

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75455; File No. SR-Phlx-2015-61)

July 15, 2015

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

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 July 1, 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 modify the Phlx Pricing Schedule (“Pricing Schedule”). Specifically, the Exchange proposes to amend pricing in Section B, entitled “Customer Rebate Program,”<sup>3</sup> Section II, entitled “Multiply Listed Options Fees,”<sup>4</sup> and Section III, entitled “Singly Listed Options,”<sup>5</sup> of the Pricing Schedule. The Exchange proposes these amendments in order

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

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

<sup>3</sup> The term “Customer” applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation (“OCC”) which is not for the account of broker or dealer or for the account of a “Professional” (as that term is defined in Rule 1000(b)(14)).

<sup>4</sup> This includes options overlying equities, exchange traded funds (“ETFs”), exchange traded notes (“ETNs”) and indexes which are Multiply Listed.

<sup>5</sup> This includes options overlying foreign exchange (“FX”), equities, ETFs, ETNs, and indexes not listed on another exchange.

to: (i) increase the rebates specifically for Tier 4 and Tier 5 (Category B) electronic Complex<sup>6</sup> and Complex PIXL<sup>7</sup> Orders<sup>8</sup>; (ii) increase the assessment of Multiply Listed Options fees for non-Penny Pilot<sup>9</sup> Options for electronic Professional,<sup>10</sup> Broker-Dealer,<sup>11</sup> and Firm<sup>12</sup> orders; (iii) delete Customer Rebate Tier 2 and Tier 3 from notes 13 [sic] and 14 dealing with Common

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<sup>6</sup> A Complex Order is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced at a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. Furthermore, a Complex Order can also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying stock or ETF coupled with the purchase or sale of options contract(s). See Exchange Rule 1080, Commentary .07(a)(i).

<sup>7</sup> PIXL<sup>SM</sup> is the Exchange's price improvement mechanism known as Price Improvement XL or PIXL. See Rule 1080(n).

<sup>8</sup> A transaction resulting from an order that was electronically delivered utilizes Phlx XL. See Exchange Rules 1014 and 1080. Electronically delivered orders do not include orders transacted on the Exchange floor. A transaction resulting from an order that is non-electronically-delivered is represented on the trading floor by a floor broker. See Exchange Rule 1063. All orders are either electronically or non-electronically delivered.

<sup>9</sup> The Penny Pilot was established in January 2007 and was last extended in 2015. See Securities Exchange Act Release Nos. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74) (notice of filing and approval order establishing Penny Pilot); and 75286 (June 24, 2015) (SR-Phlx-2015-54) (notice of filing and immediate effectiveness extending the Penny Pilot through June 30, 2016). Non-Penny Pilot Options are options other than Penny Pilot Options listed on the Exchange (e.g. AAPL, BAC, EEM, FB, FXI, IWM, QQQ, TWTR, VXX and XLF), which can be found at <http://www.nasdaqtrader.com/Micro.aspx?id=phlx>.

<sup>10</sup> The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 1000(b)(14).

<sup>11</sup> The term "Broker-Dealer" applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

<sup>12</sup> The term "Firm" applies to any transaction that is identified by a member or member organization for clearing in the Firm range at The Options Clearing Corporation.

Ownership;<sup>13</sup> and (iv) increase the assessment of Singly-Listed FX options<sup>14</sup> fees for Professional, Broker-Dealer, and Firm orders.

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, 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 filing is to modify the Pricing Schedule to specifically amend fees in Section B, entitled "Customer Rebate Program," Section II, entitled "Multiply Listed Options Fees," and Section III, entitled "Singly Listed Options." The Exchange proposes these amendments in order to: (i) increase the rebates specifically for Tier 4 and Tier 5 (Category B) electronic Complex and Complex PIXL Orders; (ii) increase the assessment of Multiply Listed Options fees for non-Penny Pilot Options for electronic Professional, Broker-Dealer, and Firm orders; (iii) delete Customer Rebate Tier 2 and Tier 3 from notes 13 [sic] and 14 dealing with

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<sup>13</sup> The term "Common Ownership" means members or member organizations under 75% common ownership or control.

<sup>14</sup> FX options include XDB, XDE, XDN, XDS, XDA, XDM, XEH, XEV, XDZ, XDC, and XDV.

Common Ownership; and (iv) increase the assessment of Singly-Listed FX options fees for Professional, Broker-Dealer, and Firm orders.

