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 such 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–NASDAQ–2018–047, and should be submitted on or before July 23, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.22

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Cboe EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 11.6, Definitions and Rule 11.8, Order Types

June 26, 2018

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),1 and Rule 19b–4 thereunder,2 notice is hereby given that on June 13, 2018, Cboe EDGA Exchange, Inc. (the “Exchange” or “EDGA”) 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 Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act3 and Rule 19b–4(i)(6) thereunder,4 which renders it effective upon filing with the Commission. 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 filed a proposal to (i) amend paragraph (n) of Exchange Rule 11.6, Routing/Posting Instructions to add a new optional order instruction to be known as Non-Displayed Swap; and (ii) make a related change to description of Limit Orders and MidPoint Peg Orders under Exchange Rule 11.8. These proposed amendments are identical to the rules of Nasdaq and Arca.5

The proposed Non-Displayed Swap (“NDS”) instruction would provide orders with a Non-Displayed6 instruction resting on the EDGA Book with a greater ability to receive an execution when that resting order is locked by an incoming order (e.g., the price of the resting non-displayed order is equal to the price of the incoming order that is to be placed on the EDGA Book). The NDS instruction would be an optional order instruction that would allow Users7 to have their resting non-displayed orders execute against an incoming order with a Post Only instruction rather than have it be locked by the incoming order. NDS would be defined as an instruction that may be attached to an order with a Non-Displayed instruction that when such order is resting on the EDGA Book and would be locked by an incoming order with a Post Only instruction that does not remove liquidity pursuant to paragraph (4) of Exchange Rule 11.6(n),8 the order with a NDS

3 See supra note 5.
4 See supra notes 6 and 7.
5 See Exchange Rule 11.6(e)(2).
6 See Exchange Rule 11.6(n)(4), with an order. for the Post Only instruction will remove contra-side liquidity from the EDGA Book if the order is an order to buy or sell a security priced below $1.00 or if the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the EDGA Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. To determine at the time of a potential execution whether the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the EDGA Book and subsequently provided liquidity, the Exchange will use the highest possible

Continued
instruction is converted to an executable order and will remove liquidity against such incoming order. An order with a NDS instruction would not be eligible for routing pursuant to Exchange Rule 11.11, Routing to Away Trading Centers. The proposed NDS instruction assists in the avoidance of an internally locked EDGA Book (though such lock would not be displayed by the Exchange) by facilitating the execution of orders that would otherwise lock each other.

The following example illustrates the operation of an order with a NDS instruction. Assume the National Best Bid and Offer is $10.00 by $10.04. There is a Limit Order to buy with a Non-Displayed instruction resting on the EDGA Book at $10.03. An order to sell with a Post Only instruction priced at $10.03 is entered. Under current behavior, the incoming sell order with a Post Only instruction would post to the EDGA Book because it would not receive sufficient price improvement. This would result in the EDGA Book being internally locked.

As proposed, if the Limit Order to buy with a Non-Displayed instruction also included a NDS instruction, the orders would instead execute against each other at $10.03, with the resting buy order with the NDS instruction becoming the remover of liquidity and the incoming sell order with a Post Only instruction becoming the liquidity provider.

Assume the same facts as above, but that a Limit Order with a Non-Displayed instruction to buy at $10.03 (“Order A”) is also resting on the EDGA Book with time priority ahead of the Limit Order to buy with a Non-Displayed instruction mentioned above (“Order B”). Like above, an order to sell with a Post Only instruction priced at $10.03 is entered. Under current behavior, the incoming sell order with a Post Only instruction would post to the EDGA Book because the value of such execution against the resting buy interest when removing liquidity does not equal or exceed the value of such execution if the order instead posted to the EDGA Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. As proposed, if Order B also included a NDS instruction, the incoming sell order would execute

Against Order B and such order would become the remover of liquidity and the incoming sell order with a Post Only instruction would become the liquidity provider. In such case, Order A cedes time priority to Order B because Order A did not also include a NDS instruction and thus the User that submitted Order A did not indicate the preference to be treated as the remover of liquidity in favor of an execution; instead, by not using NDS, a User indicates the preference to remain posted on the EDGA Book as a liquidity provider. However, if the incoming sell order was priced at $10.02, it would receive sufficient price improvement to execute upon entry against all resting buy Limit Orders in time priority at $10.03.

