

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68405; File No. SR-NYSEArca-2012-137)

December 11, 2012

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the NYSE Arca Options Fee Schedule

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on December 3, 2012, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend the NYSE Arca Options Fee Schedule and to Make the Fee Change Operative on December 1, 2012. The text of the proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.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 self-regulatory organization 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 those statements may be examined at the places

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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

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

1. Purpose

The Exchange proposes to amend the Fee Schedule to (i) reorganize transaction fees, (ii) raise the take rate for certain electronic executions in Penny Pilot issues, (iii) revise the Customer monthly posting credit tiers, (iv) replace the Market Maker monthly posting credit tiers with one Super Tier, (v) lower the base credit applied to posted electronic Market Maker executions in SPY, (vi) revise the fees for Electronic Complex Order executions, and (vii) include days when the Exchange closes early in the calculations for qualifications for monthly posting credits. The Exchange proposes to make the fee change operative on December 1, 2012.

Transaction Fees

Currently, the Exchange groups transaction fees for manual executions and electronic executions in Penny Pilot issues together on the Fee Schedule and transaction fees for electronic executions in non-Penny Pilot issues together on the Fee Schedule. The Exchange proposes to reorganize the presentation of transaction fees on the Fee Schedule so that manual execution fees are grouped together and electronic executions in Penny Pilot issues and non-Penny Pilot issues are grouped together. The Exchange believes that this is a clearer way to present these transaction fees. In addition, the Exchange proposes to separate the take liquidity rate for electronic executions in Penny Pilots issues into two subcategories: against a Customer and against a non-Customer.

For NYSE Arca Market Maker and Firm and Broker Dealer orders, the Exchange proposes to increase the take liquidity rate for executions in Penny Pilot issues against a

Customer from \$0.45 per contract to \$0.47 per contract. The Exchange does not propose to change any of the other current transaction fees in these categories.<sup>4</sup>

#### Customer Monthly Posting Credit Tiers

Currently, the Exchange provides a credit for OTP Holders and OTP Firms that meet certain customer monthly posting tiers for executions in Penny Pilot issues. These credits are generally based on meeting certain combined thresholds in contracts from Customer posted orders in Penny Pilot issues and Electronic Complex Orders.<sup>5</sup> The Exchange proposes not to count Electronic Complex Orders toward the Customer monthly posting credit tiers. The Exchange does not propose to amend any other credits or other requirements for these Customer monthly posting credit tiers.

#### Market Maker Monthly Posting Credit Tiers

The Exchange currently offers three Market Maker monthly posting credit tiers based on contracts from posted orders in Penny Pilot issues:

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<sup>4</sup> The Exchange proposes to amend endnote 5 accordingly to reflect the proposed reorganization of transaction fees and to replace the term “Standard Executions” with descriptions of “manual” and “electronic” executions. The Exchange notes that it has filed a separate proposed rule change that modifies endnote 5. The text of endnote 5 in the Exhibit 5 assumes that the previously filed proposed rule change is operative. See File No. SR-NYSEArca-2012-134.

<sup>5</sup> Customer Monthly Posting Tier 4 also can be met if the OTP Holder or OTP Firm has average electronic executions per day of 65,000 contracts combined from Customer posted orders in Penny Pilot issues and Electronic Complex Orders, including all account types and issues, plus 0.3% of U.S. Equity Market Share posted and executed on NYSE Arca Equity Market, including transaction volume from the OTP Holder’s or OTP Firm’s affiliates.

Tier	Qualification Basis (Average Electronic Executions Per Day)		Credit Applied to Posted Electronic Market Maker Executions in Penny Pilot Issues (except SPY)	Credit Applied to Posted Electronic Market Maker Executions in SPY
Base			(\$0.32)	(\$0.34)
Tier 1	30,000 Contracts from Market Maker Posted Orders in Penny Pilot Issues		(\$0.34)	(\$0.36)
Tier 2	80,000 Contracts from Market Maker Posted Orders in Penny Pilot Issues	150,000 Contracts Combined from Market Maker Posted Orders and Customer Electronic Posted Orders in Penny Pilot Issues (Includes transaction volume from the Market Maker's affiliates)	(\$0.38)	(\$0.40)
Tier 3	150,000 Contracts from Market Maker Posted Orders in Penny Pilot Issues		(\$0.40)	(\$0.42)

The Exchange proposes to replace these three tiers with one Super Tier that would require average electronic executions per day of 80,000 contracts from Market Maker posted orders in all issues or 200,000 liquidity adding and liquidity removing contracts combined from all orders in Penny Pilot issues, all account types, with at least 100,000 contracts from posted orders in Penny Pilot issues, including transaction volume from the Market Maker's affiliates. If a Market Maker meets either of the new Super Tier thresholds, the Market Maker would receive a credit of \$0.37 applied to posted electronic Market Maker executions in Penny Pilot issues

(except SPY) and a credit of \$0.39 applied to posted electronic Market Maker executions in SPY. In addition, the base credit applied to posted electronic Market Maker executions in SPY would be reduced from \$0.34 to \$0.32.

