SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66386; File No. SR-NYSEArca-2012-08)

February 13, 2012

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Provide for "Self-Trade Prevention" on the Exchange

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 January 30, 2012, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to add new Commentary .01 to NYSE Arca Options Rule 6.76A (Order Execution – OX) to provide for "Self-Trade Prevention" on the Exchange. The text of the proposed rule change is available at the Exchange, the Commission's Public Reference Room, and www.nyse.com.

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.

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[1]     15 U.S.C. 78s(b)(1).

[2]     17 CFR 240.19b-4.

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

1.  Purpose

The Exchange proposes to add new Commentary .01 to NYSE Arca Options Rule 6.76A (Order Execution – OX) to provide for "Self-Trade Prevention" on the Exchange.[3]  As proposed, the Exchange would cancel any resting Market Maker quote(s) and order(s)[4] to buy (sell) that are priced equal to or higher (lower) than an incoming Market Maker quote, order or both to sell (buy) entered under the same trading permit identification.[5]  The following examples illustrate how Self-Trade Prevention would function:

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[3]  Self-Trade Prevention would only be applicable to electronic trading on the Exchange.

[4]  The Exchange will specify from time to time via a Regulatory Information Bulletin the Market Maker trading interest (i.e., quotes and orders) to which Self-Trade Prevention will apply.  Currently, the Exchange plans to initially apply Self-Trade Prevention to the following order types used by Market Makers:  "PNP Orders," PNP-Blind Orders," and "PNP-Light Orders."  PNP Orders, PNP-Blind Orders, and PNP-Light Orders are defined in NYSE Arca Options Rule 6.62, and each is a type of non-routable Limit Order that is only executed on the Exchange.  The Exchange notes that Market Makers primarily use these order types, as opposed to other order types offered by the Exchange, because they are similar to quotes (i.e., they are non-routable Limit Orders).  The Exchange currently plans to expand Self-Trade Prevention to other Market Maker trading interest (e.g., quotes) when certain technology changes have been completed, and would announce any such expansion through a Regulatory Information Bulletin under this proposed rule change pursuant to Commentary .01 of NYSE Arca Options Rule 6.76A.  In the future, the Exchange may expand Self-Trade Prevention to other orders used by Market Makers (including routable orders), and it also would announce any such changes through a Regulatory Information Bulletin under this proposed rule change pursuant to Commentary .01 of NYSE Arca Options Rule 6.76A.  The Exchange would submit a separate proposed rule change if it were to make Self-Trade Prevention available to non-Market Maker trading interest.

[5]  The Exchange would use a Market Maker's trading permit identification ("TPID") to monitor for self-trades in the proposed Self-Trade Prevention functionality.  TPIDs are assigned to Market Makers, as well as other OTP Firms and OTP Holders, to identify them in the Exchange's systems.  Market Makers on the Exchange are not able to submit orders on an agency basis.  Thus, a Market Maker within a firm that conducts both an agency and market making business would have a unique TPID that could only be used for that Market Maker's quotes and orders.

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Example 1

- The National Best Bid and Offer ("NBBO") for a particular option series is $1.15 (bid) – $1.20 (offer);

- The Exchange Best Bid and Offer ("BBO") is $1.15 (bid) – $1.25 (offer);

- A Market Maker has a single resting PNP Order to buy on the Exchange's Consolidated Book with a price of $1.15;

- If the Market Maker submits a PNP Order to sell with a price of $1.15, the NYSE Arca System would cancel the Market Maker's resting PNP Order to buy with a price of $1.15.[6]

Example 2

- The NBBO and BBO are the same as in Example 1;

- A Market Maker has two separate resting PNP Orders to buy on the Exchange's Consolidated Book, with prices of $1.15 and $1.13, respectively;

- If the Market Maker submits a PNP Order to sell with a price of $1.14, the NYSE Arca System would cancel the Market Maker's resting PNP Order to buy with a price of $1.15, but would not cancel the Market Maker's resting PNP Order to buy with a price of $1.13.[7]

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[6]   Example 1 illustrates that Self-Trade Prevention would result in the cancellation of the Market Maker's resting order (or quote) to buy regardless of whether the incoming order (or quote) and the resting order (or quote) would actually execute against each other.

