

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70820; File No. SR-NASDAQ-2013-136)

November 6, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Penny Pilot Options Rebates and Fees

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 October 28, 2013, The NASDAQ Stock Market LLC (“NASDAQ” 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 NASDAQ. 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

NASDAQ proposes to modify Chapter XV, entitled “Options Pricing,” at Section 2 governing pricing for NASDAQ members using the NASDAQ Options Market (“NOM”), NASDAQ’s facility for executing and routing standardized equity and index options. Specifically, NOM proposes to amend certain Customer<sup>3</sup> and Professional<sup>4</sup>

---

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

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

<sup>3</sup> The term “Customer” applies to any transaction that is identified by a Participant for clearing in the Customer range at The Options Clearing Corporation (“OCC”) which is not for the account of a broker or dealer or for the account of a “Professional” (as that term is defined in Chapter I, Section 1(a)(48)).

<sup>4</sup> The term “Professional” 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) pursuant to

Rebates to Add Liquidity in Penny Pilot Options<sup>5</sup> and NOM Market Maker<sup>6</sup> Fees for Removing Liquidity in Penny Pilot Options.

While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on November 1, 2013.

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

---

Chapter I, Section 1(a)(48). All Professional orders shall be appropriately marked by Participants.

<sup>5</sup> The Penny Pilot was established in March 2008 and in October 2009 was expanded and extended through December 31, 2013. See Securities Exchange Act Release Nos. 57579 (March 28, 2008), 73 FR 18587 (April 4, 2008) (SR-NASDAQ-2008-026) (notice of filing and immediate effectiveness establishing Penny Pilot); 60874 (October 23, 2009), 74 FR 56682 (November 2, 2009)(SR-NASDAQ-2009-091) (notice of filing and immediate effectiveness expanding and extending Penny Pilot); 60965 (November 9, 2009), 74 FR 59292 (November 17, 2009)(SR-NASDAQ-2009-097) (notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 61455 (February 1, 2010), 75 FR 6239 (February 8, 2010) (SR-NASDAQ-2010-013) (notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 62029 (May 4, 2010), 75 FR 25895 (May 10, 2010) (SR-NASDAQ-2010-053) (notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 65969 (December 15, 2011), 76 FR 79268 (December 21, 2011) (SR-NASDAQ-2011-169) (notice of filing and immediate effectiveness extension and replacement of Penny Pilot); 67325 (June 29, 2012), 77 FR 40127 (July 6, 2012) (SR-NASDAQ-2012-075) (notice of filing and immediate effectiveness and extension and replacement of Penny Pilot through December 31, 2012); 68519 (December 21, 2012), 78 FR 136 (January 2, 2013) (SR-NASDAQ-2012-143) (notice of filing and immediate effectiveness and extension and replacement of Penny Pilot through June 30, 2013); and 69787 (June 18, 2013), 78 FR 37858 (June 24, 2013) (SR-NASDAQ-2013-082). See also NOM Rules, Chapter VI, Section 5.

<sup>6</sup> The term "NOM Market Maker" means a Participant that has registered as a Market Maker on NOM pursuant to Chapter VII, Section 2, and must also remain in good standing pursuant to Chapter VII, Section 4. In order to receive NOM Market Maker pricing in all securities, the Participant must be registered as a NOM Market Maker in at least one security.

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. 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

NASDAQ proposes to modify Chapter XV, entitled "Options Pricing," at Section 2(1) governing the rebates and fees assessed for option orders entered into NOM. The Exchange proposes to amend Tier 8 of the Customer and Professional Penny Pilot Options Rebates to Add Liquidity. The Exchange also proposes to modify the NOM Market Maker Penny Pilot Options Fee for Removing as described in more detail below.