#### Electronic Complex Order Executions

Currently, the Exchange charges \$0.06 per contract side for Electronic Complex Order executions. Complex orders in non-Penny Pilot issues executed against individual orders in the Consolidated Book are subject to the standard execution rate (“Standard Execution Rate”) per contract. Complex orders in Penny Pilot issues executed against individual orders in the Consolidated Book are subject to the take liquidity rate (“Take Liquidity Rate”) per contract for that issue.

The Exchange proposes to modify the transaction fees for Electronic Complex Order executions based on order type: whether it is a Customer or non-Customer Electronic Complex Order and whether such order is in a Penny Pilot Issue or a non-Penny Pilot Issue. For a Customer Electronic Complex Order against a non-Customer Electronic Complex Order in Penny Pilot issues, the Customer would receive a \$0.39 credit per contract and the non-Customer would pay a \$0.50 fee per contract. In non-Penny Pilot issues, the Customer would receive a \$0.75 credit per contract and the non-Customer would pay a \$0.85 fee per contract. For a Customer Electronic Complex Order against a Customer Electronic Complex Order in all issues, there would be no transaction fee. For a non-Customer Electronic Complex Order against a non-Customer Electronic Complex Order, the non-Customer would pay a \$0.50 fee per contract in Penny Pilot issues and a \$0.85 fee per contract in non-Penny Pilot issues.

### Early Closing Days

Currently, the Exchange does not include days when the Exchange closes early in the calculations for qualifications for the Customer monthly posting credit tiers and the Market Maker monthly posting credit tiers, as set forth in endnote 8. The Exchange closes early on a small number of trading days each year, generally one to three days each year – July 3, the Friday following Thanksgiving, and December 24 – depending on the day of the week on which those days fall. For example, if in a given year July 3 and December 24 both fell on weekends, there would be only one scheduled early closing day for that year. In addition, when any holiday observed by the Exchange falls on a Saturday, the Exchange is not open on the preceding Friday and when any holiday observed by the Exchange falls on a Sunday, the Exchange is not open on the succeeding Monday. Accordingly, if in a given year July 4 fell on a Saturday, the Exchange would be closed on Friday, July 3, rather than have an early closing day. When an early closing day occurs, the Exchange is required to manually back out such day when calculating the credits described above in the affected months. The Exchange proposes to amend endnote 8 to include days when the Exchange closes early in the calculations for qualifications for monthly posting credits, which would affect the Customer monthly posting credit tiers and the proposed Market Maker monthly posting credit Super Tier.

The Exchange notes that the proposed changes are not otherwise intended to address any other issues, and the Exchange is not aware of any problems that OTP Holders and OTP Firms would have in complying with the proposed change.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>6</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act,<sup>7</sup> in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers. The Exchange also believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>8</sup> in particular, because 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 persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that reorganizing its transaction fees is reasonable because the Exchange believes that grouping the transaction fees by order type is a clearer way to present these transaction fees in the Fee Schedule. The Exchange believes that the proposed change is equitable and not unfairly discriminatory because it is designed to better organize the Fee Schedule, which will benefit all market participants equally.

The Exchange believes that raising the take liquidity rate for NYSE Market Maker, Firm and Broker Dealer electronic executions in Penny Pilot issues that take liquidity against a

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(4).

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

Customer is reasonable because resting Customer orders are considered less sophisticated order flow than resting non-Customer orders, which in turn attract non-Customers to take liquidity in such Customer orders rather than non-Customer orders. The Exchange believes that the proposed change is reasonable because it will encourage NYSE Arca Market Makers, Firms, and Broker Dealers to take resting non-Customer orders. The Exchange believes that it is reasonable to charge less for Lead Market Maker (“LMM”) electronic executions in Penny Pilot issues that take liquidity against a Customer because LMMs have higher quoting obligations and often have order flow arrangements with Customers that they must maintain, therefore it is reasonable to charge a lower fee to LMMs in order to encourage LMMs to take posted Customer liquidity. In addition, the Exchange believes that it is equitable and not unfairly discriminatory to charge less for LMM electronic executions in Penny Pilot issues that take liquidity against a Customer because only LMMs are required to pay a monthly Rights fee per issue, which increases based on the average national daily customer contracts, and the Rights fee for Penny Pilot issues are usually higher because such issues are the most active. The Exchange believes that it is reasonable to charge less for Customer electronic executions in Penny Pilot issues that take liquidity against a Customer because it would continue to encourage Customer order flow, which is beneficial to all market participants. The Exchange believes that the proposed change is equitable and not unfairly discriminatory because NYSE Market Makers, Firms, and Broker Dealers can use Arca Book to see if there is a Customer resting order at the top of the Consolidated Book, and avoid taking liquidity against such order. In addition, the Exchange believes it is equitable and not unfairly discriminatory to charge a lower fee to LMMs because they make significant contributions to market quality by providing higher volumes of liquidity. The Exchange believes that it is equitable and not unfairly discriminatory to charge a lower fee



to Customers, because they are less sophisticated than non-Customers and the proposed change will continue to attract a high level of Customer order flow, which benefits both Customers and non-Customers.

