

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78576; File No. SR-Phlx-2016-83)

August 15, 2016

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4 thereunder,² notice is hereby given that on August 5, 2016, NASDAQ 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 at Section I titled "Rebates and Fees for Adding and Removing Liquidity in SPY" at Part A, relating to Simple Orders for SPY³ options to: (i) increase the Customer⁴ Fee for Removing Liquidity; and (ii) amend Tier 4 of the Specialist⁵ and Market Maker⁶ Rebate for Adding Liquidity tiers and add two additional tiers.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Options overlying Standard and Poor's Depository Receipts/SPDRs ("SPY") are based on the SPDR exchange-traded fund, which is designed to track the performance of the S&P 500 Index.

⁴ The term "Customer" applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation which is not for the account of a broker or dealer or for the account of a "Professional" (as that term is defined in Rule 1000(b)(14)).

⁵ The term "Specialist" applies to transactions for the account of a Specialist (as defined in Exchange Rule 1020(a)). A Specialist is an Exchange member who is registered as an

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

options specialist pursuant to Rule 1020(a). An options Specialist includes a Remote Specialist which is defined as an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.

⁶ The term "Market Maker" includes Registered Options Traders ("ROT"). See Exchange Rule 1014(b)(i) and (ii). A ROT includes a Streaming Quote Trader or "SQT," a Remote Streaming Quote Trader or "RSQT" and a Non-SQT, which by definition is neither a SQT nor a RSQT. A ROT is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. An SQT is defined in Exchange Rule 1014(b)(ii)(A) as an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An RSQT is defined in Exchange Rule in 1014(b)(ii)(B) as an ROT that is a member affiliated with an RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A Remote Streaming Quote Trader Organization or "RSQTO," which may also be referred to as a Remote Market Making Organization ("RMO"), is a member organization in good standing that satisfies the RSQTO readiness requirements in Rule 507(a). RSQTs may also be referred to as Remote Market Markers ("RMMs").

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 amend the Exchange's Pricing Schedule at Section I titled "Rebates and Fees for Adding and Removing Liquidity in SPY" to increase the Simple Order Customer Fee for Removing Liquidity in SPY to fund additional Simple Order Specialist and Market Maker Rebates for Adding Liquidity for options overlying SPY.

First Fee Change

The purpose of the first fee change is to raise revenue for the Exchange by increasing the Simple Order Customer Fee for Removing Liquidity in SPY from \$0.43 to \$0.45 per contract. Despite the increase to this fee for Customers removing liquidity, the Exchange believes that the fee remains competitive as compared to fees assessed to other market participants.⁷

Second Fee Change

The purpose of the second fee change is to amend the Specialist and Market Maker Simple Order Rebates for Adding Liquidity to incentivize Specialists and Market Makers to add more volume to Phlx in order to receive rebates. Today Specialists and Market Makers have the opportunity to earn rebates that range from \$0.15 to \$0.30 per contract,⁸ depending on the amount of Specialist and Market Maker Simple Order contracts that are electronically executed per day in a month in SPY on Phlx. The Exchange is proposing to amend current Tier 4 of the Specialist and Market Maker Simple Order Rebates for Adding Liquidity from volume that is

⁷ Non-Customer market participants (Specialists, Market Makers, Firms, Broker-Dealers and Professionals) are assessed a Simple Order Fee for Removing Liquidity in SPY of \$0.47 per contract.

⁸ Today, the Specialist and Market Maker Simple Order Rebates for Adding Liquidity are paid on a four tier rebate schedule in SPY. All other market participants do not receive a Simple Order Rebate for Adding Liquidity in SPY.

greater than 20,000 to volume between 20,000 and 34,999 electronically executed Simple Order contracts per day in a month in SPY. The Tier 4 Specialist and Market Maker Simple Order Rebates for Adding Liquidity will remain at \$0.30 per contract. The Exchange also proposes to add two more Specialist and Market Maker Simple Order Rebates for Adding Liquidity tiers. New Tier 5 Specialist and Market Maker Simple Order Rebates for Adding Liquidity would pay a \$0.32 per contract rebate to Specialists and Market Makers that add between 35,000 to 49,999 electronically executed Simple Order contracts per day in a month in SPY. New tier 6 Specialist and Market Maker Simple Order Rebates for Adding Liquidity would pay a \$0.35 per contract rebate to Specialists and Market Makers that add greater than 49,999 electronically executed Simple Order contracts per day in a month in SPY. The Exchange believes that adding these two new rebate tiers will encourage Specialists and Market Makers to add more electronically executed Simple Order liquidity in SPY on Phlx to obtain the higher rebates.

