

(File No. SR-OCC-2013-04), whichever is later.

By the Commission.

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*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-69768; File No. SR-Phlx-2013-61]

**Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Various Sections of the Exchange's Pricing Schedule**

June 14, 2013.

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 June 3, 2013, 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 Exchange's Pricing Schedule to: (i) Amend the Customer Rebate Program; (ii) adopt new pricing specific to options overlying Standard and Poor's Depository Receipts/SPDRs ("SPY");<sup>3</sup> (iii) amend the Complex Order<sup>4</sup> Fee for Removing Liquidity applicable to Specialists and Market Makers in receipt of certain directed orders; and (iv) amend PIXL.<sup>5</sup> Pricing.

The text of the proposed rule change is available on the Exchange's Web site 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 Exchange proposes to amend existing Section B, entitled "Customer Rebate Program," Section I, entitled "Rebates and Fees for Adding and Removing Liquidity in Select Symbols,"<sup>6</sup> and Section IV, A "PIXL Pricing." The Exchange also proposes to adopt a new Section C, entitled "Rebates and Fees for Adding and Removing Liquidity in SPY." Each proposed amendment is described in greater detail below.

*Customer Rebate Program*

Currently, the Exchange has in place a four tier structure Customer Rebate Program at Section B of the Pricing Schedule which pays Customer rebates on four Categories (A, B, C and D) of transactions. The four tier structure pays rebates based on percentage thresholds of national customer multiply-listed options volume by month based on the same four Categories (A, B, C and D) of transactions. Specifically, the Exchange bases a market participant's qualification for a certain Rebate Tier on the percentage of total national customer volume in multiply-listed options which are transacted monthly on Phlx as follows:

Customer rebate tiers	Percentage thresholds of national customer volume in multiply-listed equity and ETF options classes (monthly)	Category A	Category B	Category C	Category D
Tier 1 .....	0.00%–0.75% .....	\$0.00	\$0.00	\$0.00	\$0.00
Tier 2 .....	Above 0.75%–1.60% .....	0.11	0.12	0.13	0.08
Tier 3 .....	Above 1.60%–2.60% .....	0.13	0.13	0.14	0.08
Tier 4 .....	Above 2.60% .....	0.15	0.15	0.15	0.09

Today, the Exchange totals Customer volume in Multiply Listed Options (including Select Symbols) that are electronically-delivered and executed, except volume associated with electronic QCC Orders, as defined in Exchange Rule 1080(o).<sup>7</sup> Members and member organizations under common

ownership<sup>8</sup> may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving rebates.

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. Rebates are paid on Customer PIXL Orders in Section II symbols that execute against non-Initiating Order interest, except in the case of Customer PIXL Orders that are greater than 999 contracts. All Customer PIXL Orders that are greater than 999 contracts are paid a rebate regardless of

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

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

<sup>3</sup> SPY options are based on the SPDR exchange-traded fund ("ETF"), which is designed to track the performance of the S&P 500 Index.

<sup>4</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 exchange-traded fund ("ETF") coupled with the purchase or sale of options contract(s). See Exchange Rule 1080, Commentary .08(a)(i).

<sup>5</sup> PIXL is the Exchange's price improvement mechanism known as Price Improvement XL or (PIXL<sup>SM</sup>). See Rule 1080(n).

<sup>6</sup> The Select Symbols are listed in Section I.

<sup>7</sup> The Exchange calculates volume and pay rebates based on a member organization's Phlx house account numbers.

<sup>8</sup> Common ownership means 75% common ownership or control.

the contra party to the transaction. 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. Category C rebates are paid to members executing electronically-delivered Customer Complex Orders in Select Symbols in Section I. Category D rebates are paid to members executing electronically-delivered Customer Simple Orders in Select Symbols in Section I. Rebates are paid on PIXL Orders in Section I symbols that execute against non-Initiating Order interest.

The Exchange is proposing to amend the rebates paid to market participants with this proposal. The Exchange proposes to continue to pay Categories A, B, C and D no rebate with proposed Tier 1 which is between 0.00% to 0.75% of national customer volume in multiply-listed options classes. Currently, the Exchange pays the following Tier 2 rebates for a percentage of national customer volume in multiply-listed options classes above 0.75% to 1.60%: Category A: \$0.11, Category B: \$0.12, Category C: \$0.13 and Category D: \$0.08. The Exchange is proposing to increase the Tier 2 Category A rebate from \$0.11 to \$0.12 per contract, the Category B rebate from \$0.12 to \$0.17 per contract and the Category C rebate from \$0.13 to \$0.17 per contract. The Category D rebate for Tier 2 would remain at \$0.08 per contract. Currently, the Exchange pays the following Tier 3 rebates for a percentage of national customer volume in multiply-listed options classes above 1.60% to 2.60%: Category A: \$0.13, Category B: \$0.13, Category C: \$0.14 and Category D: \$0.08. The Exchange is proposing to increase the Tier 3 Category A rebate from \$0.13 to \$0.14 per contract, the Category B rebate from

\$0.13 to \$0.17 per contract and the Category C rebate from \$0.14 to \$0.17 per contract. The Category D rebate for Tier 3 would remain at \$0.08 per contract. Currently, the Exchange pays the following Tier 4 rebates for a percentage of national customer volume in multiply-listed options classes above 2.60%: Category A: \$0.15, Category B: \$0.15, Category C: \$0.15 and Category D: \$0.09. The Exchange is proposing to increase the Tier 4 Category B rebate from \$0.15 to \$0.17 per contract and the Category C rebate from \$0.15 to \$0.17 per contract. The Tier 4 Category A rebate would remain at \$0.15 per contract and the Tier 4 Category D rebate would remain at \$0.09 per contract.

As is the case today, the Exchange is proposing to continue to permit the electronically-delivered and executed volume associated with options on SPY to be included in the calculation of Multiply Listed Options, however SPY options will no longer be paid the Customer rebates in Section A because SPY options will no longer be part of Section I, as proposed below. Today SPY is defined as a Select Symbol in Section I of the Pricing Schedule. The Exchange is proposing below to remove SPY from the definition of Select Symbol and adopt new pricing which applies to SPY. In calculating electronically-delivered and executed Customer volume in Multiply Listed Options, the numerator of the equation will remain unchanged and will continue to include all electronically-delivered and executed Customer volume in Multiply Listed Options. The Exchange is proposing to amend the denominator of that equation by excluding volume associated with SPY from the computation of national customer volume in multiply-listed equity and ETF options volume. The

Exchange believes it is appropriate to make this modification to afford members the opportunity to achieve new Customer Rebate Program tiers or maintain their current level of Customer Rebate Program tiers in light of the proposed changes below. The Exchange notes that options on SPY account for approximately 15% of the equity and ETF options volume in the industry. The proposed pricing in new Section C, described below, would contain rebates applicable to SPY options. Therefore, the Exchange would not pay rebates on SPY options as part of the Customer Rebate Program.

