

commenters' views regarding whether the Exchange's proposed rule to list and trade Managed Portfolio Shares, which are actively managed exchange-traded products for which the portfolio holdings would be disclosed on a quarterly, rather than daily, basis, is adequately designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and to protect investors and the public interest, and is consistent with the maintenance of a fair and orderly market under the Exchange 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeBZX-2019-047 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-CboeBZX-2019-047. 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-CboeBZX-2019-047 and should be submitted on or before October 18, 2019. Rebuttal comments should be submitted by November 1, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>55</sup>

Jill M. Peterson,  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87056; File No. SR-NYSE-2019-34]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, a Proposed Rule Change To Amend Exchange Rule 104 To Specify Designated Market Maker Requirements for Exchange Traded Products Listed on the Exchange

September 23, 2019.

#### I. Introduction

On June 7, 2019, New York Stock Exchange LLC ("Exchange" or "NYSE") filed with the Securities and Exchange Commission ("Commission") 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> a proposed rule change to amend Exchange Rule 104 to specify Designated Market Maker ("DMM") requirements for Exchange Traded Products ("ETPs") listed on the Exchange pursuant to Exchange Rules 5P and 8P. The proposed rule change was published for comment in the *Federal Register* on June 25, 2019.<sup>3</sup>

On July 24, 2019, the Commission extended to September 23, 2019, the time period in which to approve the proposal, disapprove the proposal, or institute proceedings to determine whether to approve or disapprove the proposal.<sup>4</sup> The Commission has received one comment on the proposal.<sup>5</sup> On September 18, 2019, the Exchange filed Amendment No. 1 to the proposal, which supersedes the original filing in

<sup>55</sup> 17 CFR 200.30-3(a)(57).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 86151 (June 19, 2019), 84 FR 29908 (June 25, 2019) ("Notice").

<sup>4</sup> See Securities Exchange Act Release No. 86460 (July 24, 2019), 84 FR 36983 (July 30, 2019).

<sup>5</sup> See Letter from Bernard B. Fudim, to Secretary, Commission (June 19, 2019).

its entirety. The Commission is publishing this notice to solicit comments on Amendment No. 1 from interested persons, and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

#### II. Self-Regulatory Organization's Description of the Proposal, as Modified by Amendment No. 1

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 to amend Rule 104 (Dealings and Responsibilities of DMMs) to specify DMM requirements for ETPs listed on the Exchange pursuant to Rules 5P and 8P.

###### Background

Currently, the Exchange trades securities, including ETPs, on its Pillar trading platform on an unlisted trading privileges ("UTP") basis, subject to Pillar Platform Rules 1P-13P.<sup>6</sup> In the next phase of Pillar, the Exchange proposes to transition trading of Exchange-listed securities to the Pillar trading platform, which means that DMMs would be trading on Pillar in their assigned securities.<sup>7</sup> Once transitioned to Pillar, such securities will also be subject to the Pillar Platform Rules 1P-13P.

Rules 5P (Securities Traded) and 8P (Trading of Certain Exchange Traded Products) provide for the listing of certain ETPs<sup>8</sup> on the Exchange that (1)

<sup>6</sup> "UTP Security" is defined as a security that is listed on a national securities exchange other than the Exchange and that trades on the Exchange pursuant to unlisted trading privileges. See Rule 1.1.

<sup>7</sup> The Exchange has announced that, subject to rule approvals, the Exchange will begin transitioning Exchange-listed securities to Pillar on August 5, 2019, available here: [https://www.nyse.com/publicdocs/nyse/markets/nyse/Revised\\_Pillar\\_Migration\\_Timeline.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse/Revised_Pillar_Migration_Timeline.pdf). The Exchange will publish by separate Trader Update a complete symbol migration schedule.

<sup>8</sup> Rule 1.1P(k) defines "Exchange Traded Product" as a security that meets the definition of

meet the applicable requirements set forth in those rules, and (2) do not have any component NMS Stock<sup>9</sup> that is listed on the Exchange or is based on, or represents an interest in, an underlying index or reference asset that includes an NMS Stock listed on the Exchange. ETPs listed under Rules 5P and 8P are “Tape A” listings and would be traded pursuant to the rules applicable to NYSE-listed securities.