Today, the Exchange offers an eight-tiered Rebate to Add Liquidity in Penny Pilot Options to Customers and Professionals as follows:

| <b>Monthly Volume</b>   | <b>Rebate to Add Liquidity</b> |
|---|--------------------------------|
| <b>Tier 1</b> Participant adds Customer and/or Professional liquidity of up to 0.20% of total industry customer equity and ETF option average daily volume ("ADV") contracts per day in a month | \$0.25                         |
| <b>Tier 2</b> Participant adds Customer and/or Professional liquidity of 0.21% to 0.30% of total industry customer equity and ETF option ADV contracts per day in a month                       | \$0.40                         |
| <b>Tier 3</b> Participant adds Customer and/or Professional liquidity of 0.31% to 0.49% of total industry customer equity and ETF option ADV contracts per day in a month                       | \$0.43                         |
| <b>Tier</b> Participant adds Customer and/or Professional liquidity of  | \$0.45                         |

- 4** 0.5% or more of total industry customer equity and ETF option ADV contracts per day in a month
- Tier** Participant adds (1) Customer and/or Professional liquidity of \$0.42
- 5** 25,000 or more contracts per day in a month, (2) the Participant has certified for the Investor Support Program set forth in Rule 7014, and (3) the Participant executed at least one order on NASDAQ's equity market
- Tier** Participant has Total Volume of 115,000 or more contracts per \$0.45
- 6** day in a month, of which 25,000 or more contracts per day in a month must be Customer and/or Professional liquidity
- Tier** Participant has Total Volume of 150,000 or more contracts per \$0.47
- 7** day in a month, of which 50,000 or more contracts per day in a month must be Customer and/or Professional liquidity
- Tier** Participant (1) has Total Volume of 325,000 or more contracts \$0.48
- 8** per day in a month, or (2) Participant has Total Volume of 200,000 or more contracts per day in a month, of which 70,000 or more contracts per day in a month must be Customer and/or Professional liquidity or (3) adds Customer and/or Professional liquidity of 1.00% or more of national customer volume in multiply-listed equity and ETF options classes in a month.

The Exchange is proposing to amend Tier 8 which currently pays a rebate of \$0.48 per contract to a Participant that: (i) has Total Volume<sup>7</sup> of 325,000 or more contracts per day in a month; or (ii) Participant has Total Volume of 200,000 or more contracts per day in a month, of which 70,000 or more contracts per day in a month must be Customer and/or Professional liquidity or (iii) adds Customer and/or Professional liquidity of 1.00% or more of national customer volume in multiply-listed equity and ETF options classes in a month. The Exchange is proposing to continue to pay a \$0.48 per contract rebate for Tier 8 and amend the rebate tier by eliminating the criteria of executing a Total Volume of 325,000 or more contracts per day in a month. Pursuant to

---

<sup>7</sup> Total Volume is defined as Customer, Professional, Firm, Broker-Dealer, Non-NOM Market Maker and NOM Market Maker volume in Penny Pilot Options or non-Penny Pilot Options which either adds or removes liquidity on NOM. See Chapter XV, Section 2(1) of the NOM Rules.

the proposal, in order to qualify for a Tier 8 Customer or Professional Rebate to Add Liquidity, a Participant would now be required to either execute (i) Total Volume of 200,000 or more contracts per day in a month, of which 70,000 or more contracts per day in a month must be Customer and/or Professional liquidity or (ii) Customer and/or Professional liquidity of 1.00% or more of national customer volume in multiply-listed equity and ETF options classes in a month. The Exchange believes that Participants will continue to be incentivized to achieve a Tier 8 rebate while directing additional Customer and/or Professional liquidity on NOM.

The Exchange also proposes to amend the NOM Market Maker Penny Pilot Fee for Removing Liquidity by increasing the fee from \$0.47 to \$0.48 per contract. The Exchange believes that despite the fee increase, that NOM Market Makers will continue to remove liquidity in Penny Pilot Options.