The Exchange believes that increasing the amount of rebates that will be paid to market participants that qualify for certain Categories of rebates in Tiers 2, 3 and 4 will encourage market participants to send increased Customer order flow to the Exchange to the benefit of all market participants. The Exchange also believes that continuing to include options on SPY transactions in the calculation for qualifying tiers will continue to encourage Customer order flow in SPY.

Section C—SPY

The Exchange proposes to not apply Section I pricing to options on SPY and instead adopt new pricing in a new Section C entitled “Rebates and Fees for Adding and Removing Liquidity in SPY” for options on SPY. The Exchange also proposes to remove the symbol “SPY” from the list of Select Symbols in Section I of the Pricing Schedule.

The Exchange proposes to adopt “Make/Take” pricing for SPY in both Simple and Complex Orders. The Exchange proposes to adopt the following pricing for options on SPY in Simple Orders in a new Part A to Section C:

	Customer	Specialist	Market maker	Firm	Broker-dealer	Professional
Rebate for Adding Liquidity .....	\$0.00	\$0.20	\$0.20	\$0.00	\$0.00	\$0.00
Fee for Removing Liquidity .....	0.44	0.44	0.44	0.44	0.44	0.44

Today, Specialists<sup>9</sup> and Market Makers<sup>10</sup> transacting Simple Orders in Select Symbols are paid a \$0.20 per contract Rebate for Adding Liquidity only when the Specialist or Market

Maker is contra to a Specialist, Market Maker, Firm, Broker-Dealer or Professional.<sup>11</sup> If the Specialist or Market Maker is contra to a Customer order, the Specialist or Market Maker is assessed the Simple Order Fee for Adding Liquidity. The Exchange assesses Specialists and Market Makers

a \$0.10 per contract Fee for Adding Liquidity for Simple Orders in Select Symbols and Firms, Professionals and Broker-Dealers pay a \$0.45 per contract Fee for Adding Liquidity for Simple Orders in Select Symbols. Customers are not assessed a Simple Order Fee for Adding or Removing Liquidity in Select Symbols. Specialists, Market Makers, Firms, Broker-Dealers and Professionals are assessed a \$0.45 per contract Fee for Removing Liquidity in Select Symbols.

The Exchange proposes to adopt a “Make/Take” pricing model with

<sup>9</sup> A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

<sup>10</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>11</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).

respect to SPY options wherein the Exchange would pay a rebate to liquidity providers and assess a fee on liquidity takers. The Exchange therefore proposes to adopt certain Rebates for Adding Liquidity for Specialists and Market Makers of \$0.20 per contract and assess a \$0.44 per contract Fee for Removing Liquidity on all market participants with respect to Simple Order SPY options. Customers, Firms, Broker-Dealers and Professionals would

not be assessed a fee for adding liquidity in SPY Simple Orders. Unlike the pricing for Simple Order Select Symbols, the Exchange would pay a rebate to Specialists and Market Makers for each transaction in SPY, regardless of the contra party. Therefore, Firms, Broker-Dealers and Professionals would be assessed a lower fee because the Simple Order Fees for Removing Liquidity in SPY are decreased from \$0.45 to \$0.44 per contract. Customers

would now pay \$0.44 per contract when removing liquidity as compared to no fee today, but would remain free with respect to adding liquidity. Specialists and Market Makers would pay lower fees as compared to today.

The Exchange proposes to adopt the following pricing for options on SPY in Complex Orders in a new Part B to Section C:

	Customer	Specialist	Market maker	Firm	Broker-dealer	Professional
Fee for Adding Liquidity .....	\$0.00	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Fee for Removing Liquidity .....	0.00	0.40	0.40	0.50	0.50	0.50

Today, all market participants, other than a Customer are assessed a Complex Order Fee for Adding Liquidity in Select Symbols of \$0.10 per contract. A Customer is not assessed a Complex Order Fee for Adding or Removing Liquidity in Select Symbols. Today, a Specialist and Market Maker are assessed a \$0.25 per contract Complex Order Fee for Removing Liquidity and a Firm, Broker-Dealer and Professional are assessed \$0.50 per contract Complex Order Fee for Removing Liquidity in Select Symbols. The Exchange proposes to adopt pricing for SPY options and continue to not assess a Customer either a Fee for Adding or Removing Liquidity in Complex Orders in SPY options. All market participants, other than a Customer, would be assessed a \$0.10 per contract Complex Order Fee for Adding Liquidity in SPY options, as is the case today in Select Symbols. The Exchange proposes to adopt Complex Order Fees for Removing Liquidity for SPY options as follows: A Specialist and Market Maker would be assessed \$0.40 per contract Complex Order Fee for Removing Liquidity and a Firm, Broker-Dealer and Professional would be assessed \$0.50 per contract. The Exchange would pay a Customer rebate of \$0.38 per electronically-delivered and executed contract in Complex Orders in SPY options. The Exchange would therefore increase the Complex Order Fees for Removing Liquidity in SPY options for Specialists and Market Makers.

Similar to Section I pricing, the order that is received by the trading system first in time shall be considered an order adding liquidity and an order that trades against that order shall be considered an order removing liquidity, except with respect to orders that trigger an order exposure alert.

The Exchange also proposes to decrease Complex Order Fees for Removing Liquidity applicable to

Specialists and Market Makers by \$0.02 per contract when the Specialist or Market Maker transacts against a Customer Order directed to that Specialist or Market Maker for execution. Today, the Exchange decreases the Complex Order Fees for Removing Liquidity applicable to Specialists and Market Makers by \$0.05 per contract pursuant to a Pilot Program.<sup>12</sup> As described in greater detail below, the Exchange proposes to reduce the Complex Order Fees for Removing Liquidity applicable to Specialists and Market Makers from \$0.02 to \$0.05 per contract for Select Symbols and SPY. In addition, the Exchange proposes to pay Customers a rebate of \$0.38 per contract for SPY transactions in Complex Orders. The Exchange believes that the proposed pricing will encourage market participants to direct orders in SPY options to the Exchange.

The Exchange also states in the Pricing Schedule, similar to Section I pricing, that Simple Orders that are executed against the individual components of Complex Orders will be assessed the fees and rebates in Part A (Simple Orders) and the individual components of such a Complex Order will be assessed the fees in Part B (Complex Orders).

The Exchange proposes to assess no fees and pay no rebates on transactions which execute against an order for which the Exchange broadcast an order exposure alert in SPY. Rule 1080(m) provides for the broadcast of certain orders that are on the Phlx Book.<sup>13</sup> The Exchange broadcasts orders on the Phlx Book by issuing order exposure alerts to all Phlx market participants that

subscribe to certain data feeds. The Exchange believes that by not assessing fees (or paying a rebate) when removing orders from the order book in SPY where an order exposure alert was issued, will incentivize market participants to remove liquidity from the Phlx Book.

