupings for their own anti-internalization functionality. There is no barrier to other national securities exchanges adopting similar anti-internalization groupings as those proposed herein.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6)¹² thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)¹³ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹³ 17 CFR 240.19b-4(f)(6).

4(f)(6)(iii),¹⁴ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative upon filing. The Exchange requested the waiver because it would enable the Exchange to compete with other exchanges that have recently amended their rules to expand the levels at which orders may be grouped for STP purposes. The Exchange states that at least one such competitor exchange plans to introduce similar capabilities to market participants as early as January 9, 2023. The Exchange also states that it is currently working on technological solutions to meet this competition and to make similar offerings available to market participants as soon as possible. The Exchange expects to begin rolling out this functionality in less than 30 days from the date of filing, and thus requests waiver of the operative delay in order to promptly meet market competition. For these reasons, and because the proposed rule change does not raise any novel regulatory issues, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.¹⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

¹⁴ 17 CFR 240.19b-4(f)(6)(iii).

¹⁵ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSENAT-2023-04 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-NYSENAT-2023-04. 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-NYSENAT-2023-04 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.¹⁶

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¹⁶ 17 CFR 200.30-3(a)(12).