

*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 Web site 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2017-53 and should be submitted on or before June 26, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>31</sup>

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Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80804; File No. SR-NYSEMKT-2017-25]

### Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Adopting Rules 5220—Equities, 996NY Options and 9560 and Amending Rule 8313

May 30, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 17, 2017, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III 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 (1) new Rules 5220—Equities and 996NY (Options) that define and prohibit two types of disruptive quoting and trading activity on the Exchange; (2) a new Rule 9560 governing supplemental expedited suspension proceedings; and (3) amendments to Rule 8313 to permit release to the public of suspension notices and orders issued pursuant to proposed Rule 9560. The proposed rule change is available on the Exchange's Web site 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 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 Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange proposes (1) a new Rule 5220—Equities (“Rule 5220”) and a new Rule 996NY (Options) that define and prohibits two types of disruptive quoting and trading activity on the Exchange; (2) a new Rule 9560 governing supplemental expedited suspension proceedings; and (3) amendments to Rule 8313 (Release of Disciplinary Complaints, Decisions and Other Information) to permit release to the public of suspension notices and orders issued pursuant to proposed Rule 9560.

The proposed rule change is based on rules recently adopted by Bats BZX Exchange, Inc., formerly known as BATS Exchange, Inc. (“BATS”), and The Nasdaq Stock Market LLC (“NASDAQ”).<sup>3</sup> The proposed rules are

the same as those adopted by BATS and NASDAQ, with the following exceptions discussed below: (1) Conforming references to reflect the Exchange's equities and options membership; and (2) the call for review process in proposed Rule 9560(f). The Exchange believes that having consistent rules for issuing a cease and desist order on an expedited basis as other self-regulatory organizations (“SROs”) to halt certain disruptive and manipulative quoting and trading activity would enhance the Exchange's ability to protect investors and market integrity.

#### Background

As a national securities exchange registered pursuant to Section 6 of the Act, the Exchange is required to be organized and to have the capacity to enforce compliance by its member organizations and persons associated with its member organizations, with the Act, the rules and regulations thereunder, and the Exchange's Rules.<sup>4</sup> Further, the Exchange's Rules are required to be “designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade . . . and, in general,

disruptive quoting and trading activities, and BATS Rule 8.17, which permits BATS to conduct a new expedited suspension proceeding when it believes BATS Rule 12.15 has been violated. *See* Securities Exchange Act Release No. 77171 (February 18, 2016), 81 FR 9017 (February 23, 2016) (SR-BATS-2015-101) (“BATS Approval Order”); *see also* Securities Exchange Act Release No. 77606 (April 13, 2016), 81 FR 23026 (April 19, 2016) (SR-BatsEDGA-2016-03) (adopting identical rules for Bats EDGA Exchange, Inc.); Securities Exchange Act Release No. 77602 (April 13, 2016), 81 FR 23046 (April 19, 2016) (SR-BatsBYX-2016-03) (adopting identical rules for Bats BYX Exchange, Inc.); Securities Exchange Act Release No. 77589 (April 12, 2016), 81 FR 22691 (April 18, 2016) (SR-BatsEDGX-2016-04) (adopting identical rules for Bats EDGX Exchange, Inc.). On May 19, 2016, NASDAQ filed a substantially similar proposed rule change with the SEC for immediate effectiveness. *See* Securities Exchange Act Release No. 77913 (May 25, 2016), 81 FR 35081 (June 1, 2016) (SR-NASDAQ-2016-074). NASDAQ has also extended the rule to other exchanges. *See, e.g.*, Securities Exchange Act Release No. 78208 (June 30, 2016), 81 FR 44366 (July 7, 2016) (SR-NASDAQ-2016-092). Similarly, the Financial Industry Regulatory Authority, Inc. (“FINRA”) also recently prohibited disruptive quoting and trading and amended its procedural rules. *See* Securities Exchange Act Release No. 76361 (November 21, 2016), 81 FR 85650 (November 28, 2016) (SR-FINRA-2016-043). *See also* Securities Exchange Act Release No. 79182 (October 28, 2016), 81 FR 76639 (November 3, 2016) (SR-MIAX-2016-40) (adopting identical rules for Miami International Securities Exchange LLC); Securities Exchange Act Release No. 79646 (December 21, 2016), 81 FR 95713 (December 28, 2016) (SR-BOX-2016-59) (adopting identical rules for BOX Options Exchange LLC).

<sup>4</sup> 15 U.S.C. 78f(b)(1).

