

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74059; File No. SR-Phlx-2015-01)

January 15, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Customer Rebate Program

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 January 2, 2015, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) 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 to amend the Customer Rebate Program in Section B of the Pricing Schedule.

The text of the proposed rule change is available on the Exchange’s website at <http://nasdaqomxphlx.cchwallstreet.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 Exchange 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 these 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,

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

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

of the most significant aspects 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 the “Customer Rebate Program,” in Section B of the Pricing Schedule to: (i) increase certain Category B rebates; and (ii) increase the additional Category B Tier 2 and 3 rebates paid to Specialists<sup>3</sup> and Market Makers<sup>4</sup> that reach the Monthly Market Maker Cap.<sup>5</sup> The Exchange believes that the proposed increased rebates will encourage market participants to direct a greater number of Customer orders to the Exchange.

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<sup>3</sup> A Specialist is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a). An options Specialist includes a Remote Specialist which is defined as an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.

<sup>4</sup> A “market maker” includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (see Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (see Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

<sup>5</sup> Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations is aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in Section II) are excluded from the Monthly Market Maker Cap.

Currently, the Exchange has a Customer Rebate Program consisting of five tiers that pays Customer rebates on two Categories, A<sup>6</sup> and B,<sup>7</sup> of transactions.<sup>8</sup> A Phlx member qualifies for a certain rebate tier based on the percentage of total national customer volume in multiply-listed options that it transacts monthly on Phlx. The Exchange calculates Customer volume in Multiply Listed Options by totaling electronically-delivered and executed volume, excluding volume associated with electronic Qualified Contingent Cross (“QCC”) Orders,<sup>9</sup> as defined in Exchange Rule 1080(o).<sup>10</sup>

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<sup>6</sup> Category A rebates are paid to members executing electronically-delivered Customer Simple Orders in Penny Pilot Options and Customer Simple Orders in Non-Penny Pilot Options in Section II symbols. Rebates are paid on Customer PIXL Orders in Section II symbols that execute against non-Initiating Order interest. In the instance where member organizations qualify for Tier 4 or higher in the Customer Rebate Program, Customer PIXL Orders that execute against a PIXL Initiating Order will be paid a rebate of \$0.14 per contract.

<sup>7</sup> Category B rebates are paid to members executing electronically-delivered Customer Complex Orders in Penny Pilot Options and Non-Penny Pilot Options in Section II symbols. Rebates are paid on Customer PIXL Complex Orders in Section II symbols that execute against non-Initiating Order interest. In the instance where member organizations qualify for Tier 4 or higher in the Customer Rebate Program, Customer Complex PIXL Orders that execute against a Complex PIXL Initiating Order will be paid a rebate of \$0.17 per contract. The Category B Rebate is not paid when an electronically-delivered Customer Complex Order, including Customer Complex PIXL Order, executes against another electronically-delivered Customer Complex Order.

<sup>8</sup> See Section B of the Pricing Schedule.

<sup>9</sup> A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and Offer and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of the Regulation NMS).

<sup>10</sup> Members and member organizations under common ownership may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving

The Exchange pays the following rebates:<sup>11</sup>

<b>Customer Rebate Tiers</b>	<b>Percentage Thresholds of National Customer Volume in Multiply-Listed Equity and ETF Options Classes, excluding SPY Options (Monthly)</b>	<b>Category</b>	
		<b>A</b>	<b>B</b>
Tier 1	0.00% - 0.60%	\$0.00	\$0.00
Tier 2	Above 0.60% - 1.10%	\$0.10*	\$0.17*
Tier 3	Above 1.10% - 1.60%	\$0.12*	\$0.17*
Tier 4	Above 1.60% - 2.50%	\$0.16	\$0.19
Tier 5	Above 2.50%	\$0.17	\$0.19

The Exchange proposes to increase the Tier 4 and 5 Category B rebates from \$0.19 to \$0.20 per contract.

Currently, the Exchange offers Specialists and Market Makers, or its affiliate under Common Ownership,<sup>12</sup> that have reached the Monthly Market Maker Cap<sup>13</sup> an increased \$0.02 per contract Category A and B rebate in addition to the Tier 2 and 3 rebates. The Exchange

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rebates. Common ownership means members or member organizations under 75% common ownership or control.

<sup>11</sup> Options overlying SPY are included in the calculation of Customer volume in Multiply Listed Options that are electronically-delivered and executed for purposes of the Customer Rebate Program, however, rebates are not paid for electronic executions in options overlying SPY.

<sup>12</sup> The term “Common Ownership” means members or member organizations under 75% common ownership or control.