The Exchange does not currently list any ETPs and anticipates that it would not do so until Exchange-listed securities transition to Pillar. Once an ETP is listed, it will be assigned to a DMM pursuant to Rule 103B. The DMMs’ role with respect to ETPs assigned to them will be subject to the same DMM rules governing all other listed securities, including Rules 36, 98, and 104. For example, DMMs will be responsible for facilitating the opening, reopening, and close of trading for assigned ETPs as required by Rule 104(a)(2) and (3). To facilitate DMM trading of Exchange-listed ETPs pursuant to Rules 5P and 8P, with this proposed change, the Exchange proposes to amend Rule 104 relating specified DMM requirements.

#### Current Rule 104

Rule 104 sets forth the obligations of Exchange DMMs. Under Rule 104(a), DMMs registered in one or more securities traded on the Exchange are required to engage in a course of dealings for their own account to assist in the maintenance of a fair and orderly market insofar as reasonably practicable. Rule 104(a) also enumerates the specific responsibilities and duties of a DMM, including: (1) Maintenance of a continuous two-sided quote, which mandates that each DMM maintain a bid or an offer at the National Best Bid (“NBB”) and National Best Offer (“NBO”) (together, the “NBBO” or “inside”) at least 15% of the trading day for securities with a consolidated average daily volume of less than one million shares, and at least 10% for securities with a consolidated average daily volume equal to or greater than one million shares,<sup>10</sup> and (2) the facilitation of, among other things, openings, re-openings, and the close of trading for the DMM’s assigned securities, all of which may include supplying liquidity as needed.<sup>11</sup>

“derivative securities product” in Rule 19b-4(e) under the Act.

<sup>9</sup>NMS Stock is defined in Rule 600 of Regulation NMS, 17 CFR 242.600(b)(47).

<sup>10</sup> See Rule 104(a)(1)(A).

<sup>11</sup> See Rule 104(a)(2)–(3). Rule 104(e) further provides that DMM units must provide contra-side liquidity as needed for the execution of odd-lot

Rule 104(f) imposes an affirmative obligation on DMMs to maintain, insofar as reasonably practicable, a fair and orderly market on the Exchange in assigned securities, including maintaining price continuity with reasonable depth and trading for the DMM’s own account when lack of price continuity, lack of depth, or disparity between supply and demand exists or is reasonably to be anticipated. The Exchange supplies DMMs with suggested Depth Guidelines for each security in which a DMM is registered, and DMMs are expected to quote and trade with reference to the Depth Guidelines.<sup>12</sup>

Rule 104(g) provides that transactions on the Exchange by a DMM for the DMM’s account must be effected in a reasonable and orderly manner in relation to the condition of the general market and the market in the particular stock. Rule 104(g)(1) also describes certain transactions on the Exchange by a DMM for the DMM’s account must be effected in a reasonable and orderly manner in relation to the condition of the general market and the market in the particular stock. In addition, if a DMM unit engages in an “Aggressing Transaction,” *i.e.*, a transaction that (i) is a purchase (sale) that reaches across the market to trade as the contra-side to the Exchange published offer (bid); and (ii) is priced above (below) the last-differently priced trade on the Exchange and above (below) the last differently-priced published offer (bid) on the Exchange, such DMM is subject to specified requirements to re-enter on the opposite side of the Aggressing Transaction. Rule 104(g) also sets forth the re-entry obligations for DMM transactions. Specifically, Rule 104(g)(2) provides that a DMM unit’s obligation to maintain a fair and orderly market may require re-entry on the opposite side of the market after effecting one or more transactions and that such re-entry should be commensurate with the size of the transaction(s) and the immediate and anticipated needs of the market.

Rules 104(g)(2)(A) and (B) specify the re-entry obligations for Aggressing Transactions. Following an Aggressing Transaction, Rule 104(g)(2)(A) requires the DMM unit to re-enter the opposite side of the market at or before the applicable PPP for that security commensurate with the size of the Aggressing Transaction. Under Rule 104(g)(2)(B), immediate re-entry on the

quantities eligible to be executed as part of the opening, reopening, and closing transactions but that remain unpaired after the DMM has paired all other eligible round lot sized interest.

