

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74107; File No. SR-BX-2015-005)

January 21, 2015

Self-Regulatory Organizations; NASDAQ OMX BX; Notice of Filing and Immediate Effectiveness of a Proposed Rule Changes to Amend Rule 7018 to Amend Fees and Rebates in Connection with BX's Retail Price Improvement Program

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 12, 2015, NASDAQ OMX BX, Inc. ("BX" or the "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 is proposing changes to amend BX Rule 7018 to amend fees and rebates in connection with BX's Retail Price Improvement Program.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaqomxbx.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. The text of these statements may be examined

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 purpose of this proposal is to amend BX Rule 7018 to amend fees and rebates for execution of orders under BX's Retail Price Improvement ("RPI") program. BX recently adopted the RPI program,³ which provides incentives to member firms (or a division thereof) approved by the Exchange to participate in the program (a "Retail Member Organization" or "RMO") to submit designated "Retail Orders"⁴ for the purpose of seeking price improvement. All BX members may enter retail price improvement orders ("RPI Orders"),⁵ a form of non-displayed orders that are priced more aggressively than the Protected National Best Bid or Offer ("NBBO") by at least \$0.001 per share, for the purpose of offering such price improvement. RMOs may use two types of Retail Orders. A Type 1 Retail Order is eligible to execute only against RPI Orders and other orders (such as midpoint pegged orders) that will provide price

³ Securities Exchange Act Release No. 73410 (October 23, 2014), 79 FR 64447 (October 29, 2014) (SR-BX-2014-048) (proposing RPI program and exemption from SEC Rule 612 under Regulation NMS, 17 CFR 242.612, in connection therewith); see also Securities Exchange Act Release No. 73836 (December 15, 2014), 79 FR 75852 (December 19, 2014) (SR-BX-2014-059).

⁴ A Retail Order is defined in BX Rule 4780(a)(2), in part, as "an agency or riskless principal order that satisfies the criteria of FINRA Rule 5320.03, that originates from a natural person and is submitted to the Exchange by a Retail Member Organization, provided that no change is made to the terms of the order with respect to price (except in the case that a market order is changed to a marketable limit order) or side of market and the order does not originate from a trading algorithm or any other computerized methodology."

⁵ A Retail Price Improvement Order is defined in BX Rule 4780(a)(3), in part, as consisting of "non-displayed liquidity on the Exchange that is priced better than the Protected NBBO by at least \$0.001 and that is identified as such."

improvement. Type 2 Retail Orders interact first with available RPI Orders and other price improving orders, and then are eligible to access non-price improving liquidity on the BX book and to route to other trading venues if so designated.

BX currently offers a rebate of \$0.0025 per share executed to RMOs with respect to Retail Orders that execute against RPI Orders. RMO Retail Orders that execute against other orders providing price improvement with respect to the NBBO will receive a rebate otherwise applicable to executions of orders that access liquidity. For Type 2 Retail Orders that execute against non-price improving orders on the BX book, BX offers a rebate otherwise applicable to execution of orders that access liquidity. Similarly, when Type 2 Retail Orders are routed and execute at another trading venue, BX charges the fee otherwise applicable to execution of routed orders. For RPI Orders that provide liquidity, BX charges a fee of \$0.0025 per share executed. Other orders that provide liquidity to Retail Orders will receive the credit or pay the fee otherwise applicable to orders that provide liquidity.

BX is proposing to provide greater incentives to RMOs to participate in the program by providing two new tiers of credits provided under the program. Specifically, BX proposes to provide RMOs a credit of \$0.0005 per share executed for a Retail Order that accesses non-Retail Price Improvement midpoint liquidity. This is the same credit all orders that execute against midpoint pegged orders currently receive under Rule 7018(a). BX is now including the credit as a stand-alone credit incorporated into the program. BX is also providing RMOs with a new credit of \$0.0017 per share executed for a Retail Order that accesses other liquidity on the Exchange book. Currently, such an order would receive a credit ranging from \$0.0004 to \$0.0015 per share executed under Rule 7018(a), depending on a member firm's removing and adding activity during the month. BX is adding the new increased credit for a Retail Order that

accesses other liquidity on the Exchange book, which will not be tied to the member firm's average daily volume during the month.

