

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71055; File No. SR-BX-2013-059)

December 12, 2013

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Fee Schedule under Exchange Rule 7018(a) with Respect to Transactions in Securities Priced at \$1 per Share or More

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 November 29, 2013, 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 the fee schedule under Exchange Rule 7018(a) with respect to transactions in securities priced at \$1 per share or more. The Exchange will implement the proposed rule change on December 2, 2013.

The text of the proposed rule change is also 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

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

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

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

The Exchange is proposing several changes to its fees and rebates applicable to transactions in securities priced at \$1 or more. First, the Exchange is proposing to add a new tier for members that are active in both the NASDAQ OMX BX Equities System (the "BX Equities System") and BX Options. As such, the tier is similar to various tiers that have previously been introduced by the NASDAQ Stock Market for members of that exchange that are active in both the NASDAQ Market Center and the NASDAQ Options Market.<sup>3</sup> Under the proposed tier, a member will be charged \$0.0016 per share executed when providing liquidity through a displayed order if the member (i) has a daily average volume of liquidity provided in all securities during the month of 2 million or more shares through one or more BX Equities System market participant identifiers ("MPIDs"), and (ii) adds Options Market Maker volume under Chapter XV of BX Options rules of 20,000 or more contracts per day during the month.

The proposed tier recognizes the prevalence of trading in which members simultaneously trade different asset classes within the same strategy. Because cash equities and options markets are linked, with liquidity and trading patterns on one market affecting those on the other, the Exchange believes that a pricing incentive that encourages market participant activity in BX Options will also support price discovery and liquidity provision in the BX Equities System.

Second, the Exchange is proposing new pricing tiers for midpoint pegged orders, a non-

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<sup>3</sup> See NASDAQ Rule 7018(a).

displayed order whose price is pegged to the midpoint between the national best bid and national best offer. Thus, midpoint pegged orders provide price improvement when they execute that is equivalent to the difference between the price of the order and the national best bid or offer (as applicable). Currently, midpoint orders are charged a fee of \$0.0015 per share executed when they provide liquidity, which is lower than the fee of \$0.0020 per share executed for displayed orders and the current fee of \$0.0025<sup>4</sup> per share executed for non-displayed orders other than midpoint orders. Thus, the pricing structure is designed to encourage members that provide liquidity to do so in a manner that provides price improvement. To further encourage the use of these orders, BX is proposing two new volume tiers for midpoint pegged orders. First, if a member provides an average daily volume of 2 million or more shares of liquidity using midpoint pegged orders during the month, the fee for such orders will be \$0.0010 per share executed. Second, if a member provides an average daily volume of 1 million or more, but fewer than 2 million, shares of liquidity using midpoint pegged orders during the month, the fee for such orders will \$0.00125 per share executed. For lower volumes, the fee will remain \$0.0015 per share executed.

Third, consistent with the goal of encouraging greater use of midpoint pegged orders to provide price improvement, BX is increasing the fee for non-displayed orders other than midpoint pegged orders to \$0.0028 per share executed. Thus, to the extent that a member wishes to offer non-displayed liquidity on BX, it will be provided with a meaningful pricing incentive to do so using midpoint pegged orders, which benefit the counterparty accessing liquidity through price improvement, rather than non-displayed orders, which neither offer price improvement nor contribute to pre-trade price discovery.

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<sup>4</sup> As discussed below, BX is proposing increasing this fee to \$0.0028 per share executed.

Fourth, BX is proposing to decrease the rebate for orders that access liquidity and that do not qualify for any other rebate category, from \$0.0007 per share executed to \$0.0004 per share executed.<sup>5</sup> Currently, BX offers several incentive rebate tiers that are quite easy for a member to achieve. First, BX offers a rebate tier of \$0.0011 per share executed for an order that access [sic] liquidity at BX using a routable order. Second, BX offers the same rebate for an order that access [sic] liquidity if entered through an MPID through which the member provides an average daily volume of at least 25,000, but less than 1 million shares of liquidity during the month. Finally, BX offers a rebate of \$0.0013 per share executed for an order that accesses liquidity if entered through an MPID through which the member (i) provides an average daily volume of 1 million or more shares of liquidity during the month or (ii) access [sic] an average daily volume of 3.5 million or more shares of liquidity. Thus, BX believes that the change in the rebate rate otherwise applicable will incentivize market participants to seek to qualify for more favorable pricing, either by providing or accessing more liquidity or by using BX's routing services.

Finally, BX is amending the definition of "Consolidated Volume" in Rule 7018 to exclude executed orders with a size of less than one round lot. The amended definition refers to "the total consolidated volume reported to all consolidated transaction reporting plans by all exchanges and trade reporting facilities ... during the month, excluding executed orders with a size of less than one round lot." The exclusion for executed orders of less than a round lot is necessitated by recent amendments to the Consolidated Tape Association and NASDAQ UTP

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<sup>5</sup> It should be noted, however, that rebates are not paid for orders that access liquidity provided by midpoint pegged orders, since the applicable price improvement (\$0.005 per share executed on a security with a \$0.01 spread, and more for securities with wider spreads) would in all cases exceed the rebates offered for orders accessing other liquidity.