If the order with a NDS instruction is only partially executed, the unexecuted portion of that order remains on the EDGA Book and maintains its priority, as is the case today for an order that is partially executed and not cancelled by the User. The Exchange is proposing to make the NDS instruction available to Limit Orders that include a Non-Displayed instruction and MidPoint Peg Orders. The NDS instruction would not be available to all other order types provided by the Exchange under its Rule 11.8, as the execution of those order types is governed by other Exchange rules and the NDS instruction would be inconsistent with the use of those order types.

The Exchange notes that similar functionality exists on Nasdaq and Arca. Nasdaq refers to their functionality as the “Trade Now” instruction and Arca refers to their functionality as the “Non-Display Remove Modifier”. On Arca, a Limit Non-Displayed Order may be designated with a Non-Display Remove Modifier. If so designated, a Limit Non-Displayed Order to buy (sell) will trade as the remover of liquidity with an incoming Adding Liquidity Only Order (“ALO Order”) to sell (buy) that has a working price equal to the working price of the Limit Non-Displayed Order. On Nasdaq, Trade Now is an order attribute that allows a resting order that becomes locked by an incoming Displayed Order to execute against the available size of the contra-side locking order as a liquidity taker, and any remaining shares of the resting order will remain posted on the Nasdaq Book with the same priority. Nasdaq requires the contra-side order to be display eligible, while the Exchange proposes to enable an order with a NDS instruction to remove liquidity regardless of whether the incoming order would have ultimately been eligible for display consistent with Arca’s Non-Display Remove Modifier.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and further the objectives of Section 6(b)(5) of the Act in particular, in that it is designed 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

Effectiveness of Proposed Rule Change to Amend Rule 4703 and Rule 4703 to add a “Trade Now” Instruction to Certain Order Types.


Arca provides their Non-Display Remove Modifier to their Midpoint Liquidity Orders (“MPL Orders”) designated Day and MPL–ALO Orders and Arca Only Orders. Nasdaq’s Trade Now functionality is available to Price to Comply Orders, Price to Display Orders, Non-Displayed Orders, Post Only Orders, Market Maker Peg Orders. To the extent the NDS instruction is only available to Limit Orders with a Non-Displayed instruction and MidPoint Peg Orders, the Exchange notes that the NDS instruction will apply to different order types than Arca’s Non-Display Remove Modifier and Nasdaq’s Trade Now functionality.


The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. On the contrary, the Exchange believes the proposed rule change promotes competition because it will enable the Exchange to offer functionality substantially similar to that offered by Nasdaq and Arca (in addition to the fact that such functionality is identical to that already offered by the Exchange's affiliate, EDGX). Therefore, the Exchange does not believe the proposed rule change will result in any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As the NDS feature will be equally available to all Users, the Exchange does not believe the proposed rule change will result in any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No comments were solicited or received on 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 from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act

A proposed rule change filed under Rule 19b–4(f)(6) normally does not become operative for 30 days after the date of the filing. However, Rule 19b–4(f)(6)(iii) authorizes the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing, EDGA requested that the Commission waive the 30-day operative delay so that the Exchange can implement the proposed rule change promptly after filing. The Exchange noted that the proposed functionality is optional, may lead to increased order interaction on the Exchange, and is identical to functionality already provided on EDGX. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest, as such waiver will permit the Exchange to update its rule without delay so that it provides the same optional NDS functionality as is available on EDGX and potentially increase order interaction on the Exchange. Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.

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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the 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:

- Use the Commission’s internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include File Number SR–CboeEDGA–2018–011 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–CboeEDGA–2018–011. 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 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–CboeEDGA–2018–011, and should be submitted on or before July 23, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.

Eduardo A. Aleman, Assistant Secretary.

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See supra notes 5–7.


29 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 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.


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

33 17 CFR 200.30–3(a)(12) and (59).