

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82449; File No. SR-GEMX-2017-60)

January 5, 2018

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Various Fees and Rebates Set Forth in Section I of the Exchanges Schedule of Fees

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 December 22, 2017, Nasdaq GEMX, LLC (“GEMX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The 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 various fees and rebates set forth in Section I of the Exchanges Schedule of Fees.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqgemx.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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 the proposed rule change is to amend various fees and rebates set forth in Section I of the Exchange’s Schedule of Fees. Each proposed change is described in more detail below.

Changes to Maker Rebates and Taker Fees Based on Qualifying Tier Thresholds

By way of background, GEMX currently provides volume-based maker rebates to Market Maker³ and Priority Customer⁴ orders in four tiers based on a member’s average daily volume (“ADV”) in the following categories: (i) Total Affiliated Member ADV⁵ and (ii) Priority

³ The term “Market Makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively.

⁴ A “Priority Customer” is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

⁵ The Total Affiliated Member ADV category includes all volume in all symbols and order types, including both maker and taker volume and volume executed in the PIM, Facilitation, Solicitation, and QCC mechanisms. For purposes of determining a member’s eligibility for the volume-based tiers in the Total Affiliated Member ADV category, the Exchange uses either numeric thresholds that measure a member’s absolute volume or, as an alternative, a percentage-based calculation that considers a member’s volume relative to total customer industry volume (i.e., the “Customer Total Consolidated Volume”). For purposes of measuring Total Affiliated Member ADV, Customer Total Consolidated Volume means the total volume cleared at The Options Clearing Corporation in the Customer range in equity and ETF options in that month.

Customer Maker ADV,⁶ as shown in the table below.⁷ In addition, GEMX charges volume-based taker fees to market participants based on achieving these volume thresholds.

Qualifying Tier Thresholds

Table 1

Tier	Total Affiliated Member ADV	Priority Customer Maker ADV
Tier 1	0-99,999	0-19,999
	100,000-224,999, or executes 1% to less than 2% of Customer Total Consolidated Volume	
Tier 2	225,000-349,999, or executes 2% to less than 3% of Customer Total Consolidated Volume	20,000-99,999
Tier 3	350,000 or more, or executes 3% or greater of Customer Total Consolidated Volume	100,000-149,999
Tier 4		150,000 or more

Maker Rebates in Penny Symbols and SPY

Currently, the Exchange provides a maker rebate to Market Maker orders in Penny Symbols and SPY that is \$0.30 per contract in Tier 1, \$0.32 per contract in Tier 2, \$0.34 per contract in Tier 3, and \$0.45 per contract in Tier 4. The Exchange proposes the following changes to the maker rebate provided to Market Maker orders in Penny Symbols and SPY in Tiers 1-3: (i) decrease the maker rebate to \$0.28 per contract in Tier 1, (ii) decrease the maker

⁶ The Priority Customer Maker ADV category includes all Priority Customer volume that adds liquidity in all symbols.

⁷ All eligible volume from affiliated Members will be aggregated in determining applicable tiers, provided there is at least 75% common ownership between the Members as reflected on each Member's Form BD, Schedule A.

The highest tier threshold attained above applies retroactively in a given month to all eligible traded contracts and applies to all eligible market participants.

Any day that the market is not open for the entire trading day or the Exchange instructs members in writing to route their orders to other markets may be excluded from the ADV calculation; provided that the Exchange will only remove the day for members that would have a lower ADV with the day included.

rebate to \$0.30 per contract in Tier 2, and (iii) increase the maker rebate to \$0.35 per contract in Tier 3.

Currently, the Exchange provides a maker rebate to Priority Customer orders in Penny Symbols and SPY that is \$0.25 per contract in Tier 1 (or \$0.32 per contract for members that execute a Priority Customer Maker ADV of 5,000 to 19,999 contracts in a given month), \$0.40 per contract in Tier 2, \$0.48 per contract in Tier 3, and \$0.53 per contract in Tier 4. The Exchange proposes to eliminate the higher maker rebate provided in Tier 1 for members that execute a Priority Customer ADV of 5,000 to 19,999 contracts in a given month.

