

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72469; File No. SR-NYSEMKT-2014-52)

June 25, 2014

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the NYSE Amex Options Fee Schedule by Adopting Fees and Rebates for a New Electronic Crossing Mechanism Called the CUBE Auction

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”),² and Rule 19b-4 thereunder,³ notice is hereby given that on June 12, 2014, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) filed with the Securities and Exchange Commission (“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 amend the NYSE Amex Options Fee Schedule (“Fee Schedule”) by adopting fees and rebates for a new electronic crossing mechanism called the CUBE Auction. The text of the proposed rule change is available on the Exchange’s website at www.nyse.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 the Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

it received on the proposed rule change. The text of those 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 parts 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 Exchange proposes to amend the Fee Schedule to adopt fees and rebates for ATP Holders who participate in an electronic crossing mechanism known as a Customer Best Execution Auction (“CUBE Auction” or “Auction”) pursuant to Rule 971.1NY.⁴ The Exchange anticipates that the CUBE Auction mechanism will be implemented in June 2014⁵ and therefore proposes to add the CUBE Auction fees and rebates to the Fee Schedule effective with this filing so that such fees and rebates will be in place once the CUBE Auction mechanism is implemented.

The CUBE Auction allows an ATP Holder to guarantee the execution of a limit order it represents as agent on behalf of a public customer, broker dealer, or any other entity via the CUBE Auction. This agency order is referred to as the CUBE Order.⁶ The ATP Holder that submits the CUBE Order (the “Initiating Participant”) agrees to guarantee the execution of the CUBE Order by submitting a contra-side order (“Contra Order”) representing principal interest or interest it has solicited to trade with the CUBE Order.⁷

⁴ See Securities Exchange Act Release No. 72025 (April 25, 2014) (SR-NYSEMKT-2014-17) (Order approving adoption of new Rule 971.1NY).

⁵ The Exchange will not implement the CUBE Auction mechanism until the proposed rule changes to Rule 971.1NY set forth in SR-NYSEMKT-2014-51 are operative.

⁶ See Rule 971.1NY(a).

⁷ Id.

Although the Contra Order would guarantee the CUBE Order an execution, the purpose of the Auction is to provide the opportunity for price improvement for the CUBE Order as well as the opportunity for other market participants to interact with the CUBE Order. Accordingly, the Exchange will notify market participants when an Auction is occurring so that they may have an opportunity to participate.

Once initiated, a CUBE Auction is announced via a broadcast message, known as a Request For Response (“RFR”).⁸ Any ATP Holder may respond to the RFR, either as principal or on an agency basis, provided that such response is properly marked specifying price, size, and side of the market (“RFR Response”) and is submitted during the Response Time Interval. RFR Responses include GTX Orders, which are non-displayed orders with a time-in-force condition for the Response Time Interval of the CUBE Auction, as well as any other quote or order on the opposite side of the market in the same series as the CUBE Order that is not marked GTX, is received during the Response Time Interval, and is eligible to participate within the range of permissible executions specified for that Auction.⁹

As described above, there are three ways to participate in a CUBE Auction: (i) as an agency order, which is known as the CUBE Order; (ii) as the order guaranteeing the execution of the CUBE Order, which is known as the Contra Order; and (iii) any other interest that is eligible to participate in the Auction, which is known as an RFR Response. The Exchange is proposing to charge for participation in the CUBE Auction based on the following schedule of fees:

	Rate Per Contract Standard Options
CUBE Order Fee Customer – both Penny Pilot and Non-Penny Pilot	\$0.00

⁸ See Rule 971.1NY(c)(2)(A).

⁹ See Rule 971.1NY(c)(2)(C).