The Exchange believes that not counting Electronic Complex Orders toward Customer monthly posting credit tiers is reasonable because it is designed to attract higher levels of Customer posted orders in Penny Pilot issues. In addition, the Exchange believes that the proposed change is reasonable because it is not changing any of the credits offered. The Exchange believes that the proposed change is equitable and not unfairly discriminatory because the credit tiers are open to all OTP Holders and OTP Firms on an equal basis and would continue to provide credits that are reasonably related to the value to the Exchange's market quality associated with higher volumes in Customer posted orders in Penny Pilot issues.

The Exchange believes that replacing the Market Maker monthly posting credit tiers with one Super Tier is reasonable because it simplifies the monthly posting credit tiers and encourages Market Makers to post greater volumes in all issues, including non-Penny Pilot issues. In addition, the proposed change is reasonable because it would incent OTP Holders and OTP Firms that have a Market Making presence in addition to a proprietary or agency order flow presence to provide greater order flow in Penny Pilot issues. The Exchange believes that the proposed change is equitable and not unfairly discriminatory because it would provide more than one way for Market Makers to achieve the proposed credits—either by providing high levels of Market Maker posted orders in all issues or high levels of orders in Penny Pilot issues by the Market Maker and its affiliates. In addition, the proposed credits are reasonably related to the value to the Exchange's market quality associated with higher volumes in Market Maker posted orders and orders in Penny Pilot issues.

The Exchange believes that lowering the base credit applied to posted electronic Market Maker executions in SPY is reasonable because the current higher credit did not attract [sic] the anticipated additional volume in SPY, and it is the same credit previously offered by the Exchange. The Exchange also believes that lowering the base credit applied to posted electronic market maker executions in SPY is equitable and not unfairly discriminatory because it would impact all Market Makers equally and is offset by providing an additional credit for posted electronic Market Maker executions in SPY that meet the Super Tier threshold.

The Exchange believes that revising the fees for Electronic Complex Order executions is reasonable because the Exchange believes that it would encourage increased Customer flow in Electronic Complex Orders whereas the Exchange believes that the current flat rate does not incent additional trading. In addition, the proposed fees and credits are competitive with fees and credits on at least one other exchange.<sup>9</sup> The Exchange also believes that the non-Customer fees for Electronic Complex Orders are reasonable because they are consistent with the take liquidity rates for non-Customers that execute against individual orders in Penny Pilot and non-Penny Pilot issues. The Exchange believes that the proposed change is equitable and not unfairly discriminatory because it is designed to attract Customer Electronic Complex Order flow, which ultimately benefits all market participants. In addition, the Exchange believes that the non-Customer fees for Electronic Complex Order executions are equitable and not unfairly discriminatory because all non-Customers will be assessed the same fee.

The Exchange believes that including days when the Exchange closes early in the calculations for qualifications for monthly posting credits is reasonable because it is not expected

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<sup>9</sup> See International Securities Exchange Schedule of Fees as of November 6, 2012, available at [http://www.ise.com/assets/documents/OptionsExchange/legal/fee/fee\\_schedule.pdf](http://www.ise.com/assets/documents/OptionsExchange/legal/fee/fee_schedule.pdf).

to have a material impact on OTP Holders, OTP Firms, or Market Makers. The Exchange generally closes early on only one to three days a year, which generally affects a maximum of three billing months (July, November, and December) and may only impact one or two billing months if July 3 or December 24 occur on weekends or observed holidays when the Exchange is otherwise closed. The change would have no impact on the credit calculations for the other months. In addition, the proposed change is reasonable because it would streamline credit calculations because the Exchange and OTP Holders, OTP Firms, and Market Makers that track their performance during the month would no longer be required to back out transactions from early closing days. The Exchange believes the proposed change is equitable and not unfairly discriminatory because all similarly situated OTP Holders, OTP Firms, and Market Makers would be subject to the same fee structure. In addition, trading activity is generally lower on early closing days, so the Tier 4 Customer monthly posting credit, which is based on a threshold percentage of trading activity, would adjust automatically. Credit tiers based on a fixed threshold, including the Tier 1, 2, and 3 Customer monthly posting credit and the Super Tier Market Maker monthly posting credit, would be minimally impacted and OTP Holders, OTP Firms, and Market Makers would still benefit from the streamlined process for calculating trading activity during the month.

The Exchange believes that the proposed changes bring better organization to the Fee Schedule and are designed to incent all market participants, thereby removing impediments to and perfecting the mechanism of a free and open market system. In addition, for the reasons stated above, the proposed changes are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

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 that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

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

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)<sup>10</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>11</sup> thereunder, because it establishes a due, fee, or other charge imposed by NYSE Arca.

At any time within 60 days of the filing of such 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.

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

<sup>11</sup> 17 CFR 240.19b-4(f)(2).

#### 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-NYSEArca-2012-137 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-NYSEArca-2012-137. 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 such 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-NYSEArca-2012-137, 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).