Maker Rebates in Non-Penny Symbols (Excluding Index Options)

Currently, the Exchange provides a maker rebate to Market Maker orders in Non-Penny Symbols (excluding index options) that is \$0.40 per contract in Tier 1, \$0.42 per contract in Tier 2, \$0.50 per contract in Tier 3, and \$0.75 per contract in Tier 4. The Exchange proposes to decrease the maker rebate provided to Market Maker orders in Non-Penny Symbols (excluding index options) to \$0.45 in Tier 3.

Currently, the Exchange provides a maker rebate to Priority Customer orders in Non-Penny Symbols (excluding index options) that is \$0.75 per contract in Tier 1 (or \$0.76 per contract for members that execute a Priority Customer Maker ADV of 5,000 to 19,999 contracts in a given month), \$0.80 per contract in Tier 2, \$0.85 per contract in Tier 3, and \$1.05 per contract in Tier 4. The Exchange proposes to eliminate the higher maker rebate provided in Tier 1 for members that execute a Priority Customer Maker ADV of 5,000 to 19,999 contracts in a given month.

Taker Fees in Penny Symbols and SPY

Currently, the Exchange charges a taker fee for Market Makers and Non-Nasdaq GEMX Market Maker⁸ orders in Penny Symbols and SPY that is \$0.49 per contract in Tiers 1-3, and \$0.48 per contract in Tier 4, for trades executed against a Non-Priority Customer.⁹ Firm Proprietary,¹⁰ Broker-Dealer,¹¹ and Professional Customer¹² orders in Penny Symbols and SPY are charged a \$0.49 per contract taker fee for trades executed against a Non-Priority Customer, regardless of the tier achieved. The taker fee is \$0.50 per contract for all Non-Priority Customer orders in Penny Symbols and SPY for trades executed against a Priority Customer. The Exchange now proposes to increase the taker fee charged to Non-Priority Customer orders in Penny Symbols and SPY to \$0.50 per contract in Tiers 1-3 for trades executed against a Non-Priority Customer.

Taker Fees in Non-Penny Symbols (Excluding Index Options)

Currently, the Exchange charges a taker fee for Non-Priority Customer orders in Non-Penny Symbols (excluding index options) that is \$0.89 per contract for trades executed against a Non-Priority Customer, regardless of the tier achieved. The taker fee is \$1.10 per contract for all Non-Priority Customer orders in Non-Penny Symbols (excluding index options) for trades

⁸ A "Non-Nasdaq GEMX Market Maker" is a market maker as defined in Section 3(a)(38) of the Securities Exchange Act of 1934, as amended, registered in the same options class on another options exchange.

⁹ Non-Priority Customer includes Market Maker, Non-Nasdaq GEMX Market Maker, Firm Proprietary, Broker-Dealer, and Professional Customer.

¹⁰ A "Firm Proprietary" order is an order submitted by a member for its own proprietary account.

¹¹ A "Broker-Dealer" order is an order submitted by a member for a broker-dealer account that is not its own proprietary account.

¹² A "Professional Customer" is a person or entity that is not a broker/dealer and is not a Priority Customer.

executed against a Priority Customer. The Exchange now proposes to increase the taker fee charged to Non-Priority Customer orders in Non-Penny Symbols (excluding index options) to \$0.99 per contract in Tiers 1-3 and \$0.94 per contract in Tier 4, in each case for trades executed against a Non-Priority Customer.

Currently, the Exchange charges a taker fee for Priority Customer orders in Non-Penny Symbols (excluding index options) that is \$0.82 per contract in Tier 1, and \$0.81 per contract for Tiers 2-4, for trades executed against a Non-Priority Customer. The taker fee is \$0.85 per contract for all Priority Customer orders in Non-Penny Symbols (excluding index options) for trades executed against a Priority Customer. The Exchange now proposes to increase the taker fee charged to Priority Customer orders in Non-Penny Symbols (excluding index options) to \$0.85 per contract in Tiers 1-3 and \$0.82 per contract in Tier 4, in each case for trades executed against a Non-Priority Customer.