CUBE Order Fee Non-Customer – both Penny Pilot and Non-Penny Pilot	\$0.20
Contra Order Fee – both Penny Pilot and Non-Penny Pilot ¹⁰	\$0.05
RFR Response Fee Customer – both Penny Pilot and Non-Penny Pilot	\$0.00
RFR Response Fee Non-Customer – Penny Pilot	\$0.55
RFR Response Fee Non-Customer – Non-Penny Pilot	\$0.90

The Exchange is also proposing to adopt rebates to be paid to Initiating Participants for each CUBE Order contract that does not trade with the Contra Order. The proposed rebates are shown below:

CUBE Auction Rebates – Paid to the Initiating Participant on each CUBE Order contract that does not trade with the Contra Order	Per Contract Rebate Standard Options
CUBE Auction Rebate – Penny Pilot	\$0.40
CUBE Auction Rebate – Non – Penny Pilot	\$0.80

As the CUBE Auction is an entirely new mechanism designed to compete with existing functionality on other exchanges,¹¹ the Exchange is seeking to attract new business to the Exchange. As such, the Exchange does not believe that execution volume attributable to the CUBE Auction should be included within the existing NYSE Amex Options Market Maker volume tiers or fee caps, within the MAC Subsidy, or within the existing OFP Electronic ADV Tiers, which were established in acknowledgement of volumes that the Exchange could not

¹⁰ As Exchange noted in its recent filing related to the CUBE Auction (see SR-NYSEMKT-2014-51), the Exchange intends to issue guidance advising ATP Holders that Contra Orders for the account of a Customer may not be entered into a CUBE Auction, which guidance is consistent with how other markets operate electronic auction mechanisms. See id., n. 9. As such, the Contra Order Fee will only apply to Non-Customers.

¹¹ See BOX Options Exchange LLC (“BOX Options Exchange”) Rule 7150, Chicago Board Options Exchange, Incorporated (“CBOE”) Rule 6.74A, International Securities Exchange, LLC (“ISE”) Rule 723, and NASDAQ OMX PHLX LLC (“Phlx”) Rule 1080(n).

attract absent the ability to offer an electronic crossing mechanism. As such, the Exchange proposes to amend the appropriate sections of the Fee Schedule and their associated endnotes, specifically endnotes 5 and 17, to exclude any volumes attributable to the CUBE Auction.

Lastly, the Exchange is proposing to add text to existing endnote 9 on marketing charges to clarify that CUBE Order executions will not result in the collection of marketing charges

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b)¹² of the Act, in general, and Section 6(b)(4) and (5)¹³ of the Act, in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among its members and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers, or dealers.

The Exchange believes the proposed fees for CUBE Orders executed in the CUBE Auction where Customers are charged \$0.00 per contract and non-Customers are charged \$0.20 per standard option contract are reasonable, equitable and not unfairly discriminatory for the following reasons. First, allowing Customers to trade for free while charging non-Customers has long been viewed as reasonable, equitable and not unfairly discriminatory. The Exchange notes that this pricing differentiation between Customers and non-Customers is evidenced in multiple places within the existing fee schedule of the Exchange, such as for fees applicable to Qualified Contingent Cross (“QCC) Orders.¹⁴ Further, the Exchange notes that charging the agency side of

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(4) and (5).

¹⁴ See the fee schedule for NYSE Amex Options located here: https://globalderivatives.nyx.com/sites/globalderivatives.nyx.com/files/nyse_amex_options_fee_schedule_for_6-2-14.pdf, which charges Customers who participate in a QCC trade \$0.00 and non-Customers \$0.20 per contract.

a crossing order a different rate based on capacity (i.e., Customer vs. non-Customer) is also common among other exchanges that offer similar electronic crossing mechanisms. For example, the ISE, in Select and Non-Select Symbols, charges Priority Customer Crossing Orders \$0.00 per contract while charging non-Priority Customer Crossing Orders \$0.20 per contract.¹⁵ Additionally, BOX Options Exchange charges Customer PIP Orders \$0.00 per contract while charging Professional Customer and Broker Dealer PIP Orders \$0.37 per contract and Market Maker PIP Orders a variable rate based on volume from \$0.13 to \$0.35 per contract.¹⁶ Accordingly, the proposed CUBE Order fees for both Customers and non-Customers are within the range of fees charged to Customers and non-Customers on other exchanges for executions within similar electronic crossing mechanisms.