<sup>13</sup> See note 5.

proposes to increase the additional Category B rebate, which is currently paid in addition to the applicable Tier 2 or 3 rebate, to a Specialist or Market Maker, or its affiliate under Common Ownership, provided the Specialist or Market Maker has reached the Monthly Market Maker Cap, from \$0.02 to \$0.03 per contract. The Exchange will continue to pay Specialists and Market Makers, or its affiliate under Common Ownership, that have reached the Monthly Market Maker Cap an increased \$0.02 per contract Category A rebate in addition to the Tier 2 and 3 rebates.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>14</sup> in general, and with Section 6(b)(4) and 6(b)(5) of the Act,<sup>15</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that the Exchange operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's proposal to increase the Tier 4 and 5 Category B rebates will encourage market participants to send a greater amount of Customer liquidity to Phlx. Customer liquidity benefits all market participants by providing more trading opportunities, which attract Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants.

The Exchange believes that its proposal to increase the Tier 4 and 5 Category B rebates is equitable and not unfairly discriminatory because it will be applied to all market participants in a

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<sup>14</sup> 15 U.S.C. 78f.

<sup>15</sup> 15 U.S.C. 78f(b)(4) and (5).

uniform matter. All members are eligible to receive the rebate provided they submit a qualifying number of electronic Customer volume.

The Exchange believes that its proposal to pay an increased \$0.03 per contract Category B rebate, in addition to the applicable Tier 2 or 3 rebate, to a Specialist or Market Maker, or its affiliate under Common Ownership, provided the Specialist or Market Maker has reached the Monthly Market Maker Cap is reasonable because the Exchange intends to continue to encourage Specialists and Market Makers to transact Customer Complex Orders on the Exchange to receive the enhanced rebate. The Exchange will continue to encourage Specialists and Market Makers to transact Customer Simple Orders on the Exchange by offering the additional \$0.02 per contract Category A rebate in addition to the applicable Tier 2 or 3 rebate.

The Exchange believes that its proposal to pay an increased \$0.03 per contract Category B rebate, in addition to the applicable Tier 2 or 3 rebate, to a Specialist or Market Maker, or its affiliate under Common Ownership, provided the Specialist or Market Maker has reached the Monthly Market Maker Cap is equitable and not unfairly discriminatory because unlike other market participants, Specialists and Market Makers have burdensome quoting obligations<sup>16</sup> to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. Additionally, Specialists and Market Makers incur costs unlike other market participants including, but not limited to, PFOF and other costs associated with market making activities,<sup>17</sup> which results in a higher average cost per execution

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<sup>16</sup> See Rule 1014 titled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders.”

<sup>17</sup> Specialists and Market Makers pay for certain data feeds including the SQF Port Fee. SQF Port Fees are listed in the Exchange’s Pricing Schedule at Section VII. SQF is an

as compared to Firms, Broker-Dealers and Professionals. The proposed differentiation as between Specialists and Market Makers as compared to other market participants recognizes the differing contributions made to the trading environment on the Exchange by these market participants.

Additionally, the Exchange believes that it is reasonable, equitable and not unfairly discriminatory to pay Specialists and Market Makers different rebates for transacting Simple versus Complex Orders. Today, the Exchange pays different Category A (Simple Order) and Category B (Complex Order) rebates. The Exchange also differentiates pricing for Simple and Complex Orders transaction fees in Section I as do other options exchanges.

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

The Exchange does not believe that the proposed rule change will impose an undue burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the Customer Rebate Program will continue to encourage Customer order flow to be directed to the Exchange. Certain market participants will receive higher Tier 4 and 5 Category B rebates for transacting the same Customer order flow as today. The Exchange believes that the Customer Rebate Program will continue to encourage Customer order flow to be directed to the Exchange. By incentivizing members to route Customer orders, the Exchange desires to attract liquidity to the Exchange, which in turn benefits all market participants. All market participants are eligible to qualify for a Customer Rebate. The Exchange believes this pricing amendment does not impose a burden on competition but rather that the proposed rule change will continue to promote competition on the Exchange.

The Exchange does not believe that offering Specialists and Market Makers an enhanced

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interface that allows Specialists and Market Makers to connect and send quotes into Phlx XL and assists them in responding to auctions and providing liquidity to the market.

Category B rebate of \$0.03 per contract in addition to the applicable Tier 2 or 3 rebate creates an undue burden on competition because Specialists and Market Makers have burdensome quoting obligations<sup>18</sup> to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. In addition, paying different rebates for Simple and Complex Orders is not novel. Other options exchanges today similarly differentiate rebates.<sup>19</sup>

The Exchange operates in a highly competitive market, comprised of twelve options exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates to be inadequate. Accordingly, the fees that are assessed and the rebates paid by the Exchange described in the above proposal are influenced by these robust market forces and therefore must remain competitive with fees charged and rebates paid by other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>20</sup> At any time within 60 days of the filing of the proposed rule change, the Commission

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<sup>18</sup> See note 16.

<sup>19</sup> See the Chicago Board Options Exchange, Inc.'s Fees Schedule and the International Securities Exchange, LLC's Schedule of Fees.

<sup>20</sup> 15 U.S.C. 78s(b)(3)(A)(ii).



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 to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-01 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-Phlx-2015-01. 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-Phlx-2015-01 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Brent J. Fields  
Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).