As a consequence of adding the two new credit tiers to the RPI Program, BX is eliminating language under the rule that encompasses such orders, noting that the fees under Rule 7018(a) and (b) apply. Specifically, BX is deleting language concerning Retail Orders that access other liquidity at a price better than the national best bid or best offer. Such Retail Orders may be either Type 1 or Type 2. Likewise, BX is deleting language concerning Type 2 Retail Orders that access other liquidity from the Exchange book. The orders covered by these two sections are now included in the two new credit tiers of the rule. For example, an order that would qualify under the proposed new tier applicable to Retail Orders that accesses non-Retail Price Improvement midpoint liquidity currently falls under the section concerning a Retail Order that accesses other liquidity at a price better than the national best bid and offer. Similarly, an order that would qualify under the proposed new tier applicable to a Retail Order that accesses other liquidity on the Exchange book currently falls under one of the deleted sections, as such orders must be either a Retail Order that accesses other liquidity at a price better than the national best bid or best offer, or is a Type 2 Retail Order that accesses other liquidity from the Exchange book.

2. Statutory Basis

BX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁶ in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,⁷ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members

⁶ 15 U.S.C. 78f.

⁷ 15 U.S.C. 78f(b)(4) and (5).

and issuers and other persons using any facility or system which BX operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed new credits provided to RMOs under the RPI program are reflective of BX's ongoing efforts to use pricing incentive programs to attract orders of retail customers to BX and improve market quality. The goal of this program and similar pricing incentives is to provide meaningful incentives for members that represent the orders of retail customers to increase their participation on BX. The proposed credit of \$0.0005 per share executed with respect to Retail Orders that access non-Retail Price Improvement Order midpoint liquidity is reasonable because it merely incorporates the current credit provided for such orders under Rule 7018(a) into the RPI program. The change is consistent with an equitable allocation of fees because it will allow BX to disassociate the credit from the credit provided under Rule 7018(a) so that the RPI program credit will not be affected by changes to the credit under Rule 7018(a). Moreover, all member firms that qualify for the new tier will receive the credit. BX further believes that the proposed credit tier is not unreasonably discriminatory because it is designed to separate order activity under the program from the normal credit provided under Rule 7018(a). As such, BX may increase the proposed credit, or reduce the related credit under Rule 7018(a), resulting in a more meaningful economic benefit to member firms that participate in the RPI program. Such incentive pricing is consistent with the goal of increasing participation in this beneficial program.

Similarly, BX believes that the proposed credit of \$0.0017 per share executed with respect to Retail Orders that access other liquidity on the Exchange book is reasonable because it provides greater incentive to member firms to participate in this beneficial program. The proposed credit is greater than the highest credit tier currently available for such orders under

Rule 7018(a). Moreover, as opposed to the other tiers under Rule 7018(a) the new credit is not tied to any other measure, which provides further incentive to member firms to participate in the program. The proposed change is consistent with an equitable allocation of fees because it provides incentive pricing to all member firms that qualify under the program. BX further believes that the proposed credit tier is not unreasonably discriminatory because it is designed to provide further meaningful incentives for members that represent the orders of retail customers to increase their participation on BX. Because retail orders are likely to reflect long-term investment intentions, they promote price discovery. Accordingly, their presence in the BX market has the potential to benefit all market participants. For this reason, BX believes that it is equitable and not unfairly discriminatory to provide significant financial incentives to encourage greater retail participation in the market.

Elimination of the existing sections of the RPI Program that note that certain orders will be subject to the current fees and credits under Rule 7018(a) and (b) is reasonable because they are replaced by the new credit tiers, as discussed above. The Exchange believes that elimination of these sections is an equitable allocation and not unfairly discriminatory because they allow the Exchange to offer incentive pricing to a wider range of beneficial order activity, which will be provided to all member firms that meet the requirements for the credits.

Finally, BX notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, BX must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. BX believes that the proposed

rule change reflects this competitive environment because it is designed to allow BX to compete with other exchanges that offer similar price improvement programs for retail orders.

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

BX 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. In this instance, the RPI program is designed to allow BX to compete more effectively with the New York Stock Exchange, NYSE MKT LLC, NYSE Arca, Inc. and the BATS-Y Exchange, all of which offer similar programs designed to attract retail order flow. BX believes that the proposed higher credit with respect to Retail Orders will enhance competition by drawing additional retail order flow to BX and, as a consequence, possibly encouraging other trading venues to make competitive pricing changes.

For these reasons and the reasons discussed in connection with the statutory basis for the proposed rule change, BX does not believe that the proposed changes will impose any burden on competition, but rather may promote competition among order execution venues for orders of retail customers.

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) of the Act⁸ and paragraph (f) of Rule 19b-4 thereunder.⁹ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f).

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.

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-BX-2015-005 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-BX-2015-005. 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 such filing also will be available for inspection and copying at the principal offices 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-BX-2015-005, 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.¹⁰

Brent J. Fields
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).