Similarly, the Exchange believes the proposed fees for Contra Orders executed in the CUBE Auction where non-Customers are charged \$0.05 per standard option contract are reasonable, equitable and not unfairly discriminatory for the following reasons. The Exchange notes that charging the contra side of a crossing order that guarantees the execution of the agency order is common among other exchanges that offer similar electronic crossing mechanisms and the rate proposed by the Exchange is comparable to the charged by other exchanges. For example, ISE charges non-Priority Customer Crossing Orders \$0.20;¹⁷ the CBOE charges Non-Customer AIM Contra Orders \$0.05 per contract and CBOE Market Makers a variable rate between \$0.03 and \$0.23 based on volume, plus marketing charges of \$0.25 in Penny issues and

¹⁵ See the ISE fee schedule dated May 1, 2014 located here: http://www.ise.com/assets/documents/OptionsExchange/legal/fee/ISE_fee_schedule.pdf. Note that in Non-Select Symbols, Market Makers are charged a slightly higher rate for Crossing Orders of \$0.22 per contract.

¹⁶ See BOX Options Exchange fee schedule dated March 2014 located here: http://boxexchange.com/assets/BOX_Fee_Schedule.pdf.

¹⁷ Supra n. 15.

\$0.65 in non-Penny issues if they are contra to a Customer order.¹⁸ Accordingly, the Exchange's proposed Contra Order fees for non-Customers are within the range of fees charged to non-Customers on other exchanges for executions within similar electronic crossing mechanisms.¹⁹

Likewise, the Exchange believes the proposed fees for RFR Responses executed in a CUBE Auction where Customers are charged \$0.00 per contract and non-Customers are charged \$0.55 per standard option contract in Penny Pilot issues and \$0.90 per standard option contract in non-Penny Pilot issues are reasonable, equitable and not unfairly discriminatory for the following reasons. First, allowing Customers to trade for free while charging non-Customers has long been viewed as reasonable, equitable and not unfairly discriminatory. The Exchange notes that this pricing differentiation between Customers and non-Customers is evidenced in multiple places within the existing fee schedule of the Exchange, such as for fees applicable to QCC Orders.²⁰

Further, the Exchange notes that charging a participant who responds to an auction a different rate based on capacity (i.e., Customer vs. non-Customer) is also common among other exchanges that offer similar electronic crossing mechanisms. For example, BOX Options Exchange charges Customers who respond to an auction with Improvement Orders \$0.50 per contract for Penny issues and Customer Improvement Orders in non-Penny issues are charged \$0.90 per contract. At the same time, the BOX Options Exchange charges Professional Customers and Broker Dealers who respond to an auction \$0.72 per contract in Penny issues and \$1.12 per contract in non-Penny issues, while charging BOX Market Makers who respond either

¹⁸ See CBOE fee schedule dated June 3, 2014 located here: <http://www.cboe.com/publish/feeschedule/CBOEFeeSchedule.pdf>.

¹⁹ See *supra* n. 11.

²⁰ *Supra* n. 14.

\$0.65 in Penny issues or \$1.05 in non-Penny issues.²¹ Additionally, CBOE charges participants who interact with their electronic crossing mechanism for price improvement regular electronic rates. For example, Customers are charged \$0.00, CBOE Clearing Trading Permit Holder Proprietary trades are charged \$0.35 per contract, CBOE Market Makers pay a variable rate based on volume from \$0.03 to \$0.23 plus marketing charges of \$0.25 in Penny issues and \$0.65 in non-Penny issues if they interact with a Customer order in the mechanism, Broker Dealers are charged \$0.45 and \$0.60 for trading in Penny and non-Penny issues respectively, and finally Professional Customers are charged \$0.30.²² Accordingly, the proposed RFR Response fees for both Customers and non-Customers are within the range of fees charged to Customers and non-Customers on other exchanges for executions within similar electronic crossing mechanisms.

The Exchange believes the proposed rebates paid to Initiating Participants - \$0.40 for Penny Pilot issues and \$0.80 for non-Penny Pilot issues for each CUBE Order contract that does not trade with the Contra Order in a CUBE Auction are reasonable, equitable and not unfairly discriminatory for the following reasons. First, the Exchange notes that paying the participant who submits orders into an electronic crossing mechanism a rebate is not new or novel. For example, the ISE pays a PIM Break Up Rebate of \$0.35 per contract in Select Symbols for contracts submitted to a PIM that do not trade with their contra order. Additionally, ISE pays a volume-based rebate for volumes executed in an electronic crossing mechanism – including PIM – that ranges from \$0.00 to \$0.11 per contract. This translates to a maximum rebate per contract

²¹ Supra n. 16. The BOX fee schedule has several parts that must be taken collectively to arrive at the all in cost of responding to an auction. For example, a Customer who responds to an auction with an Improvement Order will pay \$0.50 per contract in Penny issues. The \$0.50 fee represents the Improvement Order fee of \$0.15 from Section I of the fee schedule, plus the \$0.35 fee to add liquidity in Penny issues quoted with an MPV of \$0.01 from Section II of the schedule.