Changes to the Fee for Responses to Crossing Orders (Excluding PIM)

GEMX currently charges a fee for Responses to Crossing Orders¹³ (excluding PIM orders). In Penny Symbols and SPY, this fee is \$0.49 per contract for Non-Priority Customer orders and \$0.45 per contract for Priority Customer orders. In Non-Penny Symbols (excluding index options), this fee is \$0.89 per contract for Non-Priority Customer orders and \$0.82 per contract for Priority Customer orders.

The Exchange now proposes to increase this fee to \$0.50 per contract for all market participants in Penny Symbols and SPY, and \$1.00 per contract for all market participants in Non-Penny Symbols (excluding index options).

¹³ "Responses to Crossing Order" is any contra-side interest (i.e., orders & quotes) submitted after the commencement of an auction in the Exchange's Facilitation Mechanism, Solicited Order Mechanism, Block Order Mechanism or Price Improvement Mechanism ("PIM").

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁵ 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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Changes to Maker Rebates and Taker Fees Based on Qualifying Tier Thresholds

The Exchange believes that it is reasonable to make the proposed changes to the maker rebates provided to Market Maker and Priority Customer orders in Penny Symbols and SPY, and in Non-Penny Symbols (excluding index options), as further discussed above. While the Exchange is primarily decreasing or eliminating the maker rebates currently provided to certain Market Maker and Priority Customer orders (except for increasing the Tier 3 maker rebate for Market Maker orders in Penny Symbols and SPY), the maker rebates provided to Market Makers and Priority Customers generally remain more favorable than the maker rebates provided to all other GEMX market participants. As such, the Exchange believes that the proposed changes to the Market Maker and Priority Customer maker rebates will continue to incentivize these market participants to send additional order flow to GEMX, thereby creating additional liquidity to the benefit of members and investors that trade on the Exchange. Furthermore, with the proposed changes to the Market Maker rebate amounts, the tiered maker rebates (i.e., ranging from \$0.28 to \$0.45 per contract for Penny Symbols and SPY, and from \$0.40 to \$0.75 per contract for Non-Penny Symbols (excluding index options)) remain competitive with similar rebates provided by other options exchanges. For example, MIAX PEARL offers its market makers tiered makers

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(4) and (5).

rebates that range from \$0.25 to \$0.48 per contract for penny classes, and from \$0.30 to \$0.70 per contract for non-penny classes.¹⁶

The Exchange also believes that the proposed changes to the maker rebates as described above are equitable and not unfairly discriminatory. As has historically been the case, Market Maker and Priority Customer orders will continue to earn more favorable maker rebates in order to encourage that order flow. Market Makers have different requirements and obligations to the Exchange that other market participants do not (such as quoting requirements). In addition, a Priority Customer is by definition not a broker or dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). This limitation does not apply to participants whose behavior is substantially similar to that of market professionals, including Professional Customers, who will generally submit a higher number of orders than Priority Customers. As such, Priority Customer orders remain entitled to more favorable pricing than other market participants.

The Exchange believes that it is reasonable to increase the taker fees charged to all Non-Priority Customer orders in Penny Symbols and SPY from \$0.49 to \$0.50 per contract in Tiers 1-3 because the proposed change is a modest increase in fees. Furthermore, the proposed taker fees are within the range of similar fees currently charged by other options exchanges, including NOM, which assesses all NOM participants (including customers) a fee for removing liquidity of

¹⁶ See MIAX PEARL Fee Schedule, Section 1)a). See also Nasdaq Options Market (“NOM”) Rules, Chapter XV Options Pricing, Sec. 2(1). NOM offers its market makers tiered rebates to add liquidity that range from \$0.20 to \$0.42 per contract in penny pilot options. In non-penny pilot options, the rebate to add liquidity for NOM market makers is \$0.30 per contract if participants add NOM market maker liquidity in non-penny pilot options of 10,000 or more ADV contracts per day in a month. See NOM Rules, Chapter XV Options Pricing, Sec. 2(1).

