

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66800; File No. SR-Phlx-2012-47)

April 12, 2012

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Qualified Contingent Cross Orders

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 April 2, 2012, 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 its Pricing Schedule to increase a rebate for Qualified Contingent Cross orders.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, 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

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

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

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to increase a certain rebate applicable to both electronic QCC Orders (“eQCC”)<sup>3</sup> and Floor QCC Orders<sup>4</sup> (collectively “QCC Orders”). The Exchange believes that offering an increased rebate for executing in excess of 1,000,000 QCC Orders in a given month should create an additional incentive for market participants to execute a greater number of QCC Orders on the Exchange in Multiply Listed Securities.

There are currently several categories of market participants: Customers, Market Makers,<sup>5</sup> Directed Participants,<sup>6</sup> Broker-Dealers, Firms and Professionals.<sup>7</sup> The Exchange

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<sup>3</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>4</sup> A Floor QCC Order must: (i) be for at least 1,000 contracts; (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Exemption; (iii) be executed at a price at or between the National Best Bid and Offer (“NBBO”); and (iv) be rejected if a Customer order is resting on the Exchange book at the same price. In order to satisfy the 1,000-contract requirement, a Floor QCC Order must be for 1,000 contracts and could not be, for example, two 500-contract orders or two 500-contract legs. See Rule 1064(e). See also Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR-Phlx-2011-56).

<sup>5</sup> A “Market Maker” includes Specialists (see Rule 1020) and Registered Options Traders (“ROTs”) (Rule 1014(b)(i) and (ii), which includes Streaming Quote Traders (“SQTs”) (see Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (“RSQTs”) (see Rule

proposes to amend the current rebates applicable to both eQCC Orders and Floor QCC Orders for the above categories of market participants. The proposed amendment is applicable to both Sections I<sup>8</sup> and II<sup>9</sup> of the Pricing Schedule. Currently, the Exchange pays a rebate of \$0.07 per contract on all qualifying executed QCC Orders up to 1,000,000 contracts in a month. In addition, if a member exceeds 1,000,000 contracts in a month of qualifying executed QCC Orders, the Exchange currently pays a rebate of \$0.10 per contract on all qualifying executed QCC Orders, both eQCC and Floor QCC Orders, in a given month.<sup>10</sup> The Exchange does not offer a rebate on executed eQCC Orders or Floor QCC Orders where the transaction is either: (i) Customer-to-Customer; or (ii) a dividend,<sup>11</sup> merger<sup>12</sup> or short stock interest strategy<sup>13</sup> and executions subject to the Reversal and Conversion Cap.<sup>14</sup>

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1014(b)(ii)(B)). Directed Participants are also Market Makers.

<sup>6</sup> A Directed Participant is a Specialist, SQT, or RSQT that executes a customer order that is directed to them by an Order Flow Provider and is executed electronically on PHLX XL II.

<sup>7</sup> The Exchange defines a “professional” as 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) (hereinafter “Professional”).

<sup>8</sup> Section I of the Pricing Schedule is entitled “Rebates and Fees for Adding and Removing Liquidity in Select Symbols.” The Section I fees and rebates are applicable to certain Select Symbols which are defined in that section.

<sup>9</sup> Section II of the Pricing Schedule is entitled “Equity Options Fees.” Section II includes options overlying equities, ETFs, ETNs, indexes and HOLDERS which are Multiply Listed.

<sup>10</sup> QCC Transaction Fees for a Market Maker, Professional, Firm and Broker-Dealer are \$0.20 per contract. QCC Transaction Fees apply to QCC Orders, as defined in Exchange Rule 1080(o), and Floor QCC Orders, as defined in 1064(e).

<sup>11</sup> A dividend strategy is defined as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed the first business day prior to the date on which the underlying stock goes ex-dividend. See Section II of the Pricing Schedule.

<sup>12</sup> A merger strategy is defined as transactions done to achieve a merger arbitrage involving

The Exchange proposes to increase the current rebate paid to a member that exceeds 1,000,000 contracts in a month of qualifying executed QCC Orders, both eQCC and Floor QCC Orders, from \$0.10 per contract to \$0.11 per contract to further incentivize members to execute a greater number of QCC Orders on the Exchange. For example, if a member executed 1,200,000 QCC Orders in April 2012, and those QCC Orders were eligible orders in that they did not include Customer-to-Customer transactions or dividend, merger or short stock interest strategies or executions subject to the Reversal and Conversion Cap, that member would receive a rebate of \$0.11 per contract on all 1,200,000 orders for April 2012. Therefore, depending on the number of executed eligible QCC Orders, a member would receive either a \$0.07 or \$0.11 per contract rebate on all qualifying QCC Orders in a given month.