### Section B – Customer Rebate Program

Currently, the Exchange has a Customer Rebate Program consisting of five tiers that pays Customer Rebates on two categories, A and B, of transactions. A Phlx member qualifies for a certain rebate tier based on the percentage of total national customer volume in Multiply Listed equity and ETFs options classes, excluding SPY<sup>15</sup> options that it transacts monthly on Phlx. The Exchange calculates Customer volume in Multiply Listed Options (including SPY options) by totaling electronically-delivered and executed volume, excluding volume associated with electronic Qualified Contingent Cross (“QCC”) Orders,<sup>16</sup> as defined in Exchange Rule 1080(o).<sup>17</sup> The Exchange proposes, as discussed below, to increase the Tier 4 and Tier 5 Complex PIXL Orders (Category B) rebates.

Currently, a Category A rebate is paid to members executing electronically-delivered Customer Simple Orders in Penny Pilot Options and Customer Simple Orders in non-Penny Pilot

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<sup>15</sup> SPY is the SPDR<sup>®</sup> S&P 500<sup>®</sup> ETF Trust. S&P<sup>®</sup>, S&P 500<sup>®</sup>, SPDR<sup>®</sup>, and Standard & Poor’s<sup>®</sup> are registered trademarks of Standard & Poor’s<sup>®</sup> Financial Services LLC.

<sup>16</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>17</sup> Members and member organizations under common ownership may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving rebates. Common ownership means members or member organizations under 75% common ownership or control.

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 are paid a rebate of \$0.14 per contract. Rebates on Customer PIXL Orders will be capped at 4,000 contracts per order for Simple PIXL Orders.

Currently, a Category B rebate is 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. Customer Complex PIXL Orders that execute against a Complex PIXL Initiating Order will not be paid a rebate under any circumstances. The Category B rebate will not be paid when an electronically-delivered Customer Complex Order, including a Customer Complex PIXL Order, executes against another electronically-delivered Customer Complex Order. Rebates on Customer PIXL Orders are capped at 4,000 contracts per order leg for Complex PIXL Orders. Moreover, the Exchange will pay a \$0.02 per contract Category A rebate and a \$0.03 per contract Category B rebate in addition to the applicable Tier 2 and 3 rebate to a Specialist or Market Maker or its member or member organization affiliate under Common Ownership provided the Specialist or Market Maker has reached the Monthly Market Maker Cap, as defined in Section II.

Now, the rebates in all tiers (Category A and Category B) are as follows:

<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 A</b>	<b>Category B</b>
Tier 1	0.00% - 0.60%	\$0.00	\$0.00

<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 A</b>	<b>Category B</b>
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	\$0.20
Tier 5	Above 2.50%	\$0.17	\$0.20

The Exchange proposes to change the Tier 4 Customer Rebate (Category B) from \$0.20 to \$0.22. The Exchange also proposes to change the Tier 5 Customer Rebate (Category B) from \$0.20 to \$0.22.<sup>18</sup> The Exchange believes that the proposed increased Category B rebates will continue to encourage members to send Customer liquidity to Phlx despite the cap on PIXL Complex Order rebates at the proposed 4,000 contracts per order leg. The Exchange believes that the proposed two cent increase is reasonable. Moreover, the Exchange believes that the resulting 5 cents difference between Category B Tiers 3 and 4 (\$0.17 and \$0.22) is reasonable and fair since, comparatively, the current difference between Tiers 1 and 2 is 17 cents.

## Section II – Multiply Listed Options

Currently, the Exchange charges Customers, Professionals, Specialists and Market Makers, Broker-Dealers, and Firms Options Transaction Fees for Multiply Listed Options (including options overlying equities, ETFs, ETNs, and indexes which are Multiply Listed). The fees are different for Penny Pilot Options and non-Penny Pilot Options.

Now, the Multiply-Listed Options fees, per contract, are as follows:

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<sup>18</sup> This is similar to the Chicago Board Options Exchange (“CBOE”). See CBOE’s Fee Schedule.