## 2. Statutory Basis

NASDAQ believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act<sup>9</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 or system which NASDAQ operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's proposal to amend the Tier 8 Customer and Professional Penny Pilot Options Rebate to Add Liquidity is reasonable because the Exchange will continue

---

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

<sup>9</sup> 15 U.S.C. 78f(b)(4), (5).

to offer competitive Customer and Professional rebates in order to attract liquidity to the market to the benefit of all market participants. The Exchange believes that offering Customers and Professionals the opportunity to earn higher rebates based on certain volume requirements is reasonable because by incentivizing Participants to select the Exchange as a venue to post Customer and Professional liquidity will attract additional order flow to the benefit of all market participants. The amended Tier 8 criteria should incentivize Participants to add Customer and Professional liquidity to NOM. Participants would no longer be able to qualify by solely obtaining Total Volume which is defined as Customer, Professional, Firm, Broker-Dealer, Non- NOM Market Maker and NOM Market Maker volume in Penny Pilot Options or Non-Penny Pilot Options which either adds or removes liquidity on NOM, however some portion of the liquidity could still be Firm, Broker-Dealer, Non-NOM Market Maker and NOM Market Maker volume in Penny Pilot Options or Non-Penny Pilot Options which either adds or removes liquidity.<sup>10</sup> The Exchange believes that it is reasonable to incentivize Participants to add a greater amount of Customer and/or Professional liquidity, combined with other volume, as a means to qualify for the Tier 8 rebate. This proposal only impacts one of the ways in which a Participant may qualify for the Tier 8 rebate. In addition, other exchanges employ similar incentive programs.<sup>11</sup>

---

<sup>10</sup> Tier 8 continues to permits Participants to add Total Volume of 200,000 or more contracts per day in a month so long as 70,000 or more contracts per day in a month consists of Customer and/or Professional liquidity.

<sup>11</sup> See CBOE Fees Schedule. CBOE offers each Trading Permit Holder (“TPH”) a credit for each public customer order transmitted by the TPH which is executed electronically in all multiply-listed option classes, excluding RUT, mini-options, QCC trades and executions related to contracts that are routed to one or more exchanges in connection with the Options Order Protection and Locked/Crossed

The Exchange's proposal to amend the Tier 8 rebate by removing the ability to qualify for the tier by transacting Total Volume of 325,000 or more contracts per day in a month is equitable and not unfairly discriminatory because this amendment will be applied to all market participants in a uniform matter. Any market participant is eligible to receive the Tier 8 rebate provided they transact a qualifying amount of Customer and Professional volume in Penny Pilot Options. Further, market participants may continue to apply some amount of Total Volume transactions toward qualifying for this rebate, however the amount of eligible volume from certain types non-Customer, non-Professional volume would be limited to limited to 130,000 contracts.

This proposal does not widen a current pricing differential. The Exchange would continue to pay the highest Tier 1 Rebates to Add Liquidity in Penny Pilot Options of \$0.25 per contract to Customers, Professionals and NOM Market Makers for transacting one qualifying contract as compared to other market participants.<sup>12</sup> The Exchange believes that Customers are entitled to higher rebates because Customer order flow brings unique benefits to the market through increased liquidity which benefits all market participants. The Exchange believes that continuing to offer Professionals the same Penny Pilot Options Rebates to Add Liquidity as Customers is equitable and not unfairly discriminatory for the reasons which follow. The Exchange believes that offering

---

Market Plan, provided the TPH meets certain percentage thresholds in a month as described in the Volume Incentive Program. See also Phlx's Pricing Schedule at Section B which contains the Customer Rebate Program.

<sup>12</sup> Firms, Non-NOM Market Makers and Broker-Dealers receive a \$0.10 per contract Penny Pilot Option Rebate to Add Liquidity. In addition, a Participant that adds Firm, Non-NOM Market Maker or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 15,000 contracts per day or more in a given month will receive a Rebate to Add Liquidity in Penny Pilot Options of \$0.20 per contract.