The Exchange proposes to amend Section I to reorganize the Pricing Schedule and delete unnecessary rule text. The Exchange proposes to amend the current sentence above the Specialist and Market Maker Simple Order Rebates for Adding Liquidity tiers which currently states, “*The Simple Order Rebate for Adding Liquidity for Specialists and Market Makers will be paid as noted below:”. The Exchange intends to incorporate more language into the new sentence concerning the Specialist and Market Maker Simple Order Rebates for Adding Liquidity tiers to make clear which market participants are being paid the rebate and what volume counts toward the monthly volume. The Exchange proposes to amend the sentence as follows: “*The Simple Order Rebate for Adding Liquidity will be paid as noted below to Specialists and Market Makers adding the requisite amount of electronically executed Specialist and Market Maker Simple Order contracts per day in a month in SPY:”. This language is not

intended to amend the manner in which the Exchange pays the Specialist and Market Maker Simple Order Rebates for Adding Liquidity. The Exchange is proposing to include more clear and specific language above the tiers and then simply list the volume and rebate amount in the table, rather than repeating the language in the table several times. The Exchange believes that these non-substantive amendments will add clarity to the Specialist and Market Maker Simple Order Rebates for Adding Liquidity by avoiding unnecessary repetition in the Pricing Schedule and simplifying the rebate table.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁰ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”¹¹

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

¹¹ Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

Likewise, in NetCoalition v. Securities and Exchange Commission¹² (“NetCoalition”) the D.C. Circuit upheld the Commission’s use of a market-based approach in evaluating the fairness of market data fees against a challenge claiming that Congress mandated a cost-based approach.¹³ As the court emphasized, the Commission “intended in Regulation NMS that ‘market forces, rather than regulatory requirements’ play a role in determining the market data . . . to be made available to investors and at what cost.”¹⁴

Further, “[n]o one disputes that competition for order flow is ‘fierce.’ . . . As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’”¹⁵ Although the court and the SEC were discussing the cash equities markets, the Exchange believes that these views apply with equal force to the options markets.

First Fee Change

The Exchange’s proposal to increase the Customer Simple Order Fee for Removing Liquidity in SPY is reasonable because despite the increase to the fee, Customers will continue to be assessed the lowest Simple Order Fee for Removing Liquidity in SPY as compared to other

¹² NetCoalition v. SEC, 615 F.3d 525 (D.C. Cir. 2010).

¹³ See NetCoalition, at 534 - 535.

¹⁴ Id. at 537.

¹⁵ Id. at 539 (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

market participants (Specialists, Market Makers, Firms,¹⁶ Broker-Dealers¹⁷ and Professionals¹⁸) that continue to pay a \$0.47 per contract Simple Order Fee for Removing Liquidity in SPY. **SPY** options are currently the most actively traded options class. Despite this fee increase, the Exchange believes the Simple Order Customer Fee for Removing Liquidity will continue to encourage a greater number of market participants to remove Customer liquidity in SPY on Phlx because they continue to be assessed lower fees as compared to other market participants.

The Exchange's proposal to increase the Customer Simple Order Fee for Removing Liquidity in SPY is equitable and not unfairly discriminatory because the Simple Order Customer Fee for Removing Liquidity will continue to be lower as compared to other market participants (\$0.45 vs. \$0.47 per contract) and this lower fee will continue to encourage market participants to remove Customer liquidity in SPY on Phlx. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts market makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. 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. Other options exchanges price by symbol.¹⁹

¹⁶ The term "Firm" applies to any transaction that is identified by a member or member organization for clearing in the Firm range at The Options Clearing Corporation.