As explained above, SPY Customer volume will be included in the calculation of Customer volume in Multiply Listed Options that are electronically-delivered and executed for purposes of the Customer Rebate Program in Section A, however the rebates defined in Section A will not apply to electronic executions in SPY.

Today, the Monthly Market Maker Cap<sup>14</sup> is not applicable to electronic transactions in the Select Symbols, except Qualified Contingent Cross (“QCC”) Transaction Fees.<sup>15</sup> The

<sup>14</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 and reversal and conversion strategy executions (as defined in this Section II) are excluded from the Monthly Market Maker Cap.

<sup>15</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 (“NBBO”) 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

<sup>12</sup> See Securities Exchange Act Release No. 68202 (November 9, 2012), 77 FR 68856 (November 16, 2012) (SR-Phlx-2012-27 and SR-Phlx-2012-54).

<sup>13</sup> See Rule 1080(m) and see also Securities Exchange Act Release No. 68517 (December 21, 2012), 77 FR 77134 (December 31, 2012) (SR-Phlx-2012-136).

Exchange proposes to apply the Monthly Market Maker Cap to SPY transactions as it is applied today.

Today, the Monthly Firm Fee Cap<sup>16</sup> applies to floor transactions in Select Symbols and QCC Orders (electronic and floor transactions). The Exchange proposes to apply the Monthly Firm Fee Cap to SPY transactions as it is applied today.

Today, Payment for Order Flow Fees<sup>17</sup> are collected on transactions in the Select Symbols, except when a Specialist or Market Maker is also assessed the Simple Order Fee for Removing Liquidity, in which case the Payment for Order Flow fees will not apply. The Exchange proposes to not collect PFOF on transactions in SPY options.

Today, the Cancellation Fee for each cancelled electronically delivered Professional AON order applies to Select Symbols. The Cancellation Fee does not apply for each cancelled electronically delivered Customer order in Select Symbols. The Exchange proposes to apply the Cancellation Fee to SPY transactions as it is applied today.

Today, transactions in Select Symbols originating on the Exchange floor are subject to the Multiply Listed Options Fees in Section II. However, if one side of the transaction originates on the Exchange floor and any other side of the trade was the result of an electronically submitted order or a quote, then these

through exemption in connection with Rule 611(d) of the Regulation NMS).

<sup>16</sup> Firms are subject to a maximum fee of \$75,000 ("Monthly Firm Fee Cap"). Firm Floor Option Transaction Charges and QCC Transaction Fees, as defined in this section above, in the aggregate, for one billing month may not exceed the Monthly Firm Fee Cap per member organization when such members are trading in their own proprietary account. All dividend, merger, and short stock interest strategy executions (as defined in this Section II) are excluded from the Monthly Firm Fee Cap. Reversal and conversion strategy executions (as defined in this Section II) are included in the Monthly Firm Fee Cap. QCC Transaction Fees are included in the calculation of the Monthly Firm Fee Cap.

<sup>17</sup> The Payment for Order Flow ("PFOF") Program assesses fees to Specialists and Market Makers resulting from Customer orders ("PFOF Fees"). The PFOF fees are available to be disbursed by the Exchange according to the instructions of the Specialist or Market Maker to order flow providers who are members or member organizations who submit, as agent, Customer orders to the Exchange through a member or member organization who is acting as agent for those customer orders. Any excess PFOF funds billed but not utilized by the Specialist or Market Maker are carried forward unless the Specialist or Market Maker elects to have those funds rebated on a pro rata basis, reflected as a credit on the monthly invoices. At the end of each calendar quarter, the Exchange calculates the amount of excess funds from the previous quarter and subsequently rebates excess funds on a pro-rata basis to the applicable Specialist or Market Maker who paid into that pool of funds.

fees will apply to the transactions which originated on the Exchange floor and contracts that are executed electronically on all sides of the transaction. The Exchange proposes to treat transactions originating on the Exchange floor in SPY as they are applied today.

Today, non-Complex electronic auctions include the Quote Exhaust auction and, for purposes of fees, the opening process. A Complex electronic auction includes, but is not limited to, the Complex Order Live Auction ("COLA").<sup>18</sup> Customer executions that occur as part of a Complex electronic auction are assessed \$0.00 per contract. However, the Exchange would pay the applicable proposed Customer rebate of \$0.38 per contract for Customer executions in a Complex electronic auction in SPY.

Today, Customer executions that occur as part of a non-Complex electronic auction are assessed \$0.00 per contract. Professional, Firm, Broker-Dealer, Specialist and Market Maker executions that occur as part of a Complex electronic auction are assessed the Fees for Removing Liquidity in Section I, Part B. Professional, Firm, Broker-Dealer, Specialist and Market Maker executions that occur as part of a non-Complex electronic auction are assessed the Fees for Adding Liquidity in Section I, Part B. The Exchange proposes to treat transactions in auctions in the same manner for SPY options and assess the fees in Section C, Part B.

Today, QCC Transaction fees and rebates, defined in Section II, are applicable to Section I. This will also be the case for SPY in that the QCC Transaction fees and rebates will be applicable to Section C.

With respect to PIXL Pricing, today an Initiating Order is assessed \$0.07 per contract or \$0.05 per contract if Customer Rebate Program Threshold Volume defined in Section B of the Pricing Schedule is greater than 100,000 contracts per day in a month.<sup>19</sup> The Exchange reduces the Initiating Order<sup>20</sup>

<sup>18</sup> COLA is the automated Complex Order Live Auction process. A COLA may take place upon identification of the existence of a COLA-eligible order either: (1) Following a COOP, or (2) during normal trading if the Phlx XL system receives a Complex Order that improves the cPBBO. See Exchange Rule 1080.

<sup>19</sup> See Section IV, A Pricing.

<sup>20</sup> A member may electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity ("PIXL Order") against principal interest or against any other order (except as provided in Rule 1080(n)(i)(E)) it represents as agent ("Initiating Order") provided it submits the PIXL order for electronic execution into the PIXL Auction

Fee for Firms that are contra to Customer PIXL Orders to \$0.00 per contract if the Customer PIXL Order is greater than 999 contracts. Today, with respect to Select Symbols: (i) When the PIXL Order is contra to the Initiating Order a Customer PIXL Order is assessed \$0.00 per contract and all non-Customer market participant PIXL Orders are assessed \$0.30 per contract when contra to the Initiating Order; (ii) when a PIXL Order is contra to a PIXL Auction Responder, the PIXL Order is assessed the Fee for Adding Liquidity in Section I and the Responder is assessed \$0.30 per contract, unless the Responder is a Customer, in which case the fee will be \$0.00 per contract; and (iii) when the PIXL Order is contra to a resting order or quote that was on the Phlx Book prior to the auction, the PIXL Order is assessed the Fee for Removing Liquidity not to exceed \$0.30 per contract and the resting order or quote is assessed the Fee for Adding Liquidity in Section I. If the resting order or quote that was on the Phlx Book was entered during the Auction, the PIXL Order is assessed the Fee for Adding Liquidity in Section I and the resting order or quote is assessed the Fee for Removing Liquidity not to exceed \$0.30 per contract.