Professionals the opportunity to earn the same rebates as Customers, as is the case today, and higher rebates as compared to Firms, Broker-Dealers and Non-NOM Market Makers, and in some cases NOM Market Makers, is equitable and not unfairly discriminatory because the Exchange does not believe that the amount of the rebate offered by the Exchange has a material impact on a Participant's ability to execute orders in Penny Pilot Options. By offering Professionals, as well as Customers, higher rebates, the Exchange hopes to simply remain competitive with other venues so that it remains a choice for market participants when posting orders and the result may be additional Professional order flow for the Exchange, in addition to increased Customer order flow. A Participant may not be able to gauge the exact rebate tier it would qualify for until the end of the month because Professional volume would be commingled with Customer volume in calculating tier volume.<sup>13</sup> A Professional could only otherwise presume the Tier 1 rebate would be achieved in a month when determining price.<sup>14</sup> Further, the Exchange initially established Professional pricing in order to "...bring additional revenue to the Exchange."<sup>15</sup> The Exchange noted in the Professional Filing that it believes "...that the

---

<sup>13</sup> Customer and Professional volume is aggregated for purposes of determining which rebate tier a Participant qualifies for with respect to the Professional Rebate to Add Liquidity in Penny Pilot Options.

<sup>14</sup> A Professional would be unable to determine the exact rebate that would be paid on a transaction by transaction basis with certainty until the end of a given month when all Customer and Professional volume is aggregated for purposes of determining which tier the Participant qualified for in a given month.

<sup>15</sup> See Securities Exchange Act Release No. 64494 (May 13, 2011), 76 FR 29014 (May 19, 2011) (SR-NASDAQ-2011-066) ("Professional Filing"). In this filing, the Exchange addressed the perceived favorable pricing of Professionals who were assessed fees and paid rebates like a Customer prior to the filing. The Exchange noted in that filing that a Professional, unlike a retail Customer, has access to sophisticated trading systems that contain functionality not available to retail Customers.



increased revenue from the proposal would assist the Exchange to recoup fixed costs.”<sup>16</sup>

The Exchange also noted in that filing that it believes that establishing separate pricing for a Professional, which ranges between that of a customer and market maker, accomplishes this objective.<sup>17</sup> The Exchange does not believe that providing Professionals with the opportunity to obtain higher rebates equivalent to that of a Customer creates a competitive environment where Professionals would be necessarily advantaged on NOM as compared to NOM Market Makers, Firms, Broker-Dealers or Non-NOM Market Makers. Also, a Professional is assessed the same fees as other market participants, except Customers, as discussed herein.<sup>18</sup> For these reasons, the Exchange believes that continuing to offer Professionals the same rebates as Customers is equitable and not unfairly discriminatory. Also, NOM Market Makers would continue to be offered the opportunity to earn higher rebates as compared to Non-NOM Market

---

<sup>16</sup> See Securities Exchange Act Release No. 64494 (May 13, 2011), 76 FR 29014 (May 19, 2011) (SR-NASDAQ-2011-066).

<sup>17</sup> See Securities Exchange Act Release No. 64494 (May 13, 2011), 76 FR 29014 (May 19, 2011) (SR-NASDAQ-2011-066). The Exchange noted in this filing that it believes the role of the retail customer in the marketplace is distinct from that of the professional and the Exchange’s fee proposal at that time accounted for this distinction by pricing each market participant according to their roles and obligations.

<sup>18</sup> Pursuant to this proposal, the Fee for Removing Liquidity in Penny Pilot Options is \$0.48 per contract for all market participants, except Customers, who are assessed a fee of \$0.45 per contract.

Makers, Firms and Broker Dealers<sup>19</sup> because NOM Market Makers add value through continuous quoting<sup>20</sup> and the commitment of capital.