¹⁷ The term "Broker-Dealer" applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

¹⁸ The term "Professional" applies to transactions for the accounts of Professionals, as defined in Exchange Rule 1000(b)(14) 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).

¹⁹ [Miami International Securities Exchange LLC](#) ("MIAX") prices by symbol. See MIAX's Fee Schedule.

Second Fee Change

The Exchange believes that its proposal to amend the Tier 4 Specialist and Market Maker Simple Order Rebates for Adding Liquidity in SPY and add two new Specialist and Market Maker Simple Order Rebates for Adding Liquidity tiers is reasonable because it will attract more Specialist and Market Maker electronically executed Simple Order volume in SPY to Phlx. The Exchange is offering Specialists and Market Makers an opportunity to earn up to a \$0.35 per contract Simple Order Rebate for Adding Liquidity in SPY. Today, the highest Specialist and Market Maker Simple Order Rebate for Adding Liquidity in SPY is \$0.30 per contract. Specialists and Market Makers will be encouraged to add more electronically executed Simple Order liquidity in SPY on Phlx to obtain the proposed higher rebates.

The Exchange believes that its proposal to amend the Tier 4 Specialist and Market Maker Simple Order Rebates for Adding Liquidity in SPY and add two new Specialist and Market Maker Simple Order Rebates for Adding Liquidity tiers is equitable and not unfairly discriminatory because Specialists and Market Makers have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁰ 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 differentiation as between Specialists and Market Makers and all other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market

²⁰ See Rule 1014 titled “Obligations and Restrictions Applicable to **Specialists** and Registered Options Traders.”

participants. For these reasons, the Exchange believes that it is equitable and not unfairly discriminatory to only offer Specialists and Market Makers Simple Order Rebates for Adding Liquidity in SPY.

The Exchange's proposal to reorganize the Pricing Schedule and delete unnecessary rule text is reasonable because the Exchange believes the deletion of the unnecessary text and reorganization of the rule text will bring greater clarity to the Pricing Schedule. The Exchange's proposal to reorganize the Pricing Schedule and delete unnecessary rule text is equitable and not unfairly discriminatory because the amendment is non-substantive and only intended to provide clarity to the Pricing Schedule. The rule text will apply uniformly to all market participants.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, 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, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

The fees and rebates proposed herein are intended to continue to incentivize market participants to send a greater amount of SPY order flow to Phlx and for this reason imposes no

inter-market burden on competition. If the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

First Fee Change

The Exchange's proposal to increase the Customer Simple Order Fee for Removing Liquidity in SPY does not impose an undue burden on intra-market competition because the Simple Order Customer Fee for Removing Liquidity will continue to be lower as compared to other market participants (\$0.45 vs. \$0.47 per contract) and this lower fee will continue to encourage market participants to remove Customer liquidity in SPY on Phlx. Also, Customer liquidity benefits all market participants by providing more trading opportunities, which attracts market makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. 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. Other options exchanges price by symbol.²¹

Second Fee Change

The Exchange believes that its proposal to amend the Tier 4 Specialist and Market Maker Simple Order Rebates for Adding Liquidity and add two new Specialist and Market Maker Simple Order Rebates for Adding Liquidity tiers does not impose an undue burden on intra-market competition because Specialists and Market Makers have obligations to the market and

²¹ See note 19 above.

regulatory requirements, which normally do not apply to other market participants.²² 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 differentiation as between Specialists and Market Makers and all other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. For these reasons, the Exchange believes that it is equitable and not unfairly discriminatory to only offer Specialists and Market Makers Simple Order Rebates for Adding Liquidity in SPY.

The Exchange's proposal to reorganize the Pricing Schedule and delete unnecessary rule text does not impose an undue burden on intra-market competition because the Exchange believes the deletion of the unnecessary text and reorganization of the rule text will bring greater clarity to the Pricing Schedule and the revised language applies uniformly to all market participants.

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.²³

²² See note 20 above.

²³ 15 U.S.C. 78s(b)(3)(A)(ii).

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

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2016-83 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-Phlx-2016-83. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications

relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2016-83, 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.²⁴

Robert W. Errett
Deputy Secretary

²⁴ 17 CFR 200.30-3(a)(12).