<sup>12</sup> See Rule 104(f)(3).

opposite side of the market at or before the applicable PPP for the security commensurate with the size of the Aggressing Transaction is required if the Aggressing Transaction (i) is 10,000 shares or more or has a market value of \$200,000 or more, and (ii) exceeds 50% of the published offer (bid) size.

#### Proposed Rule Change

To reflect the differences in how ETPs trade and the unique role of exchange market makers in the trading of ETPs, in order to facilitate DMM trading of Exchange-listed ETPs pursuant to Rules 5P and 8P, the Exchange proposes certain amendments to Rule 104.

Unlike operating company securities listed on the Exchange, the value of ETPs are derived from the underlying assets owned. The end-of-day net asset value (“NAV”) of an ETP is a daily calculation based off the most recent closing prices of the underlying assets and an accounting of the ETP’s total cash position at the time of calculation. The NAV generally is calculated by taking the sum of fund assets, including any securities and cash, subtracting liabilities, and dividing by the number of outstanding shares. Additionally, ETPs are generally subject to a creation and redemption mechanism to ensure that the ETP’s price does not fluctuate too far away from NAV, which mechanisms mitigate the potential for exchange trading to impact the price of an ETP.

Moreover, each business day, ETPs make publicly available a creation and redemption “basket” which may, for example, be in the form of a portfolio composition file (*i.e.*, a specific list of names and quantities of securities or other assets designed to track the performance of the portfolio as a whole). ETP shares are created when an Authorized Participant, typically a market maker or other large institutional investor, deposits the daily creation basket or cash with the issuer. In return for the creation basket or cash (or both), a “creation unit” is issued to the Authorized Participant that consists of a specified number of ETF shares.<sup>13</sup>

The principal, and perhaps most important, feature of ETPs is their

<sup>13</sup> For example, assume a given ETP is designed to track the performance of a specific index. An Authorized Participant will generally purchase certain of the constituent securities of that index, then deliver those shares to the issuer. In exchange, the issuer gives the Authorized Participant a block of equally valued ETP shares, on a one-for-one fair value basis. This process also works in reverse. A redemption is achieved when the Authorized Participant accumulates a sufficient number of shares to constitute a creation unit and then exchanges these shares with the issuer, thereby decreasing the supply of ETP shares in the marketplace.

reliance on an “arbitrage function” performed by market participants that influences the supply and demand of shares and, thus, trading prices relative to NAV. As noted above, new ETP shares can be created and existing shares redeemed based on investor demand; thus, ETP supply is generally open-ended. As the Commission has acknowledged, the arbitrage function helps to keep an ETP’s price in line with the value of its underlying portfolio, *i.e.*, it minimizes deviation from NAV.<sup>14</sup> Generally, the higher the liquidity and trading volume of an ETP, the more likely the ETP’s price will not deviate from the value of its underlying portfolio. Market makers registered in ETPs play a key role in this arbitrage function and DMMs, along with other market participants, would perform this role for ETPs listed on the Exchange. In short, the Exchange believes that the arbitrage mechanism is generally an effective and efficient means of ensuring that intraday pricing in ETPs closely tracks the value of the underlying portfolio or reference assets.

To reflect the role of market makers—including DMMs—in the trading of ETPs, the Exchange proposes to amend Rule 104 in several respects. First, the Exchange proposes to exclude ETPs from the re-entry obligations for Aggressing Transactions in Rule 104(g)(2) (Re-Entry Obligations). The Exchange believes that because of the unique characteristics of ETPs—in particular, that ETPs trade at intra-day market prices rather than at NAV and the existence of arbitrage pricing mechanisms that are designed to help ensure that secondary market prices of ETP shares do not vary substantially from the NAV—the re-entry obligations set forth in Rule 104(g)(2) not only are not necessary, but also could impede the ability of a DMM to effectively make markets in ETPs. For example, a market maker engaging in the arbitrage function may need to update the quote for an ETP to bring the price of the security in line with the underlying assets. If updating the quote consistent with that arbitrage function were to require the DMM to first to engage in an Aggressing Transaction (*i.e.*, to trade with the

