

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83431; File No. SR-ISE-2018-51)

June 14, 2018

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Schedule of Fees Related to Complex Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 1, 2018, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 Schedule of Fees related to Complex Orders traded on the Exchange.

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

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

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

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

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

1. Purpose

The purpose of the proposed rule change is to amend the Schedule of Fees related to Complex Orders traded on the Exchange. Specifically, the Exchange proposes to: (1) reduce the volume requirements for Priority Customer<sup>3</sup> Complex Tier 9, and (2) eliminate the discount for Market Maker<sup>4</sup> Complex Orders that trade against Priority Customer Complex Orders preferenced to them in the complex order book.

I. Priority Customer Complex Order Rebates

Currently, the Exchange has a fee structure in place for Complex Orders that provides rebates to Priority Customer Complex Orders in order to encourage Members to bring that order flow to the Exchange. Specifically, Priority Customer Complex Orders that trade with non-Priority Customer orders in the complex order book or trade with quotes and orders on the regular order book are provided rebates in Select Symbols<sup>5</sup> and Non-Select Symbols<sup>6</sup> (other than NDX and MNX) based on nine volume tiers, as shown in the table below. The Priority Customer

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<sup>3</sup> A “Priority Customer” is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s), as defined in Nasdaq ISE Rule 100(a)(37A)

<sup>4</sup> “Market Maker” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See ISE Rule 100(a)(28).

<sup>5</sup> “Select Symbols” are options overlying all symbols listed on the Nasdaq ISE that are in the Penny Pilot Program.

<sup>6</sup> “Non-Select Symbols” are options overlying all symbols excluding Select Symbols.

Complex Tiers are based on Total Affiliated Member<sup>7</sup> Complex Order Volume (Excluding Crossing Orders<sup>8</sup> and Responses to Crossing Orders<sup>9</sup>) Calculated as a Percentage of Customer Total Consolidated Volume<sup>10</sup> (hereinafter, “Complex Order Volume Percentage”). All Complex Order volume executed on the Exchange, including volume executed by Affiliated Members, is included in the volume calculation, except for volume executed as Crossing Orders and Responses to Crossing Orders. Rebates are provided per contract per leg, and once the threshold has been reached the rebate for the highest tier is applied retroactively to all eligible Priority Customer Complex volume.<sup>11</sup>

<b>Priority Customer Complex Tier</b>	<b>Complex Order Volume Percentage</b>	<b>Rebate for Select Symbols</b>	<b>Rebate for Non-Select Symbols</b>
Tier 1	0.000% - 0.200%	(\$0.25)	(\$0.40)
Tier 2	Above 0.200% - 0.400%	(\$0.30)	(\$0.55)
Tier 3	Above 0.400% - 0.600%	(\$0.35)	(\$0.70)
Tier 4	Above 0.600% - 0.800%	(\$0.40)	(\$0.75)

<sup>7</sup> An “Affiliated Member” is a Member that shares at least 75% common ownership with a particular Member as reflected on the Member's Form BD, Schedule A.

<sup>8</sup> A “Crossing Order” is an order executed in the Exchange's Facilitation Mechanism, Solicited Order Mechanism, Price Improvement Mechanism (PIM) or submitted as a Qualified Contingent Cross order. For purposes of the Fee Schedule, orders executed in the Block Order Mechanism are also considered Crossing Orders.

<sup>9</sup> A “Response to a Crossing Order” is any contra-side interest submitted after the commencement of an auction in the Exchange's Facilitation Mechanism, Solicited Order Mechanism, Block Order Mechanism or PIM.

<sup>10</sup> “Customer Total Consolidated Volume” means the total national volume cleared at The Options Clearing Corporation in the Customer range in equity and ETF options in that month.

<sup>11</sup> Members will not receive rebates for net zero complex orders. For purposes of determining which complex orders qualify as “net zero” the Exchange will count all complex orders that leg in to the regular order book and are executed at a net price per contract that is within a range of \$0.01 credit and \$0.01 debit.

<b>Priority Customer Complex Tier</b>	<b>Complex Order Volume Percentage</b>	<b>Rebate for Select Symbols</b>	<b>Rebate for Non-Select Symbols</b>
Tier 5	Above 0.800% - 1.000%	(\$0.45)	(\$0.80)
Tier 6	Above 1.000% - 1.600%	(\$0.46)	(\$0.80)
Tier 7	Above 1.600% - 2.000%	(\$0.48)	(\$0.80)
Tier 8	Above 2.000% - 3.500%	(\$0.50)	(\$0.85)
Tier 9	Above 3.500%	(\$0.50)	(\$0.85)