	Customer	Professional		Specialist and Market Maker		Broker-Dealer		Firm	
		Electro nic	Floor	Electro nic	Floor	Electro nic	Floor	Electro nic	Floor
<b>Options Transaction Charge (Penny Pilot)</b>	\$0.00	\$0.48 <sup>13</sup>	\$0.25	\$0.22	\$0.30	\$0.48 <sup>13</sup>	\$0.25	\$0.48 <sup>12, 13</sup>	\$0.25
<b>Options Transaction Charge (non-Penny Pilot)</b>	\$0.00	\$0.70 <sup>13, 14</sup>	\$0.25	\$0.25 <sup>15</sup>	\$0.30	\$0.70 <sup>13, 14</sup>	\$0.25	\$0.70 <sup>12, 13, 14</sup>	\$0.25
<b>Options Surcharge in MNX and NDX</b>	N/A	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
<b>Options Surcharge in BKX</b>	N/A	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
<b>Cabinet Options</b>	\$0.00	N/A	\$0.10	N/A	\$0.10	N/A	\$0.10	N/A	\$0.10

The Exchange offers a discount to Professional, Broker- Dealer, and Firm for certain orders. Today, notes 13 and 14 apply to fees assessed to a Professional, Broker- Dealer, and Firm for electronic orders in certain non-Penny Pilot Options. Note 13 states that electronic Complex Orders will be assessed \$0.35 per contract. Note 14 states that any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.60 per contract. In addition, note 12 applies to fees assessed to a Firm for electronic

orders in certain non-Penny Pilot Options. Note 12 states that Firm electronic simple orders in AAPL, BAC, EEM, FB, FXI, IWM, QQQ, TWTR, VXX, and XLF<sup>19</sup> will be assessed \$0.34.

The Exchange proposes to amend the discounted amount that is currently assessed to a Professional, Broker- Dealer, and Firm for electronic orders in certain Multiply Listed non-Penny Pilot Options. Whereas today the Exchange assesses a Professional, Broker- Dealer, and Firm each a \$0.70 per contract Options Transaction Charge for Non-Penny Pilot Options, the Exchange proposes to increase this fee to \$0.75. Despite the increase in the fee, the Exchange believes that its fee structure will continue to incentivize Professionals, Firms, and Broker-Dealers to transact electronic non-Penny Pilot volume on the Exchange.

The Exchange offers a discount to Specialists and Market Makers for certain orders. Today, note 15 applies to a Specialist or Market Maker that transacts electronic orders in non-Penny Pilot Options. Note 15 states that any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.23 per contract. The Exchange is proposing to delete the reference to Customer Rebate Tiers 2 and 3 in note 14 and note 15. Thus, note 15 would continue to apply to Specialists and Market Makers such that after the proposal, per note 15 any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.23 per contract.

Today, note 14 applies to a Professional, Broker-Dealer, or Firm that transacts electronic orders in non-Penny Pilot Options. Note 14 states that any member or member organization under Common Ownership with another member or member organization that qualifies for

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<sup>19</sup> All are currently in the Penny Pilot.



Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.60 per contract. The Exchange is proposing to delete the reference in note 14 to Customer Rebate Tiers 2 and 3, just like in note 15. Thus, note 14 would continue to apply to Professionals, Broker-Dealers, and Firms such that after the proposal, per note 14 any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.60 per contract. The Exchange believes that the qualification for Customer Rebate Tiers 2 or 3 is no longer necessary for the discount incentive in notes 14 and 15, particularly where Professionals, Broker-Dealers, Specialists and Market Makers, and Firms can choose to earn the discount by qualifying for Customer Rebate Tiers 4 or 5 by bringing liquidity to the Exchange.

Despite the proposed deletion of the reference to Customer Rebate Tiers 2 and 3 in notes 14 and 15, the Exchange believes that its fee structure will continue to incentivize Professionals, Firms, Broker-Dealers, and Specialists and Market Makers to transact electronic non-Penny Pilot Option volume on the Exchange. The Exchange believes that with the proposed deletion of the reference to Customer Rebate Tiers 2 and 3, the incentive remains to bring more order flow to the Exchange to earn the discount.

Section III – Singly Listed Options

Currently, fees for Singly Listed Options are located in Section III of the Pricing Schedule. The Singly-Listed Options fees, per contract, are as follows:<sup>20</sup>

	<b>Customer</b>	<b>Professional</b>	<b>Specialist and Market Maker</b>	<b>Firm</b>	<b>Broker-Dealer</b>
<b>Options</b>	\$0.40	\$0.70	\$0.40	\$0.70	\$0.70

<sup>20</sup> While Singly-Listed Options fees also apply to FX options, these fees are not proposed to be changed and therefore, for purposes of brevity, are not reproduced here.