With respect to a Floor QCC Order, the Exchange will continue to offer the rebate to the Floor Broker. The Exchange will continue to pay a rebate of \$0.07 per contract on all qualifying executed QCC Orders up to 1,000,000 contracts in a month; the Exchange is not amending the \$0.07 rebate. The current exceptions to qualifying QCC Orders will remain the same.<sup>15</sup>

Currently, QCC Transaction Fees apply to Sections I and II of the Pricing Schedule and are

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the purchase, sale and exercise of options of the same class and expiration date, executed the first business day prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock. See Section II of the Pricing Schedule.

<sup>13</sup> A short stock interest strategy is defined as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class. See Section II of the Pricing Schedule.

<sup>14</sup> Market Maker, Professional, Firm and Broker-Dealer equity options transaction fees are capped at \$1,000 per day for reversal and conversion strategies executed on the same trading day in the same options class.

<sup>15</sup> The following transactions are not eligible for the \$0.07 per contract rebate: (i) Customer-to-Customer; or (ii) a dividend, merger or short stock interest strategy and executions subject to the Reversal and Conversion Cap (as defined in Section II).

subject to the Monthly Firm Fee Cap<sup>16</sup> and the Monthly Market Maker Cap.<sup>17</sup> This will also remain the same.

## 2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act<sup>18</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>19</sup> in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members. The Exchange also believes that there is an equitable allocation of reasonable rebates among Exchange members.

The Exchange believes that it is reasonable to incentivize members to transact both eQCC Orders and Floor QCC Orders in Multiply Listed securities<sup>20</sup> by continuing to pay a tiered

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<sup>16</sup> Firms are subject to a maximum fee of \$75,000 ("Monthly Firm Fee Cap"). Firm equity option transaction fees and QCC Transaction Fees 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, short stock interest and reversal and conversion strategy executions are excluded from the Monthly Firm Fee Cap. In addition, Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap will be assessed a \$0.07 per contract fee, excluding PIXL Orders. For QCC Orders as defined in Exchange Rule 1080(o), and Floor QCC Orders, as defined in 1064(e), a Service Fee of \$0.07 per side will apply once a Market Maker has reached the Monthly Market Maker Cap. This \$0.07 Service Fee will apply to every contract side of the QCC Order and Floor QCC Order after a Market Maker has reached the Monthly Market Maker Cap. The Service Fee will not be assessed to a Market Maker that does not reach the Monthly Market Maker Cap in a particular calendar month.

<sup>17</sup> Market Makers are currently subject to a Monthly Market Maker Cap of \$550,000. The trading activity of separate Market Maker member organizations will be aggregated in calculating the Monthly Market Maker Cap if there is at least 75% common ownership between the member organizations. In addition, Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap will be assessed a \$0.07 per contract fee.

<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(4).

<sup>20</sup> The rebate does not apply to Singly Listed Securities. For purposes of this filing, a Singly Listed Option means an option that is only listed on the Exchange and is not listed

rebate of \$0.07 per contract on all qualifying executed QCC Orders up to 1,000,000 contracts in a month and to increase the rebate for members with qualifying executed QCC Orders exceeding 1,000,000 contracts in a month from \$0.10 per contract to \$0.11 per contract. The Exchange believes that increasing the rebate for qualifying QCC Orders exceeding 1,000,000 contracts in a month from \$0.10 to \$0.11 per contract is reasonable because the Exchange would continue to pay a rebate on every executed contract QCC Order, as is the case today, while also incentivizing members to execute more than 1,000,000 qualifying executed QCC Orders to achieve a higher rebate on all contracts in a month. In other words, the proposal offers members an incentive to send a greater number of QCC Orders, while still paying a \$0.07 rebate below 1,000,000 contracts. The proposed increased rebate is within the range of rebates paid by other exchanges<sup>21</sup> and balances the Exchange's desire to incentivize its members to send order flow to the Exchange while considering the costs attributable to offering such rebates. Further, all members have equal opportunity, depending on their chosen business model, to earn rebates for executing QCC Orders on the Exchange.

The Exchange believes that it is equitable and not unfairly discriminatory to increase the rebate for executed QCC Orders to \$0.11 per contract because all market participants will continue to be eligible for the \$0.07 rebate on qualifying QCC Orders, as they are today, unless they are able to exceed 1,000,000 contracts of qualifying executed QCC Orders in a given month, then the member would be entitled to a higher rebate of \$0.11 per contract on all qualifying executed QCC Orders. This benefit is intended to incentivize members to transact a

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by any other national securities exchange or is otherwise defined as a Singly Listed Option in the Pricing Schedule. See Section III of the Exchange's Pricing Schedule entitled "Singly Listed Options."

<sup>21</sup> See NYSE Arca, Inc.'s ("NYSE Arca") Fee Schedule. NYSE Arca pays a \$0.10 per contract rebate for executed QCC orders entered by a Floor Broker. The Floor Broker Rebate for executed orders is \$0.05 per contract side.

greater number of qualifying QCC Orders in order to take advantage of the higher rebate.