Plans<sup>6</sup> under which odd lots must be reported to the consolidated tape. These amendments are taking effect in December 2013. When calculating a member's percentage, BX has historically included odd lots in the member's own total volume, but excluded them from Consolidated Volume, since they have not historically been included in the trades reported to consolidated transaction reporting plans. Accordingly, including odd lots in the calculation of a member's percentage of Consolidated Volume would make it more difficult for members to achieve certain percentages, and thus could constitute an unintended de facto price increase. To avoid this result, odd lots will be excluded from the definition of Consolidated Volume for pricing purposes, but would continue to be included in the member's own total volume.

## 2. Statutory Basis

BX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>7</sup> in general, and Sections 6(b)(4) and (b)(5) of the Act,<sup>8</sup> in particular, because it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system that the Exchange operates or controls, and it does not unfairly discriminate between customers, issuers, brokers or dealers.

The change with respect to a new tier for members active in both the BX Equities System and BX Options is reasonable because it reflects the availability of a price reduction for members that support liquidity on both markets. The change is consistent with an equitable allocation of fees because the pricing tier requires significant levels of liquidity provision, which benefits all

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<sup>6</sup> Securities Exchange Act Release No. 70794 (October 31, 2013), 78 FR 66789 (November 6, 2013) (SR-CTA-2013-05); Securities Exchange Act Release No. 70793 (October 31, 2013), 78 FR 66788 (November 6, 2013) (File No. S7-24-89).

<sup>7</sup> 15 U.S.C. 78f.

<sup>8</sup> 15 U.S.C. 78f(b)(4), (5).

market participants, and because activity in BX Options also supports price discovery and liquidity provision in the BX Equities System due to the increasing propensity of market participants to be active in both markets and the influence of each market on the pricing of securities in the other. Moreover, the new tier has the potential to reduce fees for a wider range of market participants by introducing a new means of qualifying for a lower fee for providing liquidity. The change is not unreasonably discriminatory because market participants may qualify for a still lower fee without participating in BX Options through participation in BX's Qualified Liquidity Provider program.

The changes with respect to new tiers for midpoint pegged orders are reasonable because they will reduce fees for members that use higher volumes of midpoint pegged orders to offer price improvement. The changes are consistent with an equitable allocation of fees because the Exchange believes that it is equitable to provide financial incentives, such as the reduced fees in question, to encourage members to offer price improvement. The changes are not unfairly discriminatory because they are structured as volumetric pricing tiers, under which the level of fee reduction increases as the member's volume increases. Such pricing tiers are widely in use at various national securities exchanges and have been accepted as consistent with the Act because the financial benefit offered is correlated to the member's usage of the market.

The change with respect to the fee charged to members providing liquidity through non-displayed orders other than midpoint pegged orders is reasonable because the fee change may readily be avoided through use of midpoint pegged orders or displayed orders, both of which the Exchange believes to be more beneficial to the market than non-midpoint, non-displayed orders. The change is consistent with an equitable allocation of fees and is not unfairly discriminatory because the Exchange believes that it is appropriate to charge a lower fee to displayed orders,

which aid price discovery, and to midpoint pegged orders, which provide price improvement. The change is also not unfairly discriminatory because use of non-displayed orders is wholly voluntary.

The change to the rebate offered for orders accessing liquidity is reasonable because it is still consistent with the Exchange's approach of paying a rebate to orders accessing liquidity, in contrast to most trading venues, which charge an access fee. Moreover, the change is consistent with an equitable allocation of fees because members can readily avoid the change by using routable orders or by offering a modest volume of liquidity (25,000 shares per day or more) through the Exchange. Thus, the change is equitable because it incentivizes members to make greater use of the Exchange's services to receive a higher rebate. The change is not unfairly discriminatory because it applies uniformly to all members that opt not to avoid it through the means described above.

The change with respect to exclusion of odd lots from the definition of Consolidated Volume is reasonable because it avoids a de facto price increase that could occur due to the upcoming requirement to report odd lots to the consolidated tape. Similarly, the change is consistent with an equitable allocation of fees and is not unfairly discriminatory because it will maintain the status quo with respect to the Qualified Liquidity Provider incentive program, which requires calculations based on Consolidated Volume. Thus, the change avoids a potential inequitable and unfair result under which members with volumes close to a required percentage would be unable to achieve a pricing tier for which they had formerly qualified.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as

amended.<sup>9</sup> BX 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, BX 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, BX believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. In this instance, the changes with respect to midpoint orders and the new pricing tier for members active in the Exchange's cash equities and options markets enhances the Exchange's competitiveness by reducing fees. Likewise, the change with respect to the definition of Consolidated Volume avoids a potential de facto price increase, thereby also enhancing the Exchange's competitiveness. The Exchange further believes that the changes for non-displayed orders and liquidity accessing orders not qualifying for a pricing tier also increase the Exchange's competitiveness, because they serve to encourage members to increase their use of displayed or midpoint pegged orders, or to increase volume or make greater use of BX's router. Thus, although price increases, they provide incentives for behavior that may allow members to reduce their trading costs. Moreover, because there are numerous competitive alternatives to the use of the Exchange, it is likely that BX will lose market share as a result of the changes if they are unattractive to market participants. Accordingly, BX 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.

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<sup>9</sup> 15 U.S.C. 78f(b)(8).



(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 change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>10</sup> and paragraph (f) of Rule 19b-4<sup>11</sup> thereunder. 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.

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-2013-059 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-BX-2013-059. This file number should be

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4(f).

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 BX. 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-2013-059 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>12</sup>

Kevin M. O'Neill  
Deputy Secretary

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