existing BBO in order to post a new quote), the Exchange believes that the current re-entry obligations for Aggressing Transactions would defeat the purpose of the DMM engaging in such Aggressing Transaction to update the quote in the first place. More specifically, the re-entry obligation could be inconsistent with the new quote that the DMM is seeking to post as part of the arbitrage function. Indeed, the Exchange believes that without the proposed changes, DMMs assigned to ETPs would be at a competitive disadvantage vis-à-vis registered market makers in the same ETP on competing exchanges as well as other market participants on the NYSE and would be impeded in their ability to effectively make competitive markets in their assigned ETP securities.

To maintain the balance between DMM benefits and obligations under Rule 104, the Exchange proposes to amend Rule 104 to require heightened DMM quoting obligations for Exchange-listed ETPs. As proposed, for listed ETPs, DMMs would be required to maintain a bid or offer at the NBB and NBO at least 25% of the trading day. Time at the inside for ETPs would be calculated in the same way as other securities in which DMM units are registered as the average of the percentage of time the DMM unit has a bid or offer at the inside. In other words, this would be a portfolio-based quoting requirement. Orders entered by the DMM in ETPs that are not displayed would not be included in the inside quote calculation as is also currently the case for other securities in which DMM units are registered. Reserve or other non-displayed orders entered by the DMM in their assigned ETP would not be included in the inside quote calculations.

To effectuate this change, Rule 104(a)(1)(A) would be amended as follows:

- The phrase “for securities in which the DMM unit is registered” would be added following the first sentence in Rule 104(a)(1)(A) and the comma following that initial sentence would be removed;
- New subsections (i), (ii) and (iii) would be created;
- The phrase “that are not ETPs” would be added following “at least 15% of the trading day for securities” in new subsection (i) and “in which the DMM unit is registered” would be deleted;
- The phrase “of the trading day”<sup>15</sup> would be added after “at least 10%” and

“that are not ETPs” would be added after “for securities” in new subsection (ii). The phrase “in which the DMM unit is registered” would be deleted since it would appear in the first sentence of the amended rule;

- New subdivision (iii) providing that DMM units must maintain a bid or an offer at the inside “at least 25% of the trading day for ETPs” would be added;
- The phrase “respective percentage” would replace “15% and 10%” in the next to last sentence of Rule 104(a)(1)(A) and “non-displayed” would replace “hidden” in the last sentence of the rule; and
- The phrase “other than Aggressing Transactions involving an ETP” would be added to Rule 104(g)(2)(A) and (B) following “Following an Aggressing Transaction.”

The Exchange also proposes non-substantive amendments to replace the terms “stock” and “stocks” in Rule 104(f)(2) (Function of DMMs) with the terms “security” and “securities,” respectively, and to replace the term “stock” in Rule 104(g)(1) with “security.” The Exchange would also add a new subsection (5) to Rule 104(f) providing that, for those ETPs in which they are registered, DMM units will be responsible for the affirmative obligation of maintaining a fair and orderly market, including maintaining price continuity with reasonable depth for their registered ETPs in accordance with Depth Guidelines published by the Exchange. To provide the Exchange time to collect trading data adequate to calculate appropriate Depth Guidelines for listed ETPs, the Exchange proposes that these provisions would not be operative until 18 weeks after the approval of the proposed rule change by the Commission.<sup>16</sup>

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Sections 6(b)(5) of the

<sup>14</sup> See Securities Exchange Act Release No. 75165, 80 FR 34729, 34733 (June 17, 2015) (S7-11-15) (arbitrage “generally helps to prevent the market price of ETP Securities from diverging significantly from the value of the ETP’s underlying or reference assets”). See also *generally id.*, 80 FR at 34739 (“In the Commission’s experience, the deviation between the daily closing price of ETP Securities and their NAV, averaged across broad categories of ETP investment strategies and over time periods of several months, has been relatively small[,]” although it had been “somewhat higher” in the case of ETPs based on international indices.).