up to \$0.50 per contract in penny pilot options.¹⁷ Similarly, the Exchange believes that the proposed increase in the taker fees assessed to all market participant orders in Non-Penny Symbols (excluding index options) as discussed above is reasonable as the increased fees (ranging from \$0.94 to \$0.99 per contract for all Non-Priority Customers, and from \$0.82 to \$0.85 per contract for all Priority Customers) are still within the range of (or lower than) similar fees currently charged by other options exchanges. For example, MIAX PEARL charges tiered taker fees for non-penny classes ranging from \$1.02 to \$1.05 per contract for all MIAX PEARL non-priority customer orders, and from \$0.84 to \$0.87 per contract for priority customer orders.¹⁸

Furthermore, the Exchange believes that the proposed increase in the taker fees for Penny Symbols and SPY, and for Non-Penny Symbols (excluding index options), is equitable and not unfairly discriminatory because the proposed changes will apply uniformly to all similarly-situated market participants.

Changes to the Fee for Responses to Crossing Orders (Excluding PIM)

The Exchange believes that the proposed fees for Responses to Crossing Orders (excluding PIM orders), which are being increased for all market participants to \$0.50 per contract in Penny Symbols and SPY, and \$1.00 per contract in Non-Penny Symbols (excluding index options), are reasonable because they remain competitive with similar fees assessed by other options exchanges, including, for example, BOX Options Exchange (“BOX”), which charges up to \$0.50 and \$1.15 per contract for responses in its solicitation or facilitation auction

¹⁷ See NOM Rules, Chapter XV, Sec. 2(1). See also MIAX PEARL Fee Schedule, Section 1)a) (assessing all MIAX PEARL participants (other than priority customers) taker fees of up to \$0.50 per contract in penny classes).

¹⁸ See MIAX PEARL Fee Schedule, Section 1)a). See also NOM Rules, Chapter XV, Sec. 2(1) (charging a fee for removing liquidity in non-penny pilot options that is \$0.85 per contract for customers and professionals, and \$1.10 per contract for all other NOM participants).

mechanisms for penny pilot and non-penny pilot classes, respectively.¹⁹ As such, the Exchange believes that the response fees proposed herein are set at levels that the Exchange believes will remain attractive to market participants that trade on GEMX.

Finally, the Exchange believes that the proposed fees for Responses to Crossing Orders (excluding PIM orders) are equitable and not unfairly discriminatory because they would uniformly apply to all similarly-situated market participants.

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 not necessary or appropriate in furtherance of the purposes of the Act. As discussed above, the Exchange believes that the proposed fees and rebates in Section I of the Exchange's Schedule of Fees remain competitive with similar fees and rebates offered on other options exchanges. The Exchange 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, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

¹⁹ BOX charges a fee for responses in the solicitation or facilitation auction mechanisms for all account types that is \$0.25 per contract (for penny pilot classes) and \$0.40 per contract (for non-penny pilot classes). See BOX Fee Schedule, Section I.C. As set forth in the BOX Fee Schedule, "[r]esponses to Facilitation and Solicitation Orders executed in these mechanisms shall be charged the "add" fee." Id. at Section III.B, second bullet. For all account types, this fee (i.e., the Fee for Adding Liquidity) is \$0.25 (for penny pilot classes) and \$0.75 (for non-penny pilot classes). Id. Thus, BOX may charge a fee for responses in its solicitation or facilitation auction mechanisms of up to \$0.50 per contract (for penny pilot classes) and \$1.15 per contract (for non-penny pilot classes).

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,²⁰ and Rule 19b-4(f)(2)²¹ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

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-GEMX-2017-60 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.

²⁰ 15 U.S.C. 78s(b)(3)(A)(ii).

²¹ 17 CFR 240.19b-4(f)(2).

All submissions should refer to File Number SR-GEMX-2017-60. 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. 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-GEMX-2017-60 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.²²

Eduardo A. Aleman
Assistant Secretary

²² 17 CFR 200.30-3(a)(12).