## **Transaction Charge**

Today, the Exchange assesses an Options Transaction Charge for Customers of \$0.40 per contract, for Professionals, Firms, and Broker-Dealers of \$0.70 per contract, and for Specialists and Market Makers of \$0.40 per contract. These fees apply to options overlying FX, equities, ETNs, ETFs, and indexes not listed on another exchange.<sup>21</sup> The Exchange proposes to increase the Professional, Broker-Dealer, and Firm Options Transaction Charges from \$0.70 to \$0.75 per contract for Singly Listed Options.<sup>22</sup> The increase aligns these fees with the above-described proposed electronic non-Penny Pilot fees in Section II of the Pricing Schedule.<sup>23</sup> Despite the fee increase, the proposal will allow the Exchange to incentivize market participants to transact Singly Listed Options.

The Exchange believes that the fees and rebates in its Pricing Schedule are structured to attract liquidity. Tier 4 and 5 of the Customer Rebate Schedule in Section B, for example, provide the highest relative rebates in the five tier Customer Rebate Program to those that bring the most liquidity to the Exchange, in particular where the percentage thresholds of national customer volume in multiply-listed equity and ETF Options classes, excluding SPY Options (monthly) are also the highest. In making the proposed changes to the Pricing Schedule, the Exchange continues to incentivize members to execute liquidity on the Exchange.

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<sup>21</sup> These Singly Listed Options include SOX, HGX, and OSX.

<sup>22</sup> The Exchange is not increasing the fees for Customers and Specialists and Market Makers. As discussed herein, Customer orders bring valuable liquidity to the market, which liquidity benefits other market participants; and Specialists and Market Makers have market obligations (e.g., to make continuous markets) that other market participants do not have.

<sup>23</sup> Professionals, Broker-Dealers, and Firms are proposed to be similarly assessed a \$0.75 per contract electronic Options Transaction Charge in Multiply Listed [sic] Options.

## 2. Statutory Basis

The Exchange believes that its proposal to amend the Pricing Schedule is consistent with Section 6(b) of the Act<sup>24</sup> in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act<sup>25</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 which Phlx operates or controls, and is not designed to permit unfair discrimination between market participants to whom the Exchange's fees and rebates are applicable.

### Section B – Customer Rebates

The Exchange believes that its proposal to change the Tier 4 Customer Rebate (Category B) from \$0.20 to \$0.22, and to change the Tier 5 Customer Rebate (Category B) from \$0.20 to \$0.22, is reasonable. These proposed changes will allow the Exchange to continue to attract Customer liquidity to the Exchange. Customer orders bring valuable liquidity to the market, which liquidity benefits other market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts 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 the proposed increased Category B rebates will continue to encourage members to send Customer liquidity to Phlx despite the cap on PIXL Complex Order rebates at the proposed 4,000 contracts per order leg. The Exchange believes that the proposed two cent increase is reasonable. Additionally, the CBOE has similar rebates.<sup>26</sup>

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<sup>24</sup> 15 U.S.C. 78f(b).

<sup>25</sup> 15 U.S.C. 78f(b)(4), (5).

<sup>26</sup> CBOE's VIP credit for certain orders in Tier 3 is \$0.22 per contract. See CBOE's Fees Schedule. See also Securities Exchange Act Release No. 371588 (June 17, 2015), 80 FR 36021 (June 23, 2015) (SR-CBOE- 2015-058) (rule change increasing VIP credit for

The Exchange believes that its proposal to change the Tier 4 and Tier 5 Customer Rebate (Category B) from \$0.20 to \$0.22 is equitable and not unfairly discriminatory because these amendments to Category B apply uniformly to all market participants to whom Category B applies. Moreover, the Exchange believes that the resulting 5 cents difference between Category B Tiers 3 and 4 (\$0.17 and \$0.22) is reasonable and not unfair since, comparatively, the current difference between Tiers 1 and 2 is 17 cents.

## Section II – Multiply Listed Options

The Exchange believes that increasing from \$0.70 to \$0.75 the amount that is currently assessed to a Professional, Broker- Dealer, and Firm for electronic orders in certain Multiply Listed non-Penny Pilot Options is reasonable. Despite the increase in the fee, the Exchange believes that its fee structure will continue to incentivize Professionals, Broker-Dealers, and Firms to transact electronic non-Penny Pilot volume on the Exchange. The Exchange believes that the proposed fee, although higher, will continue to incentivize Professionals, Broker-Dealers, and Firms to send order flow to the Exchange. In addition, these modestly increased fees are consistent with similarly increased proposed fees for Singly Listed Options. The Exchange believes that it is reasonable for it to instill consistency in its pricing as discussed.