<sup>15</sup> This is a non-substantive conforming change that would mirror the current rule text for the 15% requirement.

<sup>16</sup> See, *e.g.*, Securities Exchange Act Release Nos. 62479 (July 9, 2010), 75 FR 41264, 41265 (July 15, 2010) (SR-NYSEAmex-2010-31) (providing for a delayed implementation of Depth Guidelines to enable the collection of trading data adequate to calculate the guidelines in connection with the Floor-based DMM trading of Nasdaq securities on a UTP basis). Such an approach is necessary so that appropriate Depth Guidelines may be calculated based on actual trading data on the Exchange. Accordingly, following implementation and roll-out of the pilot program, the Exchange proposes to collect 60 trading days of trade data before implementing Depth Guidelines for trading ETPs securities on the Exchange within 30 calendar days of the collection of the trade data. See *generally id.*, 75 FR at 41267 & n. 19.

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

Act,<sup>18</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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that proposed requirements for DMM trading of ETPs would remove impediments to and perfect the mechanism of a free and open market and a national market system by facilitating market making by DMMs in listed ETPs and maintaining the Exchange's current structure to trade listed securities. The Exchange believes that the proposed exclusion of listed ETPs from the requirements of Rule 104(g)(2) would not be inconsistent with the public interest and the protection of investors because the unique characteristics of ETPs, including that ETPs trade at intra-day market prices rather than end-of-day NAV and are constrained by arbitrage pricing mechanisms that are designed to ensure that secondary market prices of ETP shares do not vary substantially from the NAV, render those obligations unnecessary or potentially even harmful. As discussed above, the Exchange also believes the DMM obligations set forth in Rule 104(g)(2) could impede the ability of a DMM to effectively make markets in ETPs.

The Exchange believes that the proposed heightened quoting obligations for DMMs in listed ETPs requiring maintenance of a bid or offer at the inside of at least 25% of the trading day would maintain the balance of benefits and obligations under Rule 104 because exclusion of listed ETPs from the re-entry requirements for Aggressing Transactions under Rule 104(g)(2) would be offset by the heightened DMM quoting obligations for listed ETPs. DMMs would also be required to facilitate the opening, reopening, and closing of listed ETPs assigned to them, as required by Rule 104(a)(2) and (3), which is an obligation unique to the Exchange. As noted, listed ETPs would also be subject to the requirement that DMM transactions be effected in a reasonable and orderly

manner in relation to the condition of the general market and the market in the particular stock. These safeguards are designed to ensure that DMM transactions in listed ETPs bear a reasonable relationship to overall market conditions and that DMMs cannot destabilize, inappropriately influence or manipulate a security. For the same reasons, the proposal would not alter or disrupt the balance between DMM benefits and obligations of being an Exchange DMM.

The proposed heightened quoting obligation for listed ETPs assigned to a DMM would also encourage additional stable displayed liquidity on the Exchange in listed securities, thereby promoting price discovery and transparency. The Exchange further believes that by establishing distinct requirements for DMMs, the proposal is also designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade.

The Exchange believes that the proposal would not be inconsistent with the public interest and the protection of investors. As noted, the proposal would subject DMMs to the Exchange's current structure for trading listed securities and the responsibilities and duties of DMMs set forth in Rule 104, including facilitating openings, reopenings, and closings and adding a heightened quoting obligation at the inside. In addition, the proposed rule would subject listed ETPs to the requirement that all DMM transactions be effected in a reasonable and orderly manner in relation to the condition of the general market and the market in the particular stock. Although the implementation of Depth Guidelines will be delayed, DMM units will still have the obligation once ETPs are listed and begin trading to maintain a fair and orderly market. The Exchange believes that the delayed implementation of Depth Guidelines will allow it to develop guidelines that are appropriately tailored for how ETPs will trade on the Exchange, which should improve the DMM units' ability to maintain a fair and orderly market and also the broader market for those securities here on the Exchange and on other markets.<sup>19</sup>