The Exchange proposes to adopt PIXL Pricing in new Section C to assess Initiating Orders in SPY options \$0.05 per contract for all market participants. In addition, when the PIXL Order is contra to the Initiating Order, a Customer PIXL Order will be assessed \$0.00 per contract and all non-Customer market participants will be assessed a \$0.38 per contract fee when contra to the Initiating Order. Also, when a PIXL Order is contra to other than the Initiating Order,<sup>21</sup> the PIXL Order will be assessed \$0.00 per contract, unless the order is a Customer, in which case the Customer will receive a rebate of \$0.38 per contract. All other contra parties to the PIXL Order, other than the Initiating Order, will be assessed a reduced Fee for Removing Liquidity of \$0.38 per contract or will receive the Rebate to Add Liquidity.

The Exchange believes that the proposed pricing for SPY options will encourage market participants to send an even greater amount of SPY orders to the Exchange to take advantage of the new pricing for SPY and lower costs in certain circumstances.

Finally, the Exchange proposes to amend the Preface to the Pricing

("Auction") pursuant to Rule 1080. See Exchange Rule 1080(n).

<sup>21</sup> For example, a PIXL Auction Responder or a resting order or quote that was on the Phlx book prior to the auction.

Schedule to include new Section C in the Preface.

### Section I Complex Orders

On November 9, 2012, the Commission approved SR-Phlx-2012-27 and SR-Phlx-2012-54, as modified by Amendment No. 1, on a one-year pilot basis, with such fees being operative on December 3, 2012 ("Approval Order").<sup>22</sup> The Approval Order reinstated the fees that were proposed by the Exchange in SR-Phlx-2012-27.<sup>23</sup> Specifically, the Approval Order permits a \$0.05 fee differential as between Specialists and Market Makers that receive directed<sup>24</sup> Complex Orders and those that do not receive directed Complex Orders. Today, the Exchange decreases the Complex Order Fee for Removing Liquidity applicable to Specialists and Market Makers of \$0.25 per contract by \$0.05 per contract when the Specialist or Market Maker transacts against a Customer Order directed to that Specialist or Market Maker for execution. The pilot was approved for one year and expires on December 2, 2013. As part of the pilot program, the Exchange provides certain pilot reports.<sup>25</sup> The Exchange proposes to reduce the fee differential from \$0.05 to \$0.02 per contract and proposes to terminate the current pilot program that is in effect. The Exchange believes that it will continue to incentivize Specialists and Market Makers to remove liquidity on the Exchange with the lower fee differential.

### Section IV PIXL Amendments

The Exchange proposes to amend PIXL pricing at Section IV, Part A of the

<sup>22</sup> See Securities Exchange Act Release No. 68202 (November 9, 2012), 77 FR 68856 (November 16, 2012) (SR-Phlx-2012-27 and SR-Phlx-2012-54).

<sup>23</sup> Specifically, SR-Phlx-2012-27 proposed to: (1) Increase the Customer Complex Order Rebate for Adding Liquidity from \$0.30 to \$0.32 per contract; (2) create a new Complex Order Rebate for Removing Liquidity and specifically pay a Customer a \$0.06 Complex Order Rebate for Removing Liquidity; and (3) increase the Complex Order Fees for Removing Liquidity for Firms, Broker-Dealers and Professionals from \$0.35 per contract to \$0.38 per contract. These filings were initially suspended and later approved on a pilot basis. See Securities Exchange Act Release Nos. 66551 (March 9, 2012), 77 FR 15400 (March 15, 2012) (SR-Phlx-2012-27) and 66883 (April 30, 2012), 77 FR 26591 (May 4, 2012) (SR-Phlx-2012-54). By order dated April 30, 2012, the Commission suspended SR-Phlx-2012-27 and SR-Phlx-2012-54. See Securities Exchange Release No. 66884 (April 30, 2012), 77 FR 26595 (May 4, 2012) (SR-Phlx-2012-27 and SR-Phlx-2012-54).

<sup>24</sup> An order that is "directed" is one that is directed by an Order Flow Provider to a specific Market Maker or Specialist when that order is entered electronically into PHLX XL II. The term "Order Flow Provider" means any member or member organization that submits, as agent, orders to the Exchange. See Rule 1080(l)(1)(B).

<sup>25</sup> See note 22.

Pricing Schedule. As noted above, today the Exchange assesses an Initiating Order a \$0.07 per contract or \$0.05 per contract fee if the Customer Rebate Program Threshold Volume, defined in Section B, is greater than 100,000 contracts per day in a month.<sup>26</sup> If the Initiating Order fee is for a Firm that is contra to a Customer PIXL Order, the Initiating Order Fee is reduced to \$0.00 if a Customer PIXL Order is greater than 999 contracts. The Exchange proposes to expand the reduction of the Initiating Order Fee to a Professional, Broker-Dealer, Specialist and Market Maker, as well as a Firm. Customers are not assessed an Initiating Order Fee. The Exchange believes that this amendment will encourage all market participants to transact a greater number of PIXL Orders.

### 2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act<sup>27</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>28</sup> in particular, in that it provides for an equitable allocation of reasonable fees and other charges among Exchange members and other persons using its facilities.

### Customer Rebate Program

The Exchange's proposal to increase certain Customer rebates in Tiers 2, 3 and 4 is reasonable because the increased rebates will encourage market participants to send increased Customer order flow to the Exchange to the benefit of all market participants. The Exchange's proposal to increase certain Customer rebates in Tiers 2, 3 and 4 is equitable and not unfairly discriminatory because the Exchange would pay the Customer rebates uniformly with respect to market participants transacting qualifying orders. Any market participant that transacts qualifying orders is eligible for a Customer rebate.

The Exchange's proposal to not pay Customer rebates on SPY options, but continue to include SPY options in the calculation of Multiply Listed Options that qualify for Customer rebates in Section A of the Pricing Schedule is reasonable because market participants would continue to benefit from SPY option volume in terms of qualifying for Customer Rebate Tiers. Also, the

<sup>26</sup> Any member or member organization under Common Ownership with another member or member organization that qualifies for a Customer Rebate Tier discount in Section B receives the PIXL Initiating Order discount as described above.

<sup>27</sup> 15 U.S.C. 78f(b).

<sup>28</sup> 15 U.S.C. 78f(b)(4).