The Exchange believes that increasing from \$0.70 to \$0.75 the amount that is currently assessed to a Professional, Broker- Dealer, and Firm for electronic orders in certain Multiply Listed non-Penny Pilot Options is equitable and not unfairly discriminatory because it applies uniformly to all. Further, the proposed amendment will continue to allow the Exchange to incentivize Professionals, Broker-Dealers, and Firms to send electronic order flow to the

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certain orders in Tier 3 from \$0.16 per contract to \$0.22 per contract, also in Tier 2 from \$0.16 per contract to \$0.21 per contract and in Tier 4 from \$0.17 per contract to \$0.23 per contract).

Exchange for execution. The Exchange's fees will be competitive with fees at other options markets. Although the Exchange will still be assessing Professionals, Broker-Dealers, and Firms more than Customers (which do not pay the Option Transaction Charge in Penny Pilot or in non-Penny Pilot Options), Customer order flow enhances liquidity on the Exchange for the benefit of all market participants and benefits all market participants by providing more trading opportunities, which attracts 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. Although Professionals, Broker-Dealers, and Firms will still be charged more for non-Penny Pilot Options than Specialists and Market Makers, who are charged \$0.25 and \$0.30, respectively, Specialists and Market Makers have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>27</sup> Specialists and Markets have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings.

The Exchange believes it is reasonable to propose to delete the reference to Customer Rebate Tiers 2 and 3 in notes 14 and 15. Thus, note 15 would continue to apply to Specialists and Market Makers and after the proposal any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 4 [sic] or 5 [sic] in Section B of the Pricing Schedule will be assessed \$0.23 per contract. Similarly, note 14 would continue to apply to Professionals, Broker-Dealers, and Firms and after the proposal any member or member organization under Common Ownership with another

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<sup>27</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

member or member organization that qualifies for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.60 per contract. The Exchange believes that the qualification for Customer Rebate Tiers 4 or 5 is no longer necessary for the discount incentive in notes 14 and 15, particularly where Professionals, Broker-Dealers, Specialists, and Market Makers, and Firms can choose to earn the discount by qualifying for Customer Rebate Tiers 4 or 5 by bringing liquidity to the Exchange. Despite the proposed deletion of the reference to Customer Rebate Tiers 2 and 3 in notes 14 and 15, the Exchange believes that its fee structure will continue to incentivize Professionals, Firms, Broker-Dealers, and Specialists and Market Makers to transact electronic non-Penny Pilot volume on the Exchange. The Exchange believes that with the proposed deletion of the reference to Customer Rebate Tiers 2 and 3, the incentive remains to bring more order flow to the Exchange to earn the discount.

The Exchange believes it is equitable and not unfairly discriminatory to increase from \$0.70 to \$0.75 the Multiply Listed non-Penny Pilot Options fee, as well as to delete the reference to Customer Rebate Tiers 2 and 3 in notes 14 and 15. The Exchange believes that the proposed changes will enable to Exchange to continue to incentivize market participants to bring non-Penny Pilot Customer liquidity to the Exchange. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts 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. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to Professionals, Broker-Dealers, and Firms because they have obligations to the market and regulatory requirements, which normally do not

apply to other market participants.<sup>28</sup> They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The proposed differentiation as between Customers and Specialists and Market Makers and other market participants (e.g., Professionals, Broker-Dealers, and Firms) recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. Moreover, the proposed changes to the fee structure and rebate structure will be applied uniformly to all.

### Section III – Singly Listed Options

The Exchange believes that increasing the Professional, Firm, and Broker-Dealer Options Transaction Charges is reasonable because the Exchange is seeking to conform fees to electronic Non-Penny Pilot Options<sup>29</sup> pricing for Multiply Listed Options<sup>30</sup> in order to recoup the operational costs<sup>31</sup> for Singly Listed Options. Also, the Exchange believes the fees are reasonable because the proposed fees are within the range of similar fees assessed at other exchanges.<sup>32</sup>

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<sup>28</sup> See Rule 1014 titled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders.”

<sup>29</sup> All Singly Listed Options are Non-Penny Pilot Options.

<sup>30</sup> See Section II of the Pricing Schedule.