For the foregoing reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,<sup>20</sup> the Exchange believes that the

proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed change would promote competition by facilitating the listing and trading of ETPs on the Exchange. The Exchange believes that without this proposed change, DMMs assigned to ETPs would be at a competitive disadvantage vis-à-vis registered market makers in the same ETP on competing exchanges or other market participants on the NYSE because if they were required to comply with the re-entry requirements for Aggressing Transactions in Rule 104(g)(2), they would be impeded in their ability to effectively make markets in their assigned ETP securities. The Exchange believes that the proposed heightened DMM quoting obligations in listed ETPs would promote competition by promoting the display of liquidity on an exchange, which would benefit all market participants. These proposed rule changes would facilitate the trading of Exchange-listed ETPs by DMMs on Pillar, which would enable the Exchange to further compete with unaffiliated exchange competitors that also trade ETPs.

#### *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. Discussion and Commission Findings**

After careful review of the proposal, as modified by Amendment No. 1, and the comments received, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>21</sup> In particular, the Commission finds that the proposed rule change, as amended, is consistent with Section 6(b)(5) of the Act,<sup>22</sup> which requires, among other things, that the rules of a national securities exchange be 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

<sup>21</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

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

<sup>19</sup> See note 16, *supra*.

<sup>20</sup> 15 U.S.C. 78f(b)(8).

mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Commission also finds that the proposed rule change, as amended, is consistent with Section 6(b)(8) of the Act, which provides that the rules of a national securities exchange must not “impose any burden on competition not necessary or appropriate in furtherance of the purposes of” the Act.<sup>23</sup>

The Exchange has proposed to alter certain requirements of NYSE Rule 104 (Dealings and Responsibilities of DMMs) with respect to ETPs. Currently, under NYSE Rule 104(g)(1), DMMs are prohibited from engaging in Aggressing Transactions in the last ten minutes prior to the scheduled close of trading that would result in a new high (low) price for a security on the Exchange for the day at the time of the DMM’s transaction (“Prohibited Transactions”). Furthermore, DMMs are subject to certain quote re-entry obligations, following an Aggressing Transaction, under NYSE Rule 104(g)(2).

In its original proposal, the Exchange proposed to exclude DMM transactions in ETPs from the definition of “Aggressing Transactions” in NYSE Rule 104(g)(1) and, by extension, to exempt DMM transactions in ETPs from the rule on Prohibited Transactions. The Exchange also proposed to exclude Aggressing Transactions in ETPs from the DMM re-entry obligations in NYSE Rule 104(g)(2). The Exchange also proposed to require DMMs in ETPs to meet heightened quoting obligations for listed ETPs, requiring DMMs to maintain a quote at the national best bid or offer at least 25% of the trading day for ETPs (rather than the current requirement of 15% of the trading day for non-ETPs).

In Amendment No. 1, the Exchange amended its original proposal significantly to no longer seek to exclude DMM transactions in ETPs from definition of Aggressing Transactions and thereby no longer seek to exempt DMM transactions in ETPs from the rule on Prohibited Transactions.<sup>24</sup> As amended, the proposal would make two main substantive changes: (1) Exclude

Aggressing Transactions in ETPs from the quote re-entry obligations in NYSE Rule 104(g)(2), and (2) require DMMs to meet heightened quoting obligations for ETPs during the trading day (maintaining bids or offers at the inside at least 25% of the trading day, instead of 15% of the trading day as required for non-ETPs).<sup>25</sup>

While the Exchange proposes to relieve DMMs in ETPs from the quote re-entry obligations in NYSE Rule 104(g)(2), the Exchange has argued that such an exclusion is necessary because DMMs engaging in an arbitrage function to keep an ETP’s share price in line with the value of the ETP’s underlying assets may need to update their quotes to align the price of the ETP and the value of the underlying assets, and may need to engage in Aggressing Transactions in the process. Therefore, the Exchange argues that requiring a DMM to re-enter a quote on the opposite side of the Aggressing Transaction would defeat the purpose of entering into the Aggressing Transaction to update its quote as part of the arbitrage function.<sup>26</sup> Although the Exchange proposes to ease these DMM quoting obligations, it also proposes to strengthen other DMM quoting obligations in ETPs (*i.e.*, increasing the inside quoting obligation from 15% to 25%).