Exchange will offer a Customer rebate of \$0.38 per contract for Complex Order transactions in SPY options. The Exchange's proposal to not pay Customer Rebate Program rebates in Section B for transactions in SPY options, but continue to include SPY options in the calculation of Multiply Listed Options that qualify for Customer rebates in Section B of the Pricing Schedule is equitable and not unfairly discriminatory because the Exchange would apply the calculation of Customer rebates and would pay rebates on qualifying orders in a uniform manner. Further, the Exchange's proposal to remove SPY options volume from the industry calculation is reasonable because it allows members and member organizations to have the flexibility in routing decisions with respects to SPY while maintaining their current level rebate tiers. The Exchange's proposal to remove SPY options volume from the industry calculation is equitable and not unfairly discriminatory because the Exchange [sic] would no longer apply uniformly to all market participants.

The Exchange's proposal to adopt new pricing for SPY is reasonable, equitable, and not unfairly discriminatory because pricing by symbol is a common practice on many U.S. options exchanges as a means to incentivize order flow to be sent to an exchange for execution in the most actively traded options classes. SPY options are currently the most actively traded equity or ETF option class.<sup>29</sup> Other options exchanges price by symbol.<sup>30</sup>

The Exchange's proposed new Simple and Complex Order pricing, which adopts "Make/Take" pricing, in SPY options is reasonable because the Exchange desires to incentivize market participants to transact a greater number of SPY options. The Exchange is offering pricing specific to SPY because, as previously mentioned, SPY options are currently the most actively traded options class and therefore the Exchange believes that incentivizing Specialists and Market Makers to add increased liquidity in SPY options and encouraging market participants to send Customer order flow to the Exchange by offering Complex Order Customer rebates and PIXL incentives will benefit

<sup>29</sup> For May 2013, SPY Options accounted for approximately 15% of the overall equity and ETF options volume. By comparison, the second most actively traded equity or ETF option are AAPL Options, which account for approximately 4% of the overall equity and ETF options volume.

<sup>30</sup> See the Chicago Board Options Exchange Incorporated's Fees Schedule and the International Securities Exchange LLC.

all market participants through increased liquidity, tighter markets and order interaction. The Exchange believes it is reasonable to assess lower fees to transact SPY options in Simple Orders to Specialists, Market Makers, Firms, Broker-Dealers and Professionals because the Exchange seeks to incentivize these market participants to transact a greater number of Simple Order SPY options. The Exchange would assess higher fees to Customers in the form of a Simple Order Fee for Removing Liquidity in SPY options. Assessing Customers Fees for Removing Liquidity, similar to other market participants, is reasonable in a "Make/Take" pricing model because the model seeks to reward liquidity providers by assessing takers. Other options exchanges similarly assess Customers fees to remove liquidity.<sup>31</sup> The Exchange also believes that it is reasonable to increase the Specialist and Market Maker Complex Order Fees for Removing Liquidity in SPY options because Specialists and Market Makers would continue to be assessed lower fees as compared to Firms, Broker-Dealers and Professionals<sup>32</sup> and by increasing this fee, the Exchange is able to pay the proposed \$0.38 per contract Customer rebate in Complex Orders in SPY options.

The Exchange's proposed Simple Order pricing is equitable and not unfairly discriminatory for the reasons below. Today, Specialists and Market Makers transacting Simple Orders in Select Symbols are paid a \$0.20 per contract Rebate for Adding Liquidity only when the Specialist or Market Maker is contra to a Specialist, Market Maker, Firm, Broker-Dealer or Professional and they also pay a \$0.10 per contract Fee for Adding Liquidity and a \$0.45 per contract Fee for Removing Liquidity in Select Symbols. The Exchange is proposing to continue to pay Specialists and Market Makers a Rebate for Adding Liquidity in Simple Orders in SPY options, but without limitation as to contra-party. The Exchange would not assess a Fee for Adding Liquidity and would assess a \$0.01 per contract lower Fee for Removing Liquidity (\$0.44 vs. \$0.45 per contract) for Simple Orders in SPY options.

The Exchange believes that by providing Specialists and Market

Makers a greater opportunity to earn a rebate and assessing lower Fees for Removing Liquidity and no Fees for Adding Liquidity will incentivize Specialists and Market Makers to interact with a greater number of Simple Orders in SPY options on the Exchange. Similar to Section I pricing, the Exchange is only paying a rebate to Specialists and Market Makers and not pay a similar rebate to other market participants because Specialists and Market Makers have obligations to the market and regulatory requirements,<sup>33</sup> which normally do not apply to other market participants. 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 Specialists and Market Makers and other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. With respect to Firms, Broker-Dealers and Professionals, today the Exchange pays no Rebate for Adding Liquidity in Select Symbols to these market participants and uniformly assesses a \$0.45 per contract Fee for Adding and Removing Liquidity for Simple Orders in Select Symbols. The Exchange is proposing to continue to not pay a Simple Order Rebate for Adding Liquidity to Firms, Broker-Dealers and Professionals in SPY options and also to not assess a Fee for Adding Liquidity for Simple Orders in SPY options. The Exchange proposes to lower the Fee for Removing Liquidity for Simple Orders in SPY options for Firms, Broker-Dealers and Professionals from \$0.45 to \$0.44 per contract. The Exchange would continue to uniformly assess the Fees for Removing Liquidity to all market participants for Simple Orders in SPY options. Customers would be assessed higher fees for Simple Orders in SPY options in terms of removing liquidity but would continue to be free with respect to adding liquidity. Today, Customers do not receive a Rebate for Adding Liquidity for Simple Orders in Select Symbols nor do they pay a Fee for Adding Liquidity in Simple Orders for Select Symbols. This will continue to be the case for Simple Orders in SPY options. Today, Customers do not pay a Simple Order Fee for Removing

Liquidity in Select Symbols. With this proposal the Exchange would assess a \$0.44 per contract Simple Order Fee for Removing Liquidity in SPY options similar to all other market participants. The Exchange believes that it is equitable and not unreasonably discriminatory to assess the same Simple Order Fee for Removing Liquidity in SPY options to all market participants.