<sup>31</sup> By way of example, in analyzing an obvious error, the Exchange would have additional data points available in establishing a theoretical price for a Multiply Listed Option as compared to a Singly Listed Option, which requires additional analysis and administrative time to comply with Exchange rules to resolve an obvious error.

<sup>32</sup> CBOE assesses an \$0.80 per contract fee to Customers, Broker-Dealers, Non-Trading Permit Holder Market Makers and Professional, Voluntary Professional and Joint Back-Office market participants for SPX Range Options (SRO) transactions, a proprietary index, in addition to a surcharge fee. SPX refers to options on the Standard & Poor's 500 Index. See CBOE's Fees Schedule. In addition, NASDAQ Options Market LLC (“NOM”) assesses Non-Penny Pilot Fees for Removing Liquidity ranging from \$0.85 to

The Exchange believes that increasing the Professional, Firm, and Broker-Dealer Options Transaction Charges is equitable and not unfairly discriminatory because the pricing will be comparable among similar categories of market participants, as is the case today. Professionals, Firms, and Broker-Dealers will be assessed the same rates (\$0.70 [sic] per contract) and Customers and Specialists and Market Makers will continue to be assessed lower rates as compared to other market participants. Customer order flow is, as discussed above, assessed the lowest fee because incentivizing members to continue to offer Customer trading opportunities in Singly Listed Options benefits all market participants through increased liquidity. The Exchange notes that Specialists and Market Makers are assessed lower options transaction charges as compared to other market participants, except Customers, because they have burdensome quoting obligations<sup>33</sup> to the market which do not apply to Customers, Professionals, Firms, and Broker-Dealers. The proposed differentiation as between Customers and Specialists and Market Makers as compared to Professionals, Firms, and Broker-Dealers recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. The proposed changes to the Options Transactions Charge will be applied uniformly to all.

The Exchange desires to continue to incentivize members and member organizations, through the Exchange's rebate and fee structure, to select Phlx as a venue for bringing liquidity and trading by offering competitive pricing. Such competitive, differentiated pricing exists today

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\$0.89 per contract depending on the market participant. See Chapter XV, Section 2 of NOM's Rules. The Exchange also assesses a Professional, Broker-Dealer and Firm an electronic options transaction charge (non-Penny Pilot Options) of \$0.70 per contract for transactions in Multiply Listed Options. See Section II of the Exchange's Pricing Schedule.

<sup>33</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."



on other options exchanges. The Exchange's goal is creating and increasing incentives to attract orders to the Exchange that will, in turn, benefit all market participants through increased liquidity at the Exchange.

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.

The Customer Rebate Program amendments in Section B of the Pricing Schedule do not create an undue burden on competition and, like all of the amendments proposed by the Exchange, will apply uniformly to all market participants. Moreover, the Section B amendments will enable the Exchange to continue to attract liquidity, which benefits all market participants by providing more trading opportunities, which attracts Specialists and Market Makers. The Exchange's proposal to increase the assessment for Professional, Broker-Dealer, and Firm Multiply-Listed Options electronic Orders in certain non-Penny options, and the deletion of Customer Rebate Tiers 2 and 3 from notes 14 and 15, does not place an undue burden on competition, but rather will similarly allow the Exchange to continue to attract liquidity. In addition, the proposed \$0.75 fee in Section II is consistent with what is assessed by CBOE, as well as the Exchange proposal in Section III to increase the assessment applicable to Professionals, Broker-Dealers, and Firms that transact Singly-Listed. These increases do not create an undue burden on competition, but rather align the proposed Singly-Listed Option fees in Section III with the proposed non-Penny Pilot Option fees in Section II of the Pricing Schedule, as well as with other exchanges. Despite these proposed fee and rebate changes, the Exchange's proposal will allow it to continue to incentivize market participants to bring liquidity to the Exchange, as described herein.

The Exchange operates in a highly competitive market, comprised of twelve 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, as described in the 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.

The proposed fees are designed to ensure a fair and reasonable use of Exchange resources by allowing the Exchange to recoup costs while continuing to attract liquidity and offer connectivity at competitive rates to Exchange members and member organizations.

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>34</sup> 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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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<sup>34</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

#### 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-2015-61 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2015-61. 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-2015-61 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>35</sup>

Robert W. Errett  
Deputy Secretary

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<sup>35</sup> 17 CFR 200.30-3(a)(12).