<sup>31</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> On February 18, 2016, the SEC approved a proposed rule change filed by BATS to adopt new BATS Rule 12.15, which prohibits certain types of

to protect investors and the public interest.”<sup>5</sup>

In fulfilling these requirements, the Exchange has developed a comprehensive regulatory program that includes automated surveillance of trading activity operated directly by Exchange staff. When disruptive and potentially manipulative or improper quoting and trading activity is identified, the Exchange conducts an investigation into the activity and requests documents and information. To the extent violations of the Act, the rules and regulations thereunder, or Exchange Rules are identified, the Exchange will commence disciplinary proceedings, which could result in, among other things, a censure, a requirement to take certain remedial actions, one or more restrictions on future business activities, a monetary fine, or a temporary or permanent ban from the securities industry.

The process described above, from the identification of disruptive and potentially manipulative or improper quoting and trading activity to a final resolution of the matter, can often take several years. The Exchange believes that this time period sometimes is necessary and appropriate to afford adequate due process, particularly in complex cases. However, as described below, the Exchange believes that there are certain obvious and uncomplicated cases of disruptive and manipulative behavior or cases where the potential harm to investors is so large that the Exchange should have the authority to initiate an expedited suspension proceeding in order to stop the behavior from continuing on the Exchange. In recent years, several cases have been brought and resolved by the Exchange and other SROs involving allegations of wide-spread market manipulation, much of which was ultimately being conducted by foreign persons and entities using relatively rudimentary technology to access the markets and over which the Exchange and other SROs had no direct jurisdiction. In each case, the conduct involved a pattern of disruptive quoting and trading activity indicative of manipulative layering<sup>6</sup> or spoofing.<sup>7</sup>

<sup>5</sup> 15 U.S.C. 78f(b)(1).

<sup>6</sup> “Layering” can include a form of market manipulation in which multiple, non-bona fide limit orders are entered on one side of the market at various price levels in order to create the appearance of a change in the levels of supply and demand, thereby artificially moving the price of the security. An order is then executed on the opposite side of the market at the artificially created price, and the non-bona fide orders are cancelled.

<sup>7</sup> “Spoofing” can include a form of market manipulation that involves the market manipulator placing non-bona fide orders that are intended to

The Exchange and other SROs were able to identify the disruptive quoting and trading activity in real-time or near real-time; nonetheless, the parties responsible for such conduct or responsible for their customers’ conduct continued the disruptive quoting and trading activity on the Exchange and other exchanges during the entirety of the subsequent lengthy investigation and enforcement process. To supplement other Exchange Rules on which it may already rely to stop such activity from continuing, the Exchange believes that it should have additional authority to initiate expedited suspension proceedings in order to stop behavior from continuing on the Exchange if a member organization or a person associated with its member organization is engaging in or facilitating disruptive quoting and trading activity and the member organization or associated person has received sufficient notice with an opportunity to respond, but such activity has not ceased. The following examples involving the Exchange’s affiliates the New York Stock Exchange LLC (“NYSE”) and NYSE Arca, Inc. (“NYSE Arca”), are instructive regarding the rationale for the proposed rule change.

In July 2012, Biremis Corp. (formerly Swift Trade Securities USA, Inc.) (“Biremis”) and its CEO were barred from the securities industry for, among other things, supervisory violations related to a failure by Biremis to detect and prevent disruptive and allegedly manipulative trading activities, including layering, short sale violations, and anti-money laundering violations.<sup>8</sup> Biremis’ sole business was providing trade execution services via a proprietary day trading platform and order management system to day traders located in foreign jurisdictions. Thus, the disruptive and allegedly manipulative trading activity introduced by Biremis to U.S. markets originated directly or indirectly from its foreign clients. The pattern of disruptive and allegedly manipulative quoting and trading activity was widespread across multiple exchanges, and the NYSE, FINRA, and other SROs identified clear patterns of the behavior in 2007 and 2008. Although Biremis and its principals were on notice of the disruptive and allegedly manipulative quoting and trading activity that was

trigger some type of market movement and/or response from other market participants, from which the market manipulator might benefit by trading bona fide orders.

<sup>8</sup> See *Biremis Corp. and Peter Beck*, FINRA Letter of Acceptance, Waiver and Consent No. 2010021162202, July 30, 2012.

occurring, Biremis took little to no action to attempt to supervise or prevent such quoting and trading activity until at least 2009. Even when it put some controls in place, they were deficient and the pattern of disruptive and allegedly manipulative trading activity continued to occur. As noted above, the final resolution of the enforcement action to bar the firm and its CEO from the industry was not concluded until 2012, four years after the disruptive and allegedly manipulative trading activity was first identified.

