

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75024; File No. SR-BX-2015-029)

May 21, 2015

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Penny Pilot Options Fees and Rebates

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 May 11, 2015, NASDAQ OMX BX, Inc. (“BX” 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 Chapter XV, entitled “Options Pricing” and Section 2, entitled “Options Market – Fees and Rebates”. Specifically, the Exchange proposes to: (1) decrease the Fee to Add Liquidity in Penny Pilot Options;<sup>3</sup> (2) decrease the Rebate to Remove Liquidity in Penny Pilot Options; and (3) delete the Monthly Volume Tiers that apply to Lead Market Makers.

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

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

<sup>3</sup> Penny Pilot Options are options that quote and trade pursuant to the Penny Pilot, an industry-wide program. The Penny Pilot was established on the Exchange in June 2012 and last extended in December 2014. See Securities Exchange Act Release Nos. 67256 (June 26, 2012), 77 FR 39277 (July 2, 2012) (SR-BX-2012-030) (order approving BX option rules and establishing Penny Pilot); and 73689 (November 25, 2014), 79 FR 71488 (December 2, 2014) (SR-BX-2014-057) (notice of filing and immediate effectiveness extending the Penny Pilot through June 30, 2015).

The text of the proposed rule change is available on the Exchange’s website at <http://nasdaqomxbx.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to amend Chapter XV, Section 2. Specifically, the Exchange proposes to: (1) decrease the Fee to Add Liquidity in Penny Pilot Options for Customers<sup>4</sup> and BX Options Market Makers<sup>5</sup>; (2) decrease the Rebate to Remove Liquidity in Penny Pilot Options for Customers; and (3) delete the Monthly

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<sup>4</sup> The term “Customer” means a Public Customer or a broker-dealer, and the term “Public Customer” means a person that is not a broker or dealer in securities. See Chapter I, Section 1(a)(22) and 1(a)(50).

<sup>5</sup> The term “BX Options Market Maker” means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules. See Chapter I, Section 1(a)(9). For discussion regarding Market Maker quotations, see Chapter VII, Section 6.

Volume Tiers (“Tiers”) that apply to Lead Market Makers (“LMMs”, also known as “BX LMMs”)<sup>6</sup> when adding liquidity in Penny Pilot Options and contra to a Customer.<sup>7</sup>

Fees and Rebates for Penny Pilot Options

The Penny Pilot, established on the Exchange in 2012, allows options to quote and trade in penny increments. The Exchange’s options pricing for execution of contracts on the BX Options Market has a separate section for fees and rebates for Penny Pilot Options.

Currently, Section 2(1) of Chapter XV reflects Penny Pilot Options fees and rebates for Penny Pilot Options for Customer, BX Options Market Maker, and Non-Customer<sup>8</sup> as follows:

<b>Fees and Rebates (per executed contract)</b>			
	<b>Customer</b>	<b>BX Options Market Maker</b>	<b>Non-Customer<sup>1</sup></b>
<b>Penny Pilot Options:</b>			
<b>Rebate to Add Liquidity</b>	\$0.00 <sup>2</sup>	\$0.10 <sup>2</sup>	N/A
<b>Fee to Add Liquidity</b>	\$0.40 <sup>3</sup>	\$0.40 <sup>3, 4</sup>	\$0.45
<b>Rebate to Remove Liquidity</b>	\$0.35	N/A	N/A
<b>Fee to Remove Liquidity</b>	N/A	\$0.46	\$0.46

<sup>6</sup> The term “Lead Market Maker” or “LMM” applies to a registered BX Options Market Maker that is approved pursuant to Chapter VII, Section 13 to be the LMM in an options class (options classes). See also Securities Exchange Act Release No. 72883 (August 20, 2014), 79 FR 50971 (August 26, 2014) (SR-BX-2014-035) (order approving introduction of LMMs on BX).

<sup>7</sup> Fees and rebates may together also be referred to as “fees/rebates” or “rates”.

<sup>8</sup> A Non-Customer includes a Professional, Firm, Broker-Dealer and Non-BX Options Market Maker.

There is also one note applicable to the Fee to Add Liquidity for BX Options Market Makers section that does not change.<sup>9</sup>

The Exchange proposes to decrease by a penny the Fee to Add Liquidity in Penny Pilot Options for Customers and BX Options Market Makers, and to decrease by a penny the Rebate to Remove Liquidity in Penny Pilot Options for Customers.<sup>10</sup> As a result, the fees for adding such liquidity will be the same for all Customers and BX Options Market Makers (as well as LMMs); and the rebates for removing such liquidity will be the same for all Customers. Thus, as a result of this filing the Fee to Add Liquidity in Penny Pilot Options for Customers and BX Options Market Makers will decrease to \$0.39 (previously \$0.40) per executed contract, but only when the Customer or BX Options Market Maker is contra to a Customer. And, as a result of this proposal, the Rebate to Remove Liquidity in Penny Pilot Options for Customers will decrease to \$0.34 (previously \$0.35) per executed contract, regardless of the contra party. The proposed fee and rebate structure will continue to incentivize adding liquidity on BX.