[7]   Example 2 illustrates that Self-Trade Prevention would not result in the cancellation of the Market Maker's resting order (or quote) to buy with a price of $1.13 because the price of the resting order (or quote) to buy is lower than the price of the incoming order (or quote) to sell.

As proposed, Self-Trade Prevention would be in effect throughout the trading day for all

Market Markers on the Exchange,[8] but not during Trading Auctions.[9] In this regard, the

Exchange believes that it is highly unlikely that a Market Maker would trade against its own

resting interest during a Trading Auction. Moreover, the Exchange notes that it would be

difficult to implement this functionality from a technological and operational perspective

because it would require the Exchange to cancel resting, executable Market Maker trading

interest as it is calculating the price at which to conduct the Trading Auction. For these reasons,

the Exchange is not applying Self-Trade Prevention to Trading Auctions.

The Exchange also proposes that Self-Trade Prevention would not be applicable to

individual legs of Complex Orders.[10] In this regard, senders of Complex Orders, including

Market Makers, view them as discrete orders, serving a particular investment purpose, that are

contingent on all of the legs of the Complex Order being executed. Thus, they are only

interested in having all of the legs of a Complex Order executed. Because the non-execution of

one leg of a Complex Order is contrary to the investment purpose of the Complex Order, the

Exchange has determined to not apply Self-Trade Prevention in a manner that would prevent a

Complex Order sent by a Market Maker from executing against that Market Maker's resting

interest in the leg markets.

The Exchange notes that Self-Trade Prevention would not relieve or modify a Market

Maker's obligations under the Exchange's Rules, such as the Market Maker's quoting

obligations, or any other rules and regulations to which the Market Maker is subject.

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[8]     Market Markers on the Exchange would not have the ability to deactivate Self-Trade Prevention or change any settings related to it.

[9]     See, e.g., NYSE Arca Options Rule 6.64.

[10]    See NYSE Arca Options Rule 6.62(e), which defines Complex Order. See also NYSE Arca Options Rule 6.91, which describes electronic Complex Order trading.

The Exchange believes that the proposed Self-Trade Prevention is very similar to functionality currently offered by the Nasdaq Options Market ("NOM"). In particular, NOM provides market makers on its market with an "anti-internalization" functionality, whereby quotes and orders entered by NOM market makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same market maker using the same identifier, but instead the NOM system will cancel the oldest of the quotes or orders back to the entering party prior to execution.[11] Similarly, the Chicago Board Options Exchange ("CBOE") provides for a market-maker trade prevention order, which is a market maker immediate-or-cancel order that, if it would trade against a resting quote or order for the same market-maker, is cancelled along with the resting quote or order.[12] Additionally, NYSE Arca Equities provides for a self trade prevention order modifier that prevents orders so designated from executing against resting opposite side orders entered under the same equity trading permit identification that are also designated with the modifier.[13] The change proposed herein would therefore provide Market Makers with a method of managing their trading interest that is similar to functionalities that are currently available on other markets. Because of the technology changes associated with this proposed rule change, the Exchange proposes to announce the implementation date of Self-Trade Prevention on the Exchange via a

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[11]     See Chapter VI, Section 10(6) of the NOM Rules.

[12]     See CBOE Rule 6.53(c)(v).

[13]     See NYSE Arca Equities Rule 7.31(qq). Similar to the Self-Trade Prevention functionality proposed in this filing, the NYSE Arca Equities Self Trade Prevention modifier is not in effect during auctions.