In September of 2012, Hold Brothers On-Line Investment Services, Inc. (“Hold Brothers”) settled a regulatory action in connection with its provision of a trading platform, trade software and trade execution, support and clearing services for day traders.<sup>9</sup> Many traders using the firm’s services were located in foreign jurisdictions. Hold Brothers ultimately settled the action with FINRA and several exchanges, including NYSE Arca, for a total monetary fine of \$3.4 million. In a separate action, the Firm settled with the Commission for a monetary fine of \$2.5 million.<sup>10</sup> Among the alleged violations in the case were disruptive and allegedly manipulative quoting and trading activity, including spoofing, layering, wash trading, and pre-arranged trading. Through its conduct and insufficient procedures and controls, Hold Brothers also allegedly committed anti-money laundering violations by failing to detect and report manipulative and suspicious trading activity. Hold Brothers was alleged to have not only provided foreign traders with access to the U.S. markets to engage in such activities, but that its principals also owned and funded foreign subsidiaries that engaged in the disruptive and allegedly manipulative quoting and trading activity. Although the pattern of disruptive and allegedly manipulative quoting and trading activity was identified in 2009, as noted above, the enforcement action was not concluded until 2012. Thus, although disruptive and allegedly manipulative quoting and trading was promptly detected, it continued for several years. The Exchange also notes that criminal proceedings were initiated against Navinder Singh Sarao for manipulative trading activity, including forms of layering and spoofing in the futures markets, that were identified as a contributing factor to the “Flash Crash” of 2010, and yet continued through

<sup>9</sup> See *Hold Brothers On-Line Investment Services, LLC*, FINRA Letter of Acceptance, Waiver and Consent No. 20100237710001, September 25, 2012.

<sup>10</sup> *In the Matter of Hold Brothers On-Line Investment Services, LLC*, Exchange Act Release No. 67924, September 25, 2012.

2015. In November 2016, Mr. Sarao pled guilty to one count each of wire fraud and spoofing.<sup>11</sup>

The Exchange believes that the activities described in the cases above provide justification for the proposed rule change, which is described below.

#### Proposed Rule Change

##### Proposed Rule 5220

The Exchange proposes to adopt new Rule 5220 of the Exchange's Equities Rules to define and prohibit disruptive quoting and trading activity on the Exchange. Proposed Rule 5220(a) would prohibit member organizations and covered persons<sup>12</sup> from engaging in or facilitating disruptive quoting and trading activity on the Exchange, as described in proposed Rule 5220(b)(1) and (2), including acting in concert with other persons to effect such activity. The Exchange believes that it is necessary to extend the prohibition to situations when persons are acting in concert to avoid a potential loophole where disruptive quoting and trading activity is simply split between several brokers or customers. The Exchange also believes, that with respect to persons acting in concert perpetrating an abusive scheme, it is important that the Exchange have authority to act against the parties perpetrating the abusive scheme, whether it is one person or multiple persons.

The Exchange proposes to adopt Rule 5220(b)(1) and (2) providing additional details regarding disruptive quoting and trading activity. Proposed Rule 5220(b)(1) would describe disruptive quoting and trading activity containing many of the elements indicative of layering. For purposes of the proposed Rule, disruptive quoting and trading activity would include a frequent pattern in which the following facts are present:

- A party enters multiple limit orders on one side of the market at various price levels (the "Displayed Orders") (proposed Rule 5220(b)(1)(A)); and
- following the entry of the Displayed Orders, the level of supply and demand

<sup>11</sup> The plea agreement in *United States v. Navinder Singh Sarao*, Docket Number: 1:15-CR-00075-1 (N.D. Ill.), is available at <https://www.justice.gov/criminal-fraud/file/910196/download>.

<sup>12</sup> Rule 9120(g) defines "covered person" to include a member, principal executive, approved person, registered or non-registered employee of a member organization or an ATP Holder, or other person (excluding a member organization) subject to the jurisdiction of the Exchange. Rule 2(b)—Equities defines "member organization" as a registered broker or dealer (unless exempt pursuant to the Act) that is a member of FINRA or another registered securities exchange.

for the security changes (proposed Rule 5220(b)(1)(B)); and

- the party enters one or more orders on the opposite side of the market of the Displayed Orders (the "Contra-Side Orders") that are subsequently executed (proposed Rule 5220(b)(1)(C)); and
- following the execution of the Contra-Side Orders, the party cancels the Displayed Orders (proposed Rule 5220(b)(1)(D)).

Proposed Rule 5220(b)(2) would describe disruptive quoting and trading activity containing many of the elements indicative of spoofing and would describe disruptive quoting and trading activity as a frequent pattern in which the following facts are present:

- A party narrows the spread for a security by placing an order inside the national best bid or offer (proposed Rule 5220(b)(2)(A)); and
- the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described in proposed (b)(2)(A) that narrowed the spread (proposed Rule 5220(b)(2)(B)).