The Exchange's proposed Complex Order pricing is equitable and not unfairly discriminatory for the reasons below. Today, Customers are not assessed a Complex Order Fee for Adding or Removing Liquidity in Select Symbols. In a classic pricing model, the Exchange has traditionally not assessed fees to Customers because Customer order flow brings unique benefits to the market. Other market participants benefit from the liquidity that Customer order flow brings to the Exchange. All market participants, except Customers, today pay a \$0.10 per contract Complex Order Fee for Adding Liquidity in Select Symbols. The Exchange proposes to continue to assess all market participants, other than Customers, a \$0.10 per contract Complex Order Fee for Adding Liquidity in SPY Options. Today, Specialists and Market Makers pay a \$0.25 per contract Complex Order Fee for Removing Liquidity in Select Symbols and Firms, Broker-Dealers and Professionals pay a \$0.50 per contract Complex Order Fee for Removing Liquidity in Select Symbols. The Exchange proposes to increase the Complex Order Fee for Removing Liquidity in SPY options for Specialists and Market Makers from \$0.25 to \$0.40 per contract. Firms, Broker-Dealers and Professionals would continue to be assessed \$0.50 per contract Complex Order Fee for Removing Liquidity in SPY options because the Exchange is seeking to narrow the differential as between Specialists and Market Makers and Firms, Broker-Dealers and Professionals. Today, Specialists and Market Maker pay a Complex Order Fee for Removing Liquidity in Select Symbols of \$0.25 per contract whereas Firms, Broker-Dealers and Professionals pay \$0.50 per contract. That \$0.25 per contract differential as between these market participants when removing liquidity in Complex Orders would be narrowed to \$0.10 per contract by increasing the Specialist and Market Maker Complex Order Fee for Removing Liquidity from \$0.25 to \$0.40 per contract. The Exchange believes it is equitable and not unfairly discriminatory to continue to assess lower fees in SPY options to Specialists

<sup>31</sup> See The NASDAQ Options Market LLC's ("NOM") Rules at Chapter XV, Section 2. NOM assesses Customers a \$0.45 per contract Fee for Removing Liquidity in Penny Pilot Options and a \$0.82 Fee for Removing Liquidity in Non-Penny Pilot Options.

<sup>32</sup> Customers are not assessed a Complex Order Fee for Removing Liquidity in SPY options.

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

and Market Makers as compared to Firms, Broker-Dealers and Professionals because as explained herein, Specialists and Market Makers have obligations to the market and regulatory requirements,<sup>34</sup> which normally do not apply to other market participants.

As discussed more fully below, the Exchange believes that reducing the current fee differential for SPY options in new Section C, as well as Select Symbols, from \$0.05 to \$0.02 per contract is reasonable because the Exchange believes that reducing Specialist and Market Maker Fees for Removing Liquidity in Complex Orders when such orders are directed to these [sic] seeks to incentivize market participants to direct and transact a greater number of Customer Complex Orders at the Exchange. Creating these incentives and attracting Customer Complex Orders to the Exchange, in turn, benefits all market participants through increased liquidity at the Exchange. A higher percentage of Customer Complex Orders leads to increased Complex Order auctions and better opportunities for price improvement.

The Exchange believes that reducing the current fee differential for SPY options in new Section C, as well as Select Symbols, from \$0.05 to \$0.02 per contract is equitable and not unfairly discriminatory because Specialists and Market Makers have burdensome quoting obligations<sup>35</sup> to the market which do not apply to Firms, Professionals and Broker-Dealers. Also, Specialists and Market Makers that receive directed orders have higher quoting obligations<sup>36</sup> compared to other Specialists and Market Makers and therefore are assessed a lower fee when they transact with a Customer order that was directed to them for execution as compared to Specialists and Market Makers. In addition, the Exchange believes that reducing the discount for directed orders will narrow the fee differential as between Specialists and Market Makers that receive directed orders and those that do not receive directed orders.

The Exchange believes that it is reasonable, equitable and not unreasonably discriminatory<sup>37</sup> to pay a Customer Complex Order rebate of

\$0.38 per contract in SPY options because such a rebate would attract increased Customer Complex Order flow to the Exchange which liquidity benefits all market participants. Customer order flow benefits market participants and provides the opportunity for increased order interaction on the Exchange.

The Exchange believes that it is reasonable, equitable and not unfairly discriminatory to specify within new Section C (SPY) pricing that similar to Section I (Select Symbol) pricing, the order that is received by the trading system first in time shall be considered an order adding liquidity and an order that trades against that order shall be considered an order removing liquidity, except with respect to orders that trigger an order exposure alert and that Simple Orders that are executed against the individual components of Complex Orders will be assessed the fees and rebates in Part A, however, the individual components of such a Complex Order will be assessed the fees in Part B. The Exchange believes that this text will clarify the application of the pricing in Section C, similar to Section I. The Exchange is not proposing to amend this language, but rather represent that the same method by which the Exchange determines whether an order adds or removes liquidity and what pricing applies, Simple or Complex, applies in new Section C.

The Exchange's proposal to assess no fees and pay no rebates on transactions which execute against an order for which the Exchange broadcast an order exposure alert in SPY is reasonable because by not imposing any pricing when market participants respond to broadcasts orders and remove orders from the Phlx Book will incentivize market participants to respond to additional broadcast orders. The Exchange's proposal to assess no fees and pay no rebates on transactions which execute against an order for which the Exchange broadcast an order exposure alert in SPY options is equitable and not unfairly discriminatory because the Exchange proposes to not assess fees or pay rebates uniformly for all market participants.

The Exchange's proposal to not apply the Monthly Market Maker Cap to electronic transactions in the Select Symbols, except QCC Transaction Fees is reasonable, equitable and not unfairly discriminatory because this is the same manner in which the Monthly Market Maker Cap applies to Section I pricing.

The Exchange's proposal to apply the Monthly Firm Fee Cap to floor

transactions in Select Symbols and QCC Orders (electronic and floor transactions) is reasonable, equitable and not unfairly discriminatory because this is the same manner in which the Monthly Firm Fee Cap applies to Section I pricing.

The Exchange's proposal to not collect PFOF on transactions in SPY options is reasonable because the Exchange seeks to encourage market participants to transact a greater number of SPY option orders. The Exchange's proposal to not collect PFOF on transactions in SPY options is equitable and not unfairly discriminatory because the Exchange would not assess PFOF on any market participant transacting SPY.

The Exchange's proposal to apply the Cancellation Fee for each cancelled electronically delivered Professional AON order in SPY options as it applies today to Select Symbols is reasonable, equitable and not unfairly discriminatory as the Exchange is not proposing to treat SPY options differently from Select Symbols with respect to the Cancellation Fee.

The Exchange's proposal to subject transactions in SPY options originating on the Exchange floor to the Multiply Listed Options Fees in Section II, unless one side of the transaction originates on the Exchange floor and any other side of the trade was the result of an electronically submitted order or a quote, then applicable fees in Part C will apply to the transactions which originated on the Exchange floor and contracts that are executed electronically on all sides of the transaction is reasonable, equitable and not unfairly discriminatory because the Exchange proposes to not amend the manner in which SPY options are treated today as Select Symbols.

The Exchange's proposal to treat Customer executions which occur as part of a non-Complex electronic auction and a Complex electronic auction in the same manner for SPY options as exists today for Select Symbols is reasonable, equitable and not unfairly discriminatory because the Exchange is not proposing to amend these fees. In addition, the Exchange would pay the applicable proposed Customer Complex Order rebate of \$0.38 per contract for Customer executions in an auction which should benefit market participants as described herein.