Regulatory Information Bulletin.  This Bulletin also would include the Market Maker trading

interest to which Self-Trade Prevention initially would apply.[14]

        2.      Statutory Basis

As discussed above, the Exchange believes that the proposed rule change is designed to

promote just and equitable principles of trade because it would provide Market Makers with a

functionality to manage their trading interest that is similar to functionalities currently available

on other markets.[15]  Additionally, the Exchange believes that the proposed rule change is

designed to prevent fraudulent and manipulative acts and practices, 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, because it would allow Market Makers to

better manage their trading interest and provide a means to prevent executions against their own

trading interest.  The Exchange notes that Market Makers have asked for this functionality to

prevent them from inadvertently trading with their own interest.  In such a situation, the firms

ask the Exchange to nullify the trades, which they are permitted to do under the Exchange's rules

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[14]      See supra note 4. As mentioned above, the Exchange notes that any such announcements regarding Self-Trade Prevention would not be for the purpose of, or permit the Exchange to, expand the applicability of Self-Trade Prevention beyond Market Maker trading interest.  Any such expansion would be the subject of a separate proposed rule change submitted by the Exchange to the Commission.  The Exchange further notes that the Commission has previously permitted other option exchanges to communicate settings or eligibility for various exchange mechanisms to their members through exchange notices, bulletins or circulars.  See, e.g., Interpretation and Policy .05 to CBOE Rule 6.74A, which provides that any determinations made by CBOE regarding CBOE's Automated Improvement Mechanism, such as eligible classes, order size parameters and the minimum price increment for certain responses, shall be communicated in a Regulatory Circular.  See also CBOE Rules 6.45A and 6.45B, which provide that CBOE will issue a Regulatory Circular to specify certain priority-related information, including specifying which priority rules will govern which classes of options any time the exchange changes the priority.

[15]      See supra notes 11, 12 and 13.

because they are on both sides of the trades.[16] While the proposed Self-Trade Prevention functionality would prevent inadvertent self-trading, the Exchange notes that the functionality would also prevent intentional self-trading. In this regard, the proposed rule change provides a means to prevent manipulative conduct such as "wash trading."

Presently, the Exchange is proposing that Self-Trade Prevention be applicable only for Market Makers. The Exchange has made this decision because Market Makers are the most likely market participants to execute against their own trading interest. The Exchange may propose to expand the Self-Trade Prevention functionality to other OTP Holders and OTP Firms in the future, subject to being in a position to implement the functionality in a manner consistent with a firm's agency responsibilities to its customer orders. Accordingly, the Exchange believes that the proposed rule change is not designed to permit unfair discrimination.

For the reasons set forth above, the Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),[17] in general, and furthers the objectives of Section 6(b)(5) of the Act,[18] in particular.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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.

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[16]    Under Commentary .02 to NYSE Arca Options Rule 6.77, a "trade may be nullified if all parties to the trade agree to the nullification," and when "all parties to a trade have agreed to a trade nullification, one party must promptly notify the Exchange for dissemination of cancellation information to the Options Price Reporting Authority."

[17]    15 U.S.C. 78f(b).

[18]    15 U.S.C. 78f(b)(5).

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not 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) of the Act[19] and Rule 19b-4(f)(6) thereunder.[20]

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest because the proposal will provide a tool for Exchange market makers to better manage their trading interest and provide a means to prevent manipulative conduct such as "wash trading." Therefore, the Commission designates the proposal operative upon filing.[21]

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

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[19]    15 U.S.C. 78s(b)(3)(A).

[20]    17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied the five-day prefiling requirement.

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

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IV.     Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov.  Please include File Number SR-NYSEArca-2012-08 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEArca-2012-08.  This file number should be included on the subject line if e-mail is used.  To help the Commission process and review your comments more efficiently, please use only one method.  The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml).  Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m.  Copies of the filing also will be available for inspection and copying at the principal office of the Exchange.  All comments received will be posted without change; 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-2012-08 and should be submitted on or before [insert date

21 days from publication in the <u>Federal</u> <u>Register</u>].

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

authority.[22]

                                      Kevin M. O'Neill
                                      Deputy Secretary

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[22]     17 CFR 200.30-3(a)(12).