²² Supra n. 18.

of \$0.46.²³ Similarly, BOX Options Exchange pays a per contract credit to PIP Orders of \$0.35 for Penny Issues with a \$0.01 MPV and \$0.65 for issues that trade with a MPV greater than \$0.01. Additionally, BOX Options Exchange has a rebate for all PIP and orders of less than 250 contracts that is payable to the PIP Order which ranges from \$0.00 to \$0.17 per contract based on PIP volume submitted to the exchange. This translates to a maximum rebate of \$0.82.²⁴ Accordingly, the proposed CUBE Auction rebates for Penny issues and non-Penny issues to be paid to Initiating Participants for each CUBE Order contract that don't trade with the Contra Order are within the range of rebates paid on other exchanges for executions within similar electronic crossing mechanisms.

The Exchange believes that excluding CUBE Auction volumes from specified fee caps, volume tiers, volume thresholds and rebate programs, including: (i) the \$350,000 per month NYSE Amex Options Market Maker cap and the associated 50,000 contract ADV threshold and the 3,500,000 contract monthly volume threshold; (ii) the MAC Subsidy; and (iii) the OFP Electronic ADV Tiers, is reasonable, equitable and not unfairly discriminatory for the following reasons. First, the Exchange notes that the specified fee caps, volume thresholds, tiers or rebates were established prior to the introduction of the CUBE Auction electronic crossing mechanism. With the CUBE Auction, the Exchange proposes to target new volume to the Exchange to compete with electronic crossing mechanisms available on other exchanges. Any volume that would be executed as part of the CUBE Auction was not factored into the creation of the Exchange's previously existing fee caps, volume thresholds, tiers, or rebates. As such, the Exchange believes it is reasonable to exclude volumes that will result from the CUBE Auction from the previously established fee caps, volume thresholds, tiers or rebates because market

²³ Supra n. 15.

²⁴ Supra n. 16.

participants would not be using the new CUBE Auction mechanism in order to meet the respective fee caps, volume thresholds, tiers or rebates. Further, such exclusion of volumes resulting from the CUBE Auction from the fee caps, volume thresholds, tiers or rebates established before the implementation of the CUBE Auction is also equitable and not unfairly discriminatory as it applies to all participants uniformly.

The Exchange believes that specifying that CUBE Order executions are not subject to marketing charges is reasonable, equitable and not unfairly discriminatory for the following reasons. First, the Exchange notes that the CUBE Auction is an electronic crossing mechanism, similar to the QCC Order type, with the exception that CUBE Auctions are designed to offer the opportunity for price improvement. The Exchange does not currently collect marketing charges from NYSE Amex Options Market Makers that trade contra to a Customer order as part of a QCC trade. Because the Exchange is seeking to encourage all participants, including NYSE Amex Options Market Makers, to respond to CUBE Auction RFR messages, the Exchange believes that collecting marketing charges from NYSE Amex Options Market Makers may discourage such participation. By encouraging as many participants as possible to respond, the Exchange believes that it will lead to greater opportunities for price improvement for all CUBE Orders, not just those entered on behalf of Customers. For these reasons, the Exchange believes that excluding CUBE Orders from the marketing charges program is reasonable, equitable and not unfairly discriminatory.

The Exchange believes that the proposed fees and rebates for participation in the CUBE Auction are not going to have an impact on intra-market competition based on the total cost for participants to transact as respondents to the Auction as compared to the cost for participants to engage in non-Auction electronic transactions on the Exchange. As noted above (and discussed

further below), the Exchange believes that the proposed pricing for the CUBE Auction is comparable to that of other exchanges offering similar electronic crossing mechanisms, and the Exchange believes that, based on experience with electronic price improvement crossing mechanisms on other markets, market participants understand that the price-improving benefits offered by the Auction justify and offset the transaction costs associated with Auction.