The Exchange's proposal to increase the NOM Market Maker Fee for Removing Liquidity in Penny Pilot Options is reasonable because the fee is within the range of fees assessed to other market participants. The Exchange's proposal to increase the NOM Market Maker Fee for Removing Liquidity is equitable and not unfairly discriminatory because the Exchange would uniformly assess all market participants, except Customers, the same Fee for Removing Liquidity of \$0.48 per contract. Customers order flow brings unique benefits to the market in terms of liquidity and therefore Customers are assessed lower fees. By assessing a NOM Market Maker the same fee as other market participants, except Customers, the Exchange is removing the pricing differential that exists today. Also, NOM Market Makers have the ability to earn higher rebates as compared to the \$0.10 Rebate to Add Liquidity in Penny Pilot Options that is available to Firms, Non-NOM Market Makers and Broker-Dealers. This is because NOM Market

---

<sup>19</sup> Firms, Non-NOM Market Makers and Broker-Dealers are paid a \$0.10 per contract Rebate to Add Liquidity in Penny Pilot Options and have the opportunity to earn a higher Penny Pilot Options Rebate to Add Liquidity of \$0.20 per contract if they transact 15,000 contract per day or more in a given month of Penny Pilot Options or Non-Penny Pilot Options liquidity.

<sup>20</sup> Pursuant to Chapter VII (Market Participants), Section 5 (Obligations of Market Makers), 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 Market Makers are designated as specialists on NOM for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

Makers add value through continuous quoting<sup>21</sup> and the commitment of capital.

Customers and Professionals also have the opportunity to earn tiered rebates for the reasons noted above.

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

NASDAQ 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. Customers have traditionally been paid the highest rebates offered by options exchanges. While the Exchange's proposal results in a Professional receiving the same or a higher rebate as compared to a NOM Market Maker, in certain circumstances, the Exchange does not believe the proposed rebate tiers would result in any burden on competition as between market participants. By offering Professionals, as well as Customers, higher rebates, the Exchange hopes to simply remain<sup>21</sup> competitive with other venues so that it remains a choice for market participants when posting orders and the result may be additional Professional order flow for the Exchange, in addition to increased Customer order flow. The Exchange believes that offering Customers and Professionals the proposed tiered rebates creates competition among options exchanges because the Exchange believes that the rebates may cause market participants to select NOM as a venue to send Customer and Professional order flow. The amendment to the Tier 8 rebate will incentivize market participants to direct additional Customer and/or Professional liquidity to the Exchange to obtain the Tier 8 rebate. This liquidity will benefit other market participants.

---

<sup>21</sup> Id.

The Exchange does not believe that increasing the NOM Market Maker Fee for Removing Liquidity creates a burden on competition. The increased NOM Market Maker Fee for Removing Liquidity in Penny Pilot Options will align this fee for all non-Customers. Customers will continue to be assessed a lower Fee for Removing Liquidity in Penny Pilot Options because Customer order flow brings unique benefits to the market in terms of liquidity, which benefits other market participants.

The Exchange believes the differing outcomes, rebates and fees created by the Exchange's proposed pricing incentives contribute to the overall health of the market place for the benefit of all Participants that willing choose to transact options on NOM. For the reasons specified herein, the Exchange does not believe this proposal creates an undue burden on competition. The Exchange operates in a highly competitive market comprised of twelve U.S. options exchanges in which many sophisticated and knowledgeable market participants can readily and do send order flow to competing exchanges if they deem fee levels or rebate incentives at a particular exchange to be excessive or inadequate. These market forces support the Exchange belief that the proposed rebate structure and tiers proposed herein are competitive with rebates and tiers in place on other exchanges. The Exchange believes that this competitive marketplace continues to impact the rebates present on the Exchange today and substantially influences the proposals 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.

### 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>22</sup> 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-NASDAQ-2013-136 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.

---

<sup>22</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

All submissions should refer to File Number SR-NASDAQ-2013-136. 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-NASDAQ-2013-136, 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>23</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>23</sup> 17 CFR 200.30-3(a)(12).