The Commission believes that the Exchange’s amended proposal with respect to DMMs in ETPs is consistent with the Act. In 2015, when the Commission approved the NYSE’s proposal to make the New Market Model permanent,<sup>27</sup> the Commission noted the Prohibited Transactions rule,<sup>28</sup> among other aspects of the New Market Model, and reiterated that the pilot program had been conducted, among other reasons, to seek “further evidence that the benefits proposed for DMMs are not disproportionate to their

obligations.”<sup>29</sup> Given that the Exchange has proposed to offset relief from one quoting obligation with another heightened quoting obligation, and in light of the other requirements of NYSE Rule 104 that would continue to apply to DMM transactions in ETPs—particularly the requirements that DMMs assist in the maintenance of fair and orderly markets and that transactions by DMMs be effected in a reasonable and orderly manner in relation to the condition of the general market and the market of a particular security<sup>30</sup>—the Commission believes that the proposal would not substantially alter the balance of DMM benefits and obligations previously approved by the Commission.<sup>31</sup>

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Sections 6(b)(5) and 6(b)(8) of the Act and the rules and regulations thereunder applicable to a national securities exchange.

#### VI. Accelerated Approval of Proposed Rule Change, as Modified By Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 1 in the **Federal Register**. As discussed above, Amendment No. 1 substantially modifies the original proposed rule change with respect to excluding ETPs Rule from the requirements in Rule 104(g) relating to Aggressing Transactions, narrowing the proposed rule change significantly so that the only substantive change to the existing rule would be to exclude Aggressing Transactions by DMMs in ETPs from the quote re-entry obligations and to increase the requirements for DMM quoting at the inside market in ETPs. As noted above, the Commission does not believe that the proposal substantially alters the balance of DMM benefits and obligations previously approved by the

<sup>25</sup> As in the original proposal, the Exchange further proposes to apply the requirements pertaining to the function of DMMs in NYSE Rule 104(f)(2) and (3) to DMMs in ETPs on a delayed basis—upon implementation of the Depth Guidelines, but in no event later than eighteen weeks after the approval of this proposed rule change by the Commission. Similarly, the Exchange also proposes certain non-substantive changes to the rule text of NYSE Rule 104 (*e.g.*, replacing the term “stock” with “security”) to accommodate the listing of ETPs.

<sup>26</sup> The Exchange also asserts that, without this proposed change, DMMs assigned to ETPs would be at a competitive disadvantage as compared to registered market makers in the same ETP on competing exchanges on the Exchange and would be impeded in their ability to effectively make competitive markets in their assigned ETP securities.

<sup>27</sup> See Securities Exchange Act Release No. 75578 (July 31, 2015), 80 FR 47008 (Aug. 6, 2015) (SR–NYSE–2015–26) (“NMM Approval Order”).

<sup>28</sup> See NMM Approval Order, 80 FR at 47010.

<sup>29</sup> See *id.* at 47013.

<sup>30</sup> See NYSE Rule 104(a) and (g), respectively.

<sup>31</sup> The proposal would delay the operation of NYSE Rule 104(f)(2) and (3) to DMMs in ETPs until the implementation of Depth Guidelines by the Exchange (but in no event later than eighteen weeks after the approval of this proposed rule change by the Commission). The Exchange represents that this delay is necessary to provide the Exchange time to collect trading data adequate to calculate the appropriate Depth Guidelines for listed ETPs. The Commission notes that this aspect of the proposal is consistent with a previous proposal approved by the Commission. See Securities Exchange Act Release Nos. 62479 (July 9, 2010), 75 FR 41264, 41265 (July 15, 2010) (SR–NYSEAmex–2010–31).

<sup>23</sup> 15 U.S.C. 78f(b)(8).