Additionally, the proposed rebate increase is within the range of tiered rebates offered by the International Securities Exchange, LLC (“ISE”).<sup>22</sup> Also, all members are equally eligible to transact Multiply Listed securities.

The Exchange believes it continues to be reasonable to not offer a rebate for eQCC Orders and Floor QCC Orders for Customer-to-Customer executions because members executing Customer orders are not assessed a QCC Transaction Fee<sup>23</sup> and therefore do not need to be incentivized to send QCC Orders to the Exchange. Likewise, the Exchange believes that it is reasonable to not offer a rebate for dividend, merger and short stock interest strategies and executions subject to the Reversal and Conversion Cap because the Exchange already provides a cap today on the transaction fees associated with these strategies and therefore does not believe an additional incentive is required.

With respect to the Floor QCC Order, the Exchange will also continue to offer the rebate to the Floor Broker, including the proposed increase. The Floor Broker is in receipt of the Floor QCC Orders and enters those orders into the Floor Broker Management System (“FBMS”).<sup>24</sup>

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<sup>22</sup> See ISE’s Schedule of Fees. ISE provides a rebate to members who reach a certain volume threshold in QCC orders and/or solicitation orders during a month. Once a member reaches the volume threshold, ISE pays a rebate to that member for all qualified contingent cross and solicitation traded contracts for that month. The rebate is paid to the member entering a qualifying order, i.e., a qualified contingent cross order and/or a solicitation order. The rebate applies to qualified contingent cross orders and solicitation orders in all symbols traded on the Exchange. Additionally, the threshold levels are based on the originating side. Specifically, the following rebates apply: for 0-199,999 originating contract sides ISE pays no rebate; for 200,000 to 999,999 originating contract sides ISE pays \$0.05 per contract; for 1,000,000 to 1,599,999 originating contract sides ISE pays \$0.08 per contract; and for 1,600,000+ originating contract sides ISE pays \$0.10 per contract.

<sup>23</sup> Market Makers, Professionals, Firms and Broker-Dealers are assessed a QCC Transaction Fee of \$0.20 per contract.

<sup>24</sup> See Exchange Rule 1063(e).

The Exchange believes it is necessary from a competitive standpoint to offer this rebate to the executing Floor Broker on a Floor QCC Order. The Exchange expects that the rebate offered to executing Floor Brokers will allow them to continue to price their services at a level that will enable them to attract Floor QCC order flow from participants who would otherwise enter these orders electronically from off the floor to the PHLX XL II System<sup>25</sup> or choose another exchange. To the extent that Floor Brokers are able to attract these Floor QCC Orders, they will gain important information that will allow them to solicit the parties to the Floor QCC Orders for participation in other trades, which will in turn benefit all other Exchange participants through the additional liquidity and price discovery that may occur as a result. The Exchange believes that it continues to be equitable and not unfairly discriminatory to pay the rebate for Floor QCC Orders to Floor Brokers because the rebate would uniformly apply to all Floor QCC Orders entered by a Floor Broker into FBMS for execution based on volume. The rebate is not unfairly discriminatory to firms that enter eQCC Orders directly into PHLX XL II, because the transaction fees and rebates are the same whether the order is entered electronically or through a Floor Broker. In addition, pursuant to Exchange Rule 1080(o)(3), only Floor Brokers may enter a Floor QCC Order from the floor of the Exchange; therefore, providing the rebate to Floor Brokers does not discriminate against eQCC orders entered into PHLX XL II. Any participant is able to engage a rebate-receiving Floor Broker in a discussion surrounding the appropriate level of fees that they may be charged for entrusting the entry of the Floor QCC Order to the Floor Broker into FBMS for execution. The additional order flow attracted by this rebate should

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<sup>25</sup> In May 2009 the Exchange enhanced the system and adopted corresponding rules referring to the system as “Phlx XL II.” See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).



benefit all participants. The rebate is meant to assist Floor Brokers to recruit business on an agency basis. The Floor Broker may use all or part of the rebate to offset its fees.

The Exchange operates in a highly competitive market comprised of nine U.S. options exchanges in which sophisticated and knowledgeable market participants readily can, and do, send order flow to competing exchanges if they deem fee levels and rebate opportunities at a particular exchange to be excessive. The Exchange believes that the proposed rebates for eQCC Orders and Floor QCC Orders must be competitive with rebates offered at other options exchanges. The Exchange believes that this competitive marketplace impacts the rebates and fees present on the Exchange today and influences the proposals set forth above.

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.

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>26</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>26</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 No. SR-Phlx-2012-47 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 No. SR-Phlx-2012-47. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal 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 No. SR-Phlx-2012-47 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>27</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).