Currently, a Member must execute a Complex Order Volume Percentage of above 3.5% to qualify for Priority Customer Complex Tier 9. The Exchange now proposes to reduce the Complex Order Volume Percentage requirement to above 3.25%, thereby making Priority Customer Complex Order Tier 9 easier for Members to achieve. As proposed, Members with a Complex Order Volume Percentage above 2% and up to 3.25% will qualify for Priority Customer Complex Tier 8, while Members with a Complex Order Volume Percentage above 3.25% will qualify for Priority Customer Complex Tier 9. Although Priority Customer Complex Order Tier 8 and 9 are currently eligible for the same \$0.50 per contract rebate in Select Symbols and \$0.85 per contract rebate in Non-Select Symbols, the lower proposed volume requirements for Priority Customer Complex Tier 9 will benefit Market Makers that currently receive discounted Complex Order fees in Select Symbols if they achieve this Priority Customer Complex Tier. Specifically, Market Maker Complex Orders in Select Symbols are charged a fee of \$0.44 per contract for either taking liquidity, or providing liquidity to a Priority Customer Complex Order, provided that the firm achieves Priority Customer Complex Tier 9. This fee is discounted from the regular taker fee of \$0.50 per contract (reduced to \$0.47 per contract for Priority Customer Complex Tier 8) and the maker fee of \$0.47 per contract for trading against a

Priority Customer. Thus, reducing the volume requirements for achieving Priority Customer Complex Tier 9 will make it easier for Market Makers to achieve the discounted \$0.44 per contract rate.

## II. Preferred Market Maker Complex Order Discount

Currently, Market Makers making or taking liquidity in Select Symbols or Non-Select Symbols receive a discount of \$0.02 when trading against Priority Customer orders preferred to them in the complex order book in equity options that are able to be listed and traded on more than one options exchange. This discount does not apply to FX Options Symbols or to option classes designated by the Exchange to receive a guaranteed allocation pursuant to Nasdaq ISE Rule 722(b)(3)(i)(B). The Exchange now proposes to eliminate this discount. With the recent introduction of new pricing incentives for Complex Orders, which include the discounted Market Maker fees described in the section above, the Exchange does not believe that an additional incentive for preferred orders is necessary to attract Complex Order flow.

### 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 Sections 6(b)(4) and 6(b)(5) of the Act,<sup>13</sup> 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.

#### I. Priority Customer Complex Order Rebates

The Exchange believes it is reasonable and equitable to reduce the volume requirements for Priority Customer Complex Order Tier 9 as this change will make it easier for Members to

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

<sup>13</sup> 15 U.S.C. 78f(b)(4) and (5).

achieve this tier. The proposed change is designed to incentivize Members to trade Complex Orders on the Exchange. While the proposed change will not have any impact on Priority Customer Complex Order rebates since the rebates are currently the same for Priority Customer Complex Tier 8 and 9, the Exchange also offers discounted Complex Order fees in Select Symbols for Market Makers that achieve higher Priority Customer Complex Tiers. With the proposed change, Market Makers may find it easier to achieve the higher tier of discounted fee, and thereby lower their execution costs when trading on the Exchange. Furthermore, the Exchange believes that the proposed change to the Priority Customer Complex Order Tiers is equitable and not unfairly discriminatory as this change is designed to increase trading by Market Makers, which may benefit other market participants that will have an increased opportunity to trade in Complex Orders. Market Makers are subject to additional requirements and obligations (such as quoting requirements) that other market participants are not. The Exchange believes that the mix of incentives that it provides will encourage an active market in Complex Orders from Market Makers and other market participants.

## II. Preferred Market Maker Complex Order Discount

The Exchange believes that it is reasonable and equitable to eliminate the preferred Market Maker Complex Order discount as the Exchange has recently introduced new incentives for Market Makers that trade Complex Orders. Specifically, Market Makers are now eligible for tiered Complex Order taker fees based on achieving Priority Customer Complex Tier 8 or 9. With the changes to the Priority Customer Complex Tier 9 volume requirements discussed above, the highest tier of discount will be even easier for Market Makers to achieve. The Exchange therefore believes that an additional discount based on receiving preferred Priority Customer Complex Orders is no longer necessary. Furthermore, the Exchange believes that eliminating this fee discount is equitable and not unfairly discriminatory as this discount will no

longer be available for any Market Makers. Market Makers may instead qualify for the other Complex Order discounts based on meeting the applicable volume requirements.

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. The Exchange believes that its Complex Order fees and rebates remain competitive with those on other options markets, and will continue to attract order flow to the Exchange, thereby encouraging additional volume and liquidity to the benefit of all market participants. The Exchange operates in a highly competitive market in which market participants can readily direct their order flow to competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its fees and rebates to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed fee changes reflect 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 either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>14</sup> and Rule 19b-4(f)(2)<sup>15</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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>15</sup> 17 CFR 240.19b-4(f)(2).

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-ISE-2018-51 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-ISE-2018-51. 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.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2018-51 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>16</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).