In addition to reducing the fee and rate schedule as discussed, the Exchange also proposes to delete note 4, which is applicable to the Fee to Add Liquidity in Penny Pilot Options for BX Options Market Makers only. Note 4, which applies to LMMs in their specifically allocated options classes when adding liquidity and contra to a Customer, currently indicates fees of \$0.40, \$0.38, and \$0.37 depending on Monthly Volume Tier

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<sup>9</sup> Unchanged note 3 is as follows. The Fee to Add Liquidity will be assessed to a Customer or BX Options Market Maker only when the Customer or BX Options Market Maker is contra to a Customer. As discussed, the Exchange proposes to delete note 4, which is currently applicable to the Fee to Add Liquidity for BX Options Market Makers section.

<sup>10</sup> There continues to be no Rebate to Remove Liquidity in Penny Pilot Options available for BX Options Market Makers.

A, B, and C thresholds, respectively.<sup>11</sup> Thus, as a result of the deletion of note 4, LMMs would incur, like BX Options Market Makers, a Fee to Add Liquidity in Penny Pilot Options of \$0.39 (previously \$0.40) per executed contract. The Exchange believes that the current, more complex Tier structure applicable to LMMs is no longer needed in light of the proposed reduction of the fee and rebate, which continues to incentivize bringing Penny Pilot Options liquidity to BX. The Exchange believes that having the same fees and rebates across the board for all Penny Pilot Options will, as discussed, incentivize BX Options Market Makers and Customers to interact with a greater number of Penny Pilot Options orders on the Exchange.

The Exchange believes that the proposed changes are consistent with the Act and raise no novel issues.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>13</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with

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<sup>11</sup> Per note 4, the Tier A threshold is Total Volume up to 0.20% of total industry customer equity and ETF option average daily volume (“ADV”) contracts per day; the Tier B threshold is Total Volume above 0.20% to 0.30%; and the Tier C threshold is Total Volume of 0.31% or more. “Total Volume” is defined in note 4 as Customer, BX Options Market Marker, LMM, and Non-Customer volume in Penny Pilot Options and/or Non-Penny Pilot Options which either adds or removes liquidity on BX Options. For purposes of determining Monthly Volume Tiers, any day that the market is not open for the entire trading day will be excluded from such calculation.

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. BX operates in an intensely competitive environment and seeks to offer the same services that its competitors offer and in which its customers find value.

The Exchange believes that applying the same fees to add liquidity for Customers and BX Options Market Makers in all Penny Pilot Options, and applying the same rebates to remove liquidity for Customers in all Penny Pilot Options, promotes just and equitable principles of trade, and fosters cooperation and coordination with persons engaged in facilitating transactions in Penny Pilot Options. As a result, the fees for adding such liquidity will be the same for all Customers and BX Options Market Makers (as well as LMMs); and the rebates for removing such liquidity will be the same for all Customers.

The proposed rule change also protects investors and the public interest and seeks to establish and promote just and equitable principles of trade by creating more uniformity and consistency related to fees and rebates for Penny Pilot Options. The Exchange believes that the proposal will not diminish, and in fact may increase, market making activity on the Exchange by ensuring fees and rebates that are reasonable and provide incentive for trading Penny Pilot Options on the Exchange. With this proposal, the same fees for adding Penny Pilot Options liquidity will be applicable for Customers and BX Options Market Makers; and the same rebates for removing Penny Pilot Options liquidity will be applicable for Customers.

The proposal to moderately decrease the Fee to Add Liquidity in Penny Pilot Options and the Rebate to Remove Liquidity in Penny Pilot Options, and to delete the Tiers that apply to LMMs, is reasonable, equitable, and not unfairly discriminatory.

#### Fees and Rebates for Penny Pilot Options

The Exchange's proposal to decrease the Customer and BX Options Market Maker Fee for Removing Liquidity in Penny Pilot Options from \$0.40 to \$0.39, and to decrease the Customer Rebate for Removing Liquidity in Penny Pilot Options from \$0.35 to \$0.34 per contract, is reasonable because it will continue to incentivize bringing Penny Pilot Options liquidity to the Exchange. This should benefit all market participants through increased liquidity and order interaction. The Exchange believes that the proposed fee/rebate change will incentivize market participants to select the Exchange as a venue to post liquidity and attract additional order flow to the benefit of all market participants. Increased liquidity provides more trading opportunities, which attracts other market participants, including 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. Moreover, in constructing the Exchange's fee and rebate program, the Exchange aims to remain competitive with other venues so that it is a superior choice for market participants.