The Exchange believes that paying Customers a \$0.38 per contract rebate when Complex Order transactions in SPY options are transacted is reasonable because it encourages Customer order flow in SPY options, which order flow benefits all market participants. The

<sup>34</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

<sup>35</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

<sup>36</sup> *Id.*

<sup>37</sup> The Commission notes that Section 6(b) of Act the prohibits unfair discrimination. 15 U.S.C. 78f(b).

Exchange believes that paying Customers a \$0.38 per contract rebate when Complex Order transactions in SPY options are transacted is equitable and not unfairly discriminatory because Customer order flow bring unique benefits to the market which benefits all market participants. The Exchange today offers Customer rebates in Section B and would now instead pay this rebate for SPY options in Complex Orders.

The Exchange's proposal to treat QCC Transaction fees and rebates for SPY options in the same manner as exists today for Select Symbols is reasonable, equitable and not unfairly discriminatory because the Exchange is not proposing to amend these fees or rebates.

The Exchange's proposal to amend PIXL pricing for SPY options is reasonable because the Exchange is seeking to incentivize market participants to transact a greater number of SPY options in PIXL by lower the Initiating Order Fee to \$0.05 per contract for all market participants for all PIXL transactions. The Exchange's proposal to increase the fee that will be assessed to non-Customer market participants that are contra to an Initiating Order for SPY options from \$0.30 to \$0.38 per contract is reasonable because the Exchange is offering to pay a Customer rebate of \$0.38 per contract when the PIXL Order is contra to an order other than an Initiating Order<sup>38</sup> in order to incentivize market participants to transact a greater number of Customer SPY options in PIXL. The fee increase would provide the Exchange the opportunity to offer the \$0.38 Customer rebate. The Exchange also believes that it is reasonable to assess a PIXL Order that is contra to other than the Initiating Order \$0.00 per contract, unless the order is a Customer order, in which case the Exchange would pay a Customer rebate of \$0.38 per contract to remove liquidity because the Exchange desires to incentivize its market participants to transact a greater number of SPY PIXL orders. The Exchange believes it is reasonable that all other contra parties to the PIXL Order, other than the Initiating Order, will be equally assessed a reduced Fee for Removing Liquidity of \$0.38 per contract when removing or they will receive the Rebate for Adding Liquidity if adding because the Exchange desires to equally provide all market participants the same incentivizes to encourage them to transact a greater number of SPY PIXL Orders.

The Exchange's proposal to amend PIXL pricing for SPY options is equitable and not unfairly discriminatory because the Exchange proposes to assess all market participants transacting SPY options in PIXL a \$0.05 per contract for Initiating Orders in SPY options. The Exchange's proposal to increase the fee for non-Customer market participants that are contra to a PIXL Order from \$0.30 to \$0.38 per contract is equitable and not unfairly discriminatory because the Exchange is seeking to incentivize Customer orders in PIXL. As explained herein, Customer order flow benefits all market participants through increased liquidity and therefore increasing the fee that will be assessed to non-Customer market participants benefits all market participants because of the increased liquidity that such order flow will bring to the market. With respect to PIXL Orders that are contra to other than the Initiating Order, the Exchange will not assess a Customer PIXL Order a fee unless the order is contra a Customer order and then the fee will be increased because of the rebate that is being assessed. The Exchange believes that it is equitable and not unfairly discriminatory to lower fees for all market participants that are contra to other than an Initiating Order because the treatment is the same for all participants; the fee amendment applies uniformly to all non-Customer market participants. Also, the Exchange proposes to uniformly assess all market participants a fee when a Customer rebate would be paid to enable the Exchange to offer the rebate. The Exchange believes that widening the differential as between the Initiating Order Fee and the contra party to the PIXL Order (\$0.05 vs. \$0.38) as compared to the cost to transact a PIXL Order today (\$0.05 or \$0.07 per contract vs. \$0.30) does not misalign the cost of these transactions depending on the market participant because the Exchange would now not assess a fee in the case that PIXL Order is contra to other than the Initiating Order, which is not a Customer, and would pay the Customer a rebate in the case where the contra party is a Customer. Further, the Exchange notes that Specialist and Market Makers today pay a combined fee of \$0.55<sup>39</sup> to respond to a PIXL auction when the PIXL Order is a Customer order, whereas Broker-Dealers or Professionals responding to PIXL auctions pay only \$0.30 per contract.

<sup>39</sup> The combined fee of \$0.55 per contract is calculated by adding the transaction fee of \$0.30 per contract in Section I and the PFOF of \$0.25 per contract.

Under the proposal, all non-Customer market participants would be treated in a uniform manner when responding to PIXL auctions. In order to remain competitive, the Exchange must implement fees and rebates that are competitive with pricing at other options exchanges that offer a similar auction opportunity. While the proposed fees would increase the differential between a non-Customer market participants that initiated the PIXL auction and a non-Customer market participants responding to the PIXL auction, the Exchange believes the fee differential is important in that it affords the Exchange the opportunity to pay Customers a rebate in order to provide the required incentives for market participants to continue to utilize PIXL for SPY options executions where the participant seeks price improvement.

#### Section I Complex Orders

Customer Complex Orders are becoming an increasingly important segment of options trading. The Exchange believes that reducing the current fee differential for Select Symbols in Section I and SPY options in new Section C from \$0.05 to \$0.02 per contract is reasonable because the Exchange believes that reducing Specialist and Market Maker Fees for Removing Liquidity in Complex Orders when such orders are directed to these seeks to incentivize market participants to direct and transact a greater number of Customer Complex Orders at the Exchange. Creating these incentives and attracting Customer Complex Orders to the Exchange, in turn, benefits all market participants through increased liquidity at the Exchange. A higher percentage of Customer Complex Orders leads to increased Complex Order auctions and better opportunities for price improvement.

The Exchange believes that reducing the current fee differential for Select Symbols and SPY options from \$0.05 to \$0.02 per contract is equitable and not unfairly discriminatory because Specialists and Market Makers have burdensome quoting obligations<sup>40</sup> to the market which do not apply to Firms, Professionals and Broker-Dealers. Also, Specialists and Market Makers that receive directed orders have higher quoting obligations<sup>41</sup> compared to other Specialists and Market Makers and therefore are assessed a lower fee when they transact with a Customer order that

<sup>40</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

<sup>41</sup> *Id.*

<sup>38</sup> See note 20.



was directed to them for execution as compared to Specialists and Market Makers. In addition, the Exchange believes that reducing the discount for directed orders will narrow the fee differential as between Specialists and Market Makers that receive directed orders and those that do not receive directed orders.

The Exchange's proposal to remove SPY from the list of Select Symbols in Section I is reasonable because the new pricing in Section C of the Pricing Schedule would now apply to SPY options. The Exchange's proposal to remove SPY from the list of Select Symbols in Section I is equitable and not unfairly discriminatory because the new pricing in Section C would apply uniformly to all market participants for SPY options just as the pricing in Section I would apply uniformly to all symbols noted in that section.