The Exchange believes that the proposed descriptions of disruptive quoting and trading activity articulated in the rule are consistent with the activities that have been identified and described in the client access cases described above and with the rules of other SROs.<sup>13</sup>

Proposed Rule 5220(c) would provide that, unless otherwise indicated, the descriptions of disruptive quoting and trading activity do not require the facts to occur in a specific order in order for the Rule to apply. For instance, with respect to the pattern defined in proposed Rule 5220(b)(1)(A)–(D), it is of no consequence whether a party first enters Displayed Orders and then Contra-side Orders or vice-versa. However, as proposed, it is required for supply and demand to change following the entry of the Displayed Orders.

The Exchange also proposes to make clear that disruptive quoting and trading activity includes a pattern or practice in which some portion of the disruptive quoting and trading activity is conducted on the Exchange and the other portions of the disruptive quoting and trading activity are conducted on one or more other exchanges. The Exchange believes that this authority is necessary to address market participants who would otherwise seek to avoid the prohibitions of the proposed Rule by

<sup>13</sup> See, e.g., BATS Rule 12.15; NASDAQ Rule 2170. See generally note 4, *supra*.

spreading their activity amongst various execution venues.

##### Proposed Rule 996NY

The Exchange proposes to adopt a new Rule 996NY of the Options Rules that would be substantially the same as proposed Rule 5220 and would apply to NYSE Amex Options.

Like its equities counterpart, proposed Rule 996NY would define and prohibit disruptive quoting and trading activity on the Exchange. Proposed Rule 996NY(a) would prohibit ATP Holders or associated persons of ATP Holders<sup>14</sup> from engaging in or facilitating disruptive quoting and trading activity on the Exchange, as described in proposed Rule 996NY(b)(1) and (2), including acting in concert with other persons to effect such activity. Proposed Rule 996NY(b)(1) would describe disruptive quoting and trading activity containing many of the elements indicative of layering. For purposes of the proposed Rule, disruptive quoting and trading activity would include a frequent pattern in which the following facts are present:

- A party enters multiple limit orders on one side of the market at various price levels (the "Displayed Orders") (proposed Rule 996NY(b)(1)(A)); and
- following the entry of the Displayed Orders, the level of supply and demand for the security changes (proposed Rule 996NY(b)(1)(B)); and
- the party enters one or more orders on the opposite side of the market of the Displayed Orders (the "Contra-Side Orders") that are subsequently executed (proposed Rule 996NY(b)(1)(C)); and
- following the execution of the Contra-Side Orders, the party cancels the Displayed Orders (proposed Rule 996NY(b)(1)(D)).

Proposed Rule 996NY(b)(2) would describe disruptive quoting and trading activity containing many of the elements indicative of spoofing and would describe disruptive quoting and trading activity as a frequent pattern in which the following facts are present:

- A party narrows the spread for a security by placing an order inside the national best bid or offer (proposed Rule 996NY(b)(2)(A)); and

<sup>14</sup> On the NYSE Amex Options market, a permit holder is known as an "Amex Trading Permit Holder" or "ATP Holder," which is defined in Rule 900.2NY(5) as a natural person, sole proprietorship, partnership, corporation, limited liability company or other organization, in good standing, that has been issued an ATP. See also Rule 900.2NY(4) (defining "ATP" as a permit issued by NYSE MKT for effecting securities transactions on the Exchange's Trading Facilities, defined in Rule 900.2NY(81) as, among places, the Exchange's facilities for the trading of options at 11 Wall Street, New York, NY). An ATP Holder must be registered as a broker or dealer.

• the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described in proposed (b)(2)(A) that narrowed the spread (proposed Rule 996NY(b)(2)(B)).

As with proposed Rule 5220, the Exchange believes that the proposed descriptions of disruptive quoting and trading activity articulated in Rule 996NY are consistent with the activities that have been identified and described in the client access cases described above and with the rules of other SROs.<sup>15</sup>

Proposed Rule 996NY(c) would provide that, unless otherwise indicated, the descriptions of disruptive quoting and trading activity do not require the facts to occur in a specific order in order for the Rule to apply. The proposed Rule would also make clear that disruptive quoting and trading activity includes a pattern or practice in which some portion of the disruptive quoting and trading activity is conducted on the Exchange and the other portions of the disruptive quoting and trading activity are conducted on one or more other exchanges.

#### Proposed Rule 9560

The Exchange proposes a new Rule 9560 for its Code of Procedure that would set forth procedures for issuing suspension orders, immediately prohibiting a member organization or covered person from conducting continued disruptive quoting and trading activity on the Exchange. Importantly, these procedures would also provide the Exchange the authority to order a member organization or covered person to cease and desist from providing access to the Exchange to a client that is conducting disruptive quoting and trading activity.