<sup>24</sup> In the one comment letter received on the proposed rule change, the commenter states that “any rule changes that might negatively affect the ability of the designated market manager to maintain the best interests of the investing public should not be impaired [sic].” See *supra* note 5. As noted above, the Commission believes that Amendment No. 1 to the proposed rule change is consistent with the protection of investors and the public interest.

Commission.<sup>32</sup> Amendment No. 1 made no other substantive changes to proposal as published in the original Notice.<sup>33</sup>

Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>34</sup> to approve the proposed rule change, SR-NYSE-2018-34, as modified by Amendment No. 1, on an accelerated basis.

#### IV. Solicitation of Comments on Amendment No. 1 to the Proposed Rule Change

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 1 to 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2019-34 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-NYSE-2019-34. 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-NYSE-2019-34 and should be submitted on or before October 18, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>35</sup>

**Jill M. Peterson,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87058; File No. SR-NYSEArca-2019-14]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Designation of a Longer Period for Commission Action on Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change Relating to the Permitted Investments of the PGIM Ultra Short Bond ETF

September 23, 2019.

On March 13, 2019, NYSE Arca, Inc. ("Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission ("Commission"), 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> a proposed rule change to make certain changes to the listing rule for shares ("Shares") of the PGIM Ultra Short Bond ETF ("Fund"). The proposed rule change was published for comment in the **Federal Register** on April 2, 2019.<sup>3</sup> On May 10, 2019, pursuant to Section 19(b)(2) of the Act,<sup>4</sup> the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.<sup>5</sup> On June 27, 2019, the

<sup>35</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> See Securities Exchange Act Release No. 85430 (Mar. 27, 2019), 84 FR 12646 (Apr. 2, 2019) ("Notice").

<sup>4</sup> 15 U.S.C. 78s(b)(2).

<sup>5</sup> See Securities Exchange Act Release No. 85829 (May 10, 2019), 84 FR 22221 (May 16, 2019). The Commission designated July 1, 2019, as the date by which the Commission shall approve or disapprove,

Commission instituted proceedings under Section 19(b)(2)(B) of the Act<sup>6</sup> to determine whether to approve or disapprove the proposed rule change.<sup>7</sup> In the Order Instituting Proceedings, the Commission solicited comments to specified matters related to the proposal.<sup>8</sup> The Commission has not received any comments on the proposed rule change.

Section 19(b)(2) of the Act<sup>9</sup> provides that, after initiating disapproval proceedings, the Commission shall issue an order approving or disapproving the proposed rule change not later than 180 days after the date of publication of notice of the filing of the proposed rule change. The Commission may, however, extend the period for issuing an order approving or disapproving the proposed rule change by not more than 60 days if the Commission determines that a longer period is appropriate and publishes the reasons for such determination. The proposed rule change was published for notice and comment in the **Federal Register** on April 2, 2019.<sup>10</sup> The 180th day after publication of the notice of the filing of the proposed rule change in the **Federal Register** is September 29, 2019.

The Commission finds that it is appropriate to designate a longer period within which to issue an order approving or disapproving the proposed rule change so that it has sufficient time to consider the proposed rule change.

Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> designates November 28, 2019, as the date by which the Commission shall either approve or disapprove the proposed rule change (File No. SR-NYSEArca-2019-14).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Jill M. Peterson,**  
Assistant Secretary.

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or institute proceedings to determine whether to approve or disapprove, the proposed rule change.

<sup>6</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>7</sup> See Securities Exchange Act Release No. 77871, 81 FR 26265 (May 2, 2016) ("Order Instituting Proceedings"). Specifically, the Commission instituted proceedings to allow for additional analysis of the proposed rule change's consistency with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be "designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade," and "to protect investors and the public interest." See *id.*, 81 FR at 26268.

<sup>8</sup> See *id.*

<sup>9</sup> 15 U.S.C. 78s(b)(2).

<sup>10</sup> See *supra* note 3.

<sup>11</sup> 15 U.S.C. 78s(b)(2).

<sup>12</sup> 17 CFR 200.30-3(a)(57).

<sup>32</sup> See *supra* note 31 and accompanying text.

<sup>33</sup> See Notice, *supra* note 3.

<sup>34</sup> 15 U.S.C. 78s(b)(2).