#### Section IV—PIXL Amendments

The Exchange's proposal to amend PIXL pricing at Section IV, Part A of the Pricing Schedule is reasonable because the Exchange is attempting to attract PIXL order flow by incentivizing members. The Exchange believes that this amendment will encourage market participants to transact a greater number of larger sized orders in PIXL. Today, the Exchange offers Firms the opportunity to reduce the PIXL Initiating Order Fee which is currently \$0.07 or \$0.05 per contract if a Firm that is a contra to a Customer PIXL Order transacts an order which exceeds 999 contracts. The Exchange now desires to incentivize all market participants that are assessed an Initiating Order Fee to transact large PIXL Orders (greater than 999 contracts) by expanding the reduction of the Initiating Order Fee to a Professional, Broker-Dealer, Specialist and Market Maker. The Exchange would offer all market participants, other than Customers who are not assessed an Initiating Order Fee, an incentive to transact large sized orders in PIXL.

The Exchange's proposal to amend PIXL pricing at Section IV, Part A of the Pricing Schedule is equitable and not unfairly discriminatory because the Exchange would uniformly provide all market participants that are assessed the Initiating Order Fee an opportunity to reduce the Initiating Order Fee to \$0.00 per contract provided the requisite number of orders is transacted.

#### *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 Exchange believes that its proposal to amend the Customer Rebate Program to increase certain rebates offered by the Exchange does not impose an undue burden on competition because all market participants may participate in the Customer Rebate Program. The Exchange's proposal to not pay rebates on SPY options in the Customer Rebate Program because the Exchange is proposing to offer rebates on SPY options as part of new Part C also does not impose an undue burden on competition because the Exchange is offering to pay Customer rebates on SPY options as part of a new pricing schedule to encourage market participants to transact a greater number of SPY options.

The Exchange believes that the proposed pricing for SPY options, which provides greater incentives to transact both SPY Simple and Complex Orders creates additional opportunity for all market participants to decrease cost and bring additional liquidity to the market by offering the Exchange an ability to provide rebates to Customers, Specialists and Market Makers. The proposed differentiation as between Customers, Specialists and Market Makers and other market participants (Professionals, Firms and Broker-Dealers) recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. The Exchange believes that not assessing fees or paying rebates when a market participant executes against an order for which the Exchange broadcast an order exposure alert in SPY options creates competition among market participants to remove liquidity from the Phlx Book. This competition does not create an undue burden on competition but rather offers all market participants the opportunity to receive the benefit of the pricing when transacting SPY options. The Exchange's proposal to not collect PFOF on SPY transactions likewise promotes competition in SPY by reducing costs to all market participants that pay PFOF.

The Exchange's proposal to reduce the PIXL Initiating Order fee for all market participants transacting SPY options promotes competition in this highly liquid option. The Exchange's proposal to increase the differential as between the Initiating Order Fee and the PIXL Order in SPY options is offset by the rebate that is offered to the Customer transacting SPY which in turn brings liquidity to the PIXL auction. The Exchange is proposing to not assess the PIXL Order that is contra to other than the Initiating Order in SPY options a fee

except when contra to a Customer order because that is the only case where a rebate is paid to a Customer in PIXL. There is also the opportunity for Specialists and Market Makers to receive a Rebate To Add Liquidity when transacting SPY options. The Exchange does not believe the proposal creates an undue burden on competition, the increased fees when transacting PIXL Orders in SPY Options allow for the Exchange to pay Customer rebates which in turn brings necessary liquidity to the PIXL auction and promotes competition. Further, in 2013, Specialists and Market Makers represented 99.8% of responders to SPY PIXL auctions. Specialists and Market Makers were the contra party to a Customer order 97.7% of the time. Therefore, under the current pricing structure, the effective rate for Specialists and Market Makers responding to SPY PIXL orders was \$0.5443, which means the effective differential today is \$0.4943. The proposed SPY PIXL pricing actually reduces the effective differential among Broker-Dealers, which the Exchange believes enhances competition among Broker-Dealers, enriches the price discovery process and creates further price improvement opportunities for Customers.

With respect to reducing the Complex Order Fees for Removing Liquidity in Select Symbols and SPY options for orders directed to Specialists and Market Makers, it is important to note that Specialists and Market Makers are unaware of the identity of the contra-party at the time of the trade and are also required to execute at the best price, pursuant to Exchange Rules, against an order intended for them by an order flow provider in order to be assessed the reduced Complex Order Fee for Removing Liquidity. The Exchange is proposing to decrease the fee differential as between Specialists and Market Makers that receive directed orders and those that do not receive directed orders in Select Symbols and SPY. The Exchange believes that decreasing this fee differential does not create an undue burden on competition.

Today, PIXL pricing is proposed to incentivize Firms to bring Initiating Orders to a PIXL auction by offering an incentive to reduce the Initiating Order Fee. By expanding the opportunity to all market participants that pay an Initiating Order Fee to reduce those fees, the Exchange encourages competition among market participants to price improve the order.

The Exchange operates in a highly competitive market, comprised of eleven 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>42</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.

**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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-61 on the subject line.

*Paper Comments*

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

All submissions should refer to File Number SR-Phlx-2013-61. This file number should be included on the subject line if email 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 Web site (<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 Web site 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-2013-61 and should be submitted on or before July 11, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>43</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2013-14686 Filed 6-19-13; 8:45 am]

**BILLING CODE 8011-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-69764; File No. SR-NYSEMKT-2013-49]

**Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Proposing To Permit Traders Conducting Certain Futures and Options Trading on ICE Futures U.S. in Space Rented From the Exchange at 20 Broad Street To Access the IFUS Trading Floor Prior to 7 a.m. and on Days That the Exchange Is Closed Via the Exchange's 11 Wall Street Facilities and To Permit Additional IFUS Traders To Conduct Business on the IFUS Trading Floor**

June 13, 2013.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on June 3, 2013, NYSE MKT LLC (the "Exchange" or "NYSE MKT") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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 permit traders conducting certain futures and options trading on ICE Futures U.S. ("IFUS")<sup>4</sup> in space rented from the Exchange at 20 Broad Street (the "IFUS Trading Floor") to access the IFUS Trading Floor prior to 7 a.m. and on days that the Exchange is closed via the Exchange's 11 Wall Street facilities and to permit additional IFUS traders to conduct business on the IFUS Trading Floor (together, the "Proposal").

The text of the proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> IFUS is a Designated Contract Market pursuant to the Commodity Exchange Act, as amended, and is regulated by the U.S. Commodity Futures Trading Commission ("CFTC"). IFUS was formerly known as the New York Board of Trade ("NYBOT").

<sup>42</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>43</sup> 17 CFR 200.30-3(a)(12).