Under proposed paragraph (a)(1) of Rule 9560, with the prior written authorization of the Chief Regulatory Officer (“CRO”) or such other senior officers as the CRO may designate, the Exchange’s Enforcement department may initiate an expedited suspension proceeding with respect to alleged violations of Rule 5220 or Rule 996NY (Disruptive Quoting and Trading Activity Prohibited).

Proposed paragraph (a) would also set forth the requirements for notice ((a)(2)) and service of such notice ((a)(3)) pursuant to the Rule, including the

required method of service and the content of notice.

Proposed paragraph (b) of Rule 9560 would govern the appointment of a Hearing Panel as well as potential disqualification or recusal of Hearing Officers. The proposed provision is consistent with current Rule 9231(b), which governs the appointment of a hearing panel or extended hearing panel to conduct disciplinary proceedings. The Exchange’s Rules provide for a Hearing Officer to be recused in the event he or she has a conflict of interest or bias or other circumstances exist where his or her fairness might reasonably be questioned in accordance with Rules [sic] 9233(a). In addition to recusal initiated by such a Hearing Officer, a party to the proceeding will be permitted to file a motion to disqualify a Hearing Officer. However, due to the compressed schedule pursuant to which the process would operate under Rule 9560, the proposed rule would require such motion to be filed no later than 5 days after the announcement of the Hearing Panel and the Exchange’s brief in opposition to such motion would be required to be filed no later than 5 days after service thereof. Pursuant to existing Rule 9233(c), a motion for disqualification of a Hearing Officer shall be decided by the Chief Hearing Officer based on a prompt investigation. The applicable Hearing Officer shall remove himself or herself and request the Chief Executive Officer to reassign the hearing to another Hearing Officer such that the Hearing Panel still meets the compositional requirements described in Rule 9231(b). If the Chief Hearing Officer determines that the Respondent’s grounds for disqualification are insufficient, it shall deny the Respondent’s motion for disqualification by setting forth the reasons for the denial in writing and the Hearing Panel will proceed with the hearing.

Under paragraph (c)(1) of the proposed Rule, the hearing would be held not later than 15 days after service of the notice initiating the suspension proceeding, unless otherwise extended by the Chairman of the Hearing Panel with the consent of the Parties for good cause shown. In the event of a recusal or disqualification of a Hearing Officer, the hearing shall be held not later than five days after a replacement Hearing Officer is appointed.

Under paragraph (c)(2) of the proposed Rule, a notice of date, time, and place of the hearing shall be served on the Parties not later than seven days before the hearing, unless otherwise ordered by the Chairman of the Hearing Panel. Under the proposed Rule, service

shall be made by personal service or overnight commercial courier and shall be effective upon service.

Proposed paragraph (c) would also govern how the hearing is conducted, including the authority of Hearing Officers ((c)(3)), witnesses ((c)(4)), additional information that may be required by the Hearing Panel ((c)(5)), the requirement that a transcript of the proceeding be created and details related to such transcript ((c)(6)), and details regarding the creation and maintenance of the record of the proceeding ((c)(7)). Proposed paragraph (c)(8) would also provide that if a Respondent fails to appear at a hearing for which it has notice, the allegations in the notice and accompanying declaration may be deemed admitted, and the Hearing Panel may issue a suspension order without further proceedings. Finally, as proposed, if the Exchange fails to appear at a hearing for which it has notice, the Hearing Panel may order that the suspension proceeding be dismissed.

Under paragraph (d)(1) of the proposed Rule, the Hearing Panel would be required to issue a written decision stating whether a suspension order would be imposed. The Hearing Panel would be required to issue the decision not later than 10 days after receipt of the hearing transcript, unless otherwise extended by the Chairman of the Hearing Panel with the consent of the Parties for good cause shown. The proposed Rule would state that a suspension order shall be imposed if the Hearing Panel finds by a preponderance of the evidence that the alleged violation specified in the notice has occurred and that the violative conduct or continuation thereof is likely to result in significant market disruption or other significant harm to investors.

Proposed paragraph (d)(2) would also describe the content, scope and form of a suspension order. As proposed, a suspension order shall be limited to ordering a Respondent to cease and desist from violating proposed Rule 5220, and/or to ordering a Respondent to cease and desist from providing access to the Exchange to a client of Respondent that is causing violations of proposed Rule 5220 ((d)(2)(A)). Under the proposed rule, a suspension order shall also set forth the alleged violation and the significant market disruption or other significant harm to investors that is likely to result without the issuance of an order ((d)(2)(B)). The order shall describe in reasonable detail the act or acts the Respondent is to take or refrain from taking, and suspend such Respondent unless and until such action is taken or refrained from

<sup>15</sup> See, e.g., BATS Rule 12.15; NASDAQ Rule 2170; BOX Options Exchange LLC Rule 3220. See generally note 3, *supra*.