The Exchange believes that its proposal to decrease the Customer and BX Options Market Maker Fee for Removing Liquidity in Penny Pilot Options from \$0.40 to \$0.39, and to decrease the Customer Rebate for Removing Liquidity in Penny Pilot Options from \$0.35 to \$0.34 per contract, is equitable and not unfairly discriminatory because the Exchange will assess the fees and rebates uniformly to all members [sic], as applicable

regardless of activity level. The fees for adding Penny Pilot Options liquidity will be the same for all Customers and BX Options Market Makers; and the rebates for removing Penny Pilot Options liquidity will be the same for all Customers.

The Exchange will continue to assess all Non-Customers a higher \$0.45 fee to Add Liquidity in Penny Pilot Options. The Exchange believes that this is equitable and not unfairly discriminatory. The proposed differentiation between BX Options Market Makers and other market participants such as Non-Customers recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. BX Options Market Makers, unlike other market participants, have obligations to the market and regulatory requirements,<sup>14</sup> which normally do not apply to other market participants. A BX Options Market Maker has the obligation to make continuous markets, engage in 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 such course of dealings. On the other hand, Non-Customers, including Professionals, Firms, Broker-Dealers and Non-BX Options Market Makers, do not have such obligations on the Exchange.

The Exchange further believes that is reasonable to delete the Tiers applicable to LMMs in respect of the Rebate to Remove Liquidity in Penny Pilot Options. The Exchange believes that in light of the proposed reduced fees/rebates discussed herein the

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<sup>14</sup> Chapter VII, Section 5 indicates that in registering as a Market Maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Further, all such Market Makers are designated as specialists on BX for all purposes under the Act or rules thereunder. See Chapter VII, Sections 5 and 6.



Tiers are no longer necessary to incentivize LMMs to provide liquidity. The Exchange believes that under such circumstances it is reasonable and desirable to treat all uniformly in terms of the rates, as discussed.<sup>15</sup>

The Exchange believes that its proposal to delete the Tiers applicable to LMMs is equitable and not unfairly discriminatory because the Exchange will assess the fees and rebates uniformly to all members [sic], as applicable.

The Exchange operates in a highly competitive market, comprised of twelve exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates to be inadequate. Accordingly, the fees that are assessed and the rebates paid by the Exchange, as described in the proposal, are influenced by these robust market forces and therefore must remain competitive with fees charged and rebates paid by other venues; that is, the Exchange's fees and rebates must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, BX has designed its fees and rebates to compete effectively for the execution and routing of Penny Pilot Options contracts on the Exchange.

The Exchange believes that the proposed amended fees and rebates will attract market participants and BX Options Market Makers to engage in market making

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<sup>15</sup> Unlike Customers, BX Options Market Makers and Non-Customers continue not being eligible for any Rebate to Remove Liquidity in Penny Pilot Options.

activities at the Exchange, which results in tighter markets and order interaction and benefits all market participants. Moreover, BX Options Market Makers have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>16</sup> While BX Options Market Makers will continue to pay a Fee to Add Liquidity in all Penny Pilot Options that will not be higher than for Customers, Customers will pay a fee which is lower than that assessed to Non-Customers. The Exchange believes that this does not present an undue burden on competition because the pricing seeks to reward liquidity providers, which in turn benefits all market participants.

The Exchange believes the proposals discussed herein do not pose an undue burden on intermarket competition. The Exchange operates in a highly competitive market comprised of twelve U.S. options exchanges in which sophisticated and knowledgeable market participants can and do send order flow to competing exchanges if they deem fee levels at a particular exchange to be excessive. The Exchange believes that the proposed fee and rebate scheme discussed herein is competitive. The Exchange believes that this competitive marketplace materially impacts the fees and rebates present on the Exchange today and substantially influences the proposal set forth above.

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.

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<sup>16</sup> In registering as a BX Options Market Maker, an Options Participant commits himself to various obligations. See Chapter VII, Sections 5 and 6.

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

Pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>17</sup> the Exchange has designated this proposal as establishing or changing a due, fee, or other charge imposed by the self-regulatory organization on any person, whether or not the person is a member of the self-regulatory organization, which renders the proposed rule change effective upon filing.

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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BX-2015-029 on the subject line.

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<sup>17</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

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-BX-2015-029. 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-BX-2015-029 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>18</sup>

Robert W. Errett  
Deputy Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).