

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-91936; File No. SR-NYSEArca-2021-41)

May 19, 2021

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify 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 May 12, 2021, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) 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 Substance of the Proposed Rule Change

The Exchange proposes to modify the NYSE Arca Options Fee Schedule (“Fee Schedule”) to adopt a new incentive program for Floor Brokers. The Exchange proposes to implement the fee change effective May 12, 2021.<sup>4</sup> 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.

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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.

<sup>4</sup> The Exchange originally filed to amend the Fee Schedule on May 3, 2021 (SR-NYSEArca-2021-35) and withdrew such filing on May 12, 2021.

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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this filing is to modify the Fee Schedule to introduce the Floor Broker Professional Customer Manual Program (the "Program"), a new incentive program intended to encourage Floor Brokers to increase their Professional Customer billable volume on the Exchange.<sup>5</sup>

Specifically, the Exchange proposes that the Program would offer Floor Brokers a credit of \$0.13 on each billable Professional Customer contract that exceeds a baseline average daily volume ("ADV") for the month, as specified below.

The Exchange proposes to implement the rule change on May 12, 2021. The Exchange further proposes that the Program expire at the close of business on June 30, 2021.

Proposed Rule Change

As proposed, the Program would provide that a Floor Broker would earn a credit of \$0.13 per contract (the "Credit") for Professional Customer volume in each month that the Floor Broker achieves certain Professional Customer ADV in billable ADV. The Exchanges proposes

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<sup>5</sup> See proposed Fee Schedule, FB PROFESSIONAL CUSTOMER MANUAL PROGRAM.

that the calculation of Professional Customer ADV for purposes of the Program will include Manual executions by a Floor Broker on behalf of a Professional Customer, but exclude any Professional Customer QCC volume, Firm Facilitation trades, and any volume calculated to achieve the Strategy Execution Fee Cap (regardless of whether the cap is achieved).<sup>6</sup> That is, any volume (or contract side) for which a Floor Broker is (potentially) not billed, including because of monthly fee caps, would not count towards qualifying for the Program because Floor Brokers are already eligible for incentives to execute such transactions.

To qualify for the proposed Program, a Floor Broker must execute 60% over the greater of:

- (i) 20,000 ADV in contract sides, or
- (ii) the Floor Broker's Professional Customer Manual Transaction ADV in contract sides during the second half of 2020 (i.e., July - December 2020).<sup>7</sup>

The Exchange believes that a qualifying threshold of 60% over 20,000 contract sides in Professional Customer Manual Transaction ADV is reasonable for a Floor Broker, including one that may be new to the Exchange, to achieve based on the volume executed by Floor Brokers in 2020. Similarly, the Exchange believes that the alternative threshold of a 60% increase over a Floor Broker's Professional Customer Manual Transaction ADV in contract sides during the second half of 2020 is reasonable for those Floor Brokers that achieve more than 20,000 ADV billable contract sides, given the increased options volume executed by Floor Brokers in the past year.

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<sup>6</sup> See id.

<sup>7</sup> See id.

The Exchange believes the proposed Credit would encourage Floor Brokers to seek out, and increase, Professional Customer order flow for execution on the Exchange. The Exchange's fees are constrained by intermarket competition, as OTP Holders and OTP Firms (collectively, "OTP Holders") may direct their order flow to any of the 16 options exchanges, including those that may offer similar incentives. Thus, OTP Holders have a choice of where they direct their order flow. Fees and credits for Floor Broker activity are designed to encourage Floor Brokers to execute a variety of transaction types on the Exchange, and the Program is intended to augment those fees and credits by offering an incentive to encourage the execution of Professional Customer billable volume. The Exchange notes that all market participants stand to benefit from any increase in billable volume by Floor Brokers, which promotes market depth, facilitates tighter spreads, and enhances price discovery, and may lead to a corresponding increase in order flow from other market participants.

The Exchange proposes that the Program expire at the close of business on June 30, 2021 because, among other reasons, the Exchange cannot predict with certainty whether the proposed Program will achieve its intended goal of incentivizing Floor Brokers to increase their Professional Customer billable volume on the Exchange. However, the Exchange notes that all Floor Brokers have the opportunity to qualify for the Credit available through the Program, and the Exchange believes that the proposed alternative thresholds to qualify for the Credit are attainable by Floor Brokers, as described above.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of

the Act,<sup>8</sup> in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,<sup>9</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 Proposed Rule Change is Reasonable

The Exchange operates in a highly competitive market. The Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”<sup>10</sup>

There are currently 16 registered options exchanges competing for order flow. Based on publicly-available information, and excluding index-based options, no single exchange has more than 16% of the market share of executed volume of multiply-listed equity and ETF options trades.<sup>11</sup> Therefore, currently no exchange possesses significant pricing power in the execution of multiply-listed equity & ETF options order flow. More specifically, in March 2021, the Exchange had less than 11% market share of executed volume of multiply-listed equity & ETF

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

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

<sup>10</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (S7-10-04) (“Reg NMS Adopting Release”).

<sup>11</sup> The OCC publishes options and futures volume in a variety of formats, including daily and monthly volume by exchange, available here: <https://www.theocc.com/Market-Data/Market-Data-Reports/Volume-and-Open-Interest/Monthly-Weekly-Volume-Statistics>.

options trades.<sup>12</sup>

The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow or discontinue or reduce use of certain categories of products, in response to fee changes. Accordingly, competitive forces constrain options exchange transaction fees. Stated otherwise, changes to exchange transaction fees can