((d)(2)(C)). Finally, the order shall include the date and hour of its issuance ((d)(2)(D)).

As proposed, under proposed paragraph (d)(3), a suspension order would remain effective and enforceable unless modified, set aside, limited, or revoked pursuant to proposed paragraph (e), as described below.

Finally, paragraph (d)(4) would require service of the Hearing Panel's decision and any suspension order consistent with other portions of the proposed rule related to service.

Proposed paragraph (e) of Rule 9560 would provide that at any time after the Hearing Officers served the Respondent with a suspension order, a Party could apply to the Hearing Panel to have the order modified, set aside, limited, or revoked. If any part of a suspension order is modified, set aside, limited, or revoked, proposed paragraph (e) of Rule 9560 provides the Hearing Panel discretion to leave the cease and desist part of the order in place. For example, if a suspension order suspends Respondent unless and until Respondent ceases and desists providing access to the Exchange to a client of Respondent, and after the order is entered the Respondent complies, the Hearing Panel is permitted to modify the order to lift the suspension portion of the order while keeping in place the cease and desist portion of the order. With its broad modification powers, the Hearing Panel also maintains the discretion to impose conditions upon the removal of a suspension—for example, the Hearing Panel could modify an order to lift the suspension portion of the order in the event a Respondent complies with the cease and desist portion of the order but additionally order that the suspension will be re-imposed if Respondent violates the cease and desist provisions modified order in the future. The Hearing Panel generally would be required to respond to the request in writing within 10 days after receipt of the request. An application to modify, set aside, limit or revoke a suspension order would not stay the effectiveness of the suspension order.

Proposed paragraph (f) would describe the call for review process by the Exchange Board of Directors. Specifically, the proposed Rule would provide that if there is no pending application to the Hearing Panel to have a suspension order modified, set aside, limited, or revoked, the Exchange Board of Directors, in accordance with Rule 9310 (Review by Exchange Board of Directors), may call for review the Hearing Panel decision on whether to issue a suspension order. Further, the

proposed Rule would provide that a call for review by the Exchange Board of Directors shall not stay the effectiveness of a suspension order.

Finally, proposed paragraph (g) would provide that sanctions issued under the proposed Rule 9560 would constitute final and immediately effective disciplinary sanctions imposed by the Exchange, and that the right to have any action under the Rule reviewed by the Commission would be governed by Section 19 of the Act. The filing of an application for review would not stay the effectiveness of a suspension order unless the Commission otherwise ordered.

#### Proposed Amendments to Rule 8313

Finally, the Exchange proposes amendments to Rule 8313 to permit release to the public of suspension notices and orders issued pursuant to proposed Rule 9560. Specifically, the Exchange proposes to amend Rule 8313(a)(3), which provides that the Exchange shall release to the public information with respect to any suspension, cancellation, expulsion, or bar that constitutes final Exchange action imposed pursuant various Exchange Rules, to include a reference to proposed Rule 9560. The Exchange also proposes to include a notice of the initiation of a suspension proceeding served pursuant to proposed Rule 9560 in the definition of "disciplinary complaint" under Rule 8313(e)(1). Similarly, the Exchange would include suspension orders issued pursuant to proposed Rule 9560 in the definition of "disciplinary decision" under Rule 8313(e)(2). The proposed amendments to Rule 8313 are consistent with the FINRA Rule 8313 and the rules of the other SROs modeled on FINRA Rule 8313.<sup>16</sup>

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In summary, proposed Rule 5220 and Rule 996NY, coupled with proposed Rule 9560, would provide the Exchange with another form and means of authority to promptly act to prevent disruptive quoting and trading activity from continuing on the Exchange. The following example illustrates how the proposed rule would operate.

Assume that through its surveillance program, Exchange staff identifies a pattern of potentially disruptive quoting and trading activity. After an initial investigation, the Exchange would contact the member organization or covered person responsible for the orders that caused the activity to request an explanation of the activity as well as any additional relevant information,

including the source of the activity. If the Exchange were to continue to see the same pattern from the same member organization or covered person and the source of the activity is the same or has been previously identified as a frequent source of disruptive quoting and trading activity then the Exchange could initiate an expedited suspension proceeding by serving notice on the member organization or covered person that would include details regarding the alleged violations as well as the proposed sanction.