For example, NYSE Amex Options Market Makers who trade fewer than 50,000 contracts ADV are currently charged \$0.20 per contract. Further, when NYSE Amex Options Market Makers trade electronically against a Customer order they are also potentially subject to incurring Marketing Charges of either \$0.25 or \$0.65 per contract for Penny and non-Penny Pilot issues for a total charge of either \$0.45 or \$0.85 per contract. Within the Auction, the same NYSE Amex Options Market Maker would be charged either \$0.55 or \$0.90 per contract for Penny and non-Penny Pilot issues. The Exchange does not believe this differential – between non-Auction transactions and Auction transactions – will cause participants to refrain from responding to Auctions. The Exchange notes that there is a difference in the risk to a participant between quoting as a Market Maker and in responding to an Auction. In the former, a Market Maker may be at risk in hundreds of thousands of series in which they may be obligated to provide firm quotes, any of which may result in a trade at any time.²⁵ By way of comparison, when responding to an Auction, the Market Maker – or any ATP Holder for that matter – has a greater certainty of execution that has a maximum execution size, based on the number of contracts in the Auction, and a defined time for execution, which will occur within a maximum of 750 milliseconds. By contrast, a Market Maker has no way of knowing when any one of the quotes they have in the market place might trade. Given this reality, the Exchange expects to see

²⁵ See Rules 925NY and 925.1NY

robust competition within the Auction, despite the apparent difference in non-Auction versus Auction pricing. The Exchange has primarily focused on Market Makers in this discussion as Market Makers are the largest source of liquidity on the Exchange and the Exchange believes that Market Makers would be most likely to submit RFR Responses to a CUBE Auction.

As stated above, the Exchange also notes that differentials between non-auction and auction pricing exist on other exchanges that offer comparable electronic crossing mechanisms. For example, on the ISE, Market Maker Plus participants can earn a rebate of between \$0.20 and \$0.25 per contract as a “maker” of liquidity where they post quotes that subsequently get traded against. That same participant who responds to a “Crossing Order” will pay \$0.45 per contract. Thus, the difference between non-auction and auction transaction pricing can be as high as \$0.70 per contract (calculated as the difference between earning a \$0.25 credit and paying a Response Fee For Crossing Orders of \$0.45), compared to the \$0.10 price differential per contract proposed for NYSE Amex Options Market Makers, as discussed above.²⁶ Given these facts, the Exchange believes that the differential between non-Auction and Auction pricing will not prove to be a burden on competition within the Exchange and the cost of participating in the Auction is such that there will be robust competition for all size orders within the Auction.

The Exchange believes that the proposed fees and rebates for participation in the CUBE Auction are reasonable because they are designed to attract new volume to the Exchange, which will benefit all participants by offering greater price discovery, increased transparency, and an increased opportunity to trade on the Exchange. Further, as the relative level of the fees and/or rebates are consistent with the range of similar fees and rebates throughout the industry, the Exchange believes such fees and rebates are also equitable and not unfairly discriminatory.

²⁶ Supra n. 15.

The Exchange also believes that fees and rebates for participation in the CUBE Auction are reasonable because they are designed to enhance the competitiveness of the Exchange, particularly with respect to those exchanges that offer their own electronic crossing mechanism.²⁷

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed change will enhance the competitiveness of the Exchange relative to other exchanges that offer their own electronic crossing mechanism.²⁸ The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)²⁹ of the Act and subparagraph (f)(2) of Rule 19b-4³⁰ thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

²⁷ Supra n. 11.

²⁸ Id.

²⁹ 15 U.S.C. 78s(b)(3)(A).

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)³¹ of the Act to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-NYSEMKT-2014-52 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEMKT-2014-52. 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

³⁰ 17 CFR 240.19b-4(f)(2).

³¹ 15 U.S.C. 78s(b)(2)(B).

written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEMKT-2014-52, and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³²

Kevin M. O'Neill
Deputy Secretary

³² 17 CFR 200.30-3(a)(12).