In such a case the proposed sanction would likely be to order the member organization or covered person to cease and desist providing access to the Exchange to the client that is responsible for the disruptive quoting and trading activity and to suspend such member organization or covered person unless and until such action is taken. The member organization or covered person would have the opportunity to be heard in front of a Hearing Panel at a hearing to be conducted within 15 days of the notice. If the Hearing Panel determined that the violation alleged in the notice did not occur or that the conduct or its continuation would not have the potential to result in significant market disruption or other significant harm to investors, then the Hearing Panel would dismiss the suspension order proceeding. If the Hearing Panel determined that the violation alleged in the notice did occur and that the conduct or its continuation is likely to result in significant market disruption or other significant harm to investors, then the Hearing Panel would issue the order including the proposed sanction, ordering the member organization or covered person to cease providing access to the client at issue and suspending such Member unless and until such action is taken.

If such member organization or covered person wished for the suspension to be lifted because the client ultimately responsible for the activity no longer would be provided access to the Exchange, then such member organization or covered person could apply to the Hearing Panel to have the order modified, set aside, limited or revoked. The Exchange notes that the issuance of a suspension order would not alter the Exchange's ability to further investigate the matter and/or later sanction the member or member organization pursuant to the Exchange's standard disciplinary process for supervisory violations or other violations of Exchange rules or the Act.

The Exchange reiterates that it already has broad authority to take action

<sup>16</sup> See FINRA Rule 8313; BATS Rule 8.18.

against a member organization or covered person in the event that such member organization or covered person is engaging in or facilitating disruptive or manipulative trading activity on the Exchange. For the reasons described above, and in light of recent matters such as the client access cases described above, as well as other cases currently under investigation, the Exchange believes that it is equally important for the Exchange to have this supplemental authority to promptly initiate expedited suspension proceedings against any member organization or covered person who has demonstrated a clear pattern or practice of disruptive quoting and trading activity, as described above, and to take action including ordering such member organization or covered person to terminate access to the Exchange to one or more clients that are [sic] responsible for the violative activity.

The Exchange recognizes that its proposed authority to issue a suspension order is a powerful measure that should be used very cautiously. Consequently, the proposed rules have been designed to ensure that the proceedings are used to address only the most clear and serious types of disruptive quoting and trading activity and that the interests of respondents are protected. For example, to ensure that proceedings are used appropriately and that the decision to initiate a proceeding is made only at the highest staff levels, the proposed rules require the CRO or another senior officer of the Exchange to issue written authorization before the Exchange can institute an expedited suspension proceeding. In addition, the rule by its terms is limited to violations of proposed Rule 5220 or Rule 996NY, when necessary to protect investors, other member organizations or covered persons, and the Exchange.

Further, the Exchange believes that the proposed expedited suspension provisions described above that provide the opportunity to respond as well as a Hearing Panel determination prior to taking action will ensure that the Exchange would not utilize its authority in the absence of a clear pattern or practice of disruptive quoting and trading activity. Notwithstanding the adoption of the proposed rules along with existing disciplinary rules in the 9000 series, the Exchange also notes that that pursuant to Rule 9555(a)(2) (Failure to Meet the Eligibility or Qualification Standards or Prerequisites for Access to Services), if a member organization or covered person cannot continue to have access to services offered by the Exchange or a member thereof with safety to investors, creditors, members, or the Exchange, the Exchange may

provide written notice to such member or person limiting or prohibiting access to services offered by the Exchange or a member thereof. This ability to impose a temporary restriction upon Members assists the Exchange in maintaining the integrity of the market and protecting investors and the public interest.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>18</sup> in particular, in that 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, and 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. Pursuant to the proposal, the Exchange will have a mechanism to promptly initiate expedited suspension proceedings in the event the Exchange believes that it has sufficient proof that a violation of proposed Rule 5220 or 996NY has occurred and is ongoing.

Further, the Exchange believes that the proposal is consistent with Sections 6(b)(1) and 6(b)(6) of the Act,<sup>19</sup> which require that the rules of an exchange enforce compliance with, and provide appropriate discipline for, violations of the Commission and Exchange rules. The Exchange believes that the proposal is consistent with the public interest, the protection of investors, or otherwise in furtherance of the purposes of the Act because the proposal helps to strengthen the Exchange's ability to carry out its oversight and enforcement responsibilities as a self-regulatory organization in cases where awaiting the conclusion of a full disciplinary proceeding is unsuitable in view of the potential harm to other member organization and their customers. The Exchange notes that if this type of conduct is allowed to continue on the Exchange, the Exchange's reputation could be harmed because it may appear to the public that the Exchange is not acting to address the behavior. The proposed expedited process would enable the Exchange to address the behavior with greater speed.

As noted throughout this filing, the Exchange believes that these rule proposals are necessary for the

protection of investors rather than allowing disruptive quoting and trading activity to occur for several years. The Exchange believes that the pattern of disruptive and allegedly manipulative quoting and trading activity was widespread across multiple exchanges, and the Exchange, FINRA, and other SROs identified clear patterns of the behavior in 2007 and 2008 in the equities markets.<sup>20</sup> The Exchange believes that this proposal will provide the Exchange with additional means to enforce against such behavior in an expedited manner while providing member organizations or covered person with the necessary due process. The Exchange believes that its proposal is consistent with the Act because it provides the Exchange with the ability 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 from such ongoing behavior.

The Exchange believes that the proposal is also consistent with Section 6(b)(7) of the Act,<sup>21</sup> which requires that the rules of an exchange "provide a fair procedure for the disciplining of members and persons associated with members . . . and the prohibition or limitation by the exchange of any person with respect to access to services offered by the exchange or a member thereof." Finally, the Exchange also believes the proposal is consistent with Sections 6(d)(1) and 6(d)(2) of the Act,<sup>22</sup> which require that the rules of an exchange with respect to a disciplinary proceeding or proceeding that would limit or prohibit access to or membership in the exchange require the exchange to: Provide adequate and specific notice of the charges brought against a member or person associated with a member, provide an opportunity to defend against such charges, keep a record, and provide details regarding the findings and applicable sanctions in the event a determination to impose a disciplinary sanction is made. The Exchange believes that each of these requirements is addressed by the notice and due process provisions included within proposed Rule 9560. Importantly, as noted above, the Exchange will use the authority proposed in this filing only in clear and egregious cases when necessary to protect investors, other member organizations or covered persons and the Exchange, and even in such cases,

<sup>20</sup> See Section 3 herein, the Purpose section, for examples of conduct referred to herein.

<sup>21</sup> 15 U.S.C. 78f(b)(7).

<sup>22</sup> 15 U.S.C. 78f(d)(1).

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

<sup>19</sup> 15 U.S.C. 78f(b)(5).

respondents will be afforded due process in connection with the suspension proceedings.

Finally, the Exchange believes that amending Rule 8313 to permit release to the public of suspension notices and orders issued pursuant to proposed Rule 9560 furthers the objectives of Section 6(b)(5) of the Act<sup>23</sup> by providing greater clarity, consistency, and transparency regarding the release of disciplinary complaints, decisions and other information to the public. The Exchange also believes that the proposed rule change promotes greater transparency to the Exchange's disciplinary process by providing greater access to information regarding its disciplinary actions and valuable guidance and information to persons subject to the Exchange's jurisdiction, regulators, and the investing public.

#### *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 not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that each self-regulatory organization should be empowered to regulate trading occurring on their [sic] market consistent with the Act and without regard to competitive issues. The Exchange is requesting authority to take appropriate action if necessary for the protection of investors, other member organizations or covered persons, and the Exchange. The Exchange also believes that it is important for all exchanges to be able to take similar action to enforce its [sic] rules against manipulative conduct thereby leaving no exchange prey to such conduct. The Exchange does not believe that the proposed rule change imposes an undue burden on competition, rather this process will provide the Exchange with necessary means to enforce against violations of manipulative quoting and trading activity in an expedited manner, while providing member organizations or covered persons with the necessary due process. Finally, the proposed rule change is designed to enhance the Exchange's rules governing the release of disciplinary complaints, decisions and other information to the public, thereby providing greater clarity and consistency and resulting in less burdensome and more efficient regulatory compliance and facilitating performance of regulatory functions.

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

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

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>24</sup> and Rule 19b-4(f)(6) thereunder.<sup>25</sup> Because the 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>26</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>27</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest.

At any time within 60 days of the filing of such 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 Commission shall institute proceedings under Section 19(b)(2)(B)<sup>28</sup> of the Act to determine whether the proposed rule change 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:

<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>25</sup> 17 CFR 240.19b-4(f)(6).

<sup>26</sup> 17 CFR 240.19b-4(f)(6).

<sup>27</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>28</sup> 15 U.S.C. 78s(b)(2)(B).

#### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEMKT-2017-25 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-NYSEMKT-2017-25. This file number should be included on the subject line if email 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 Web site (<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 Web site 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEMKT-2017-25 and should be submitted on or before June 26, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>29</sup>

**Eduardo A. Aleman,**  
*Assistant Secretary.*

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<sup>29</sup> 17 CFR 200.30-3(a)(12).

<sup>23</sup> 15 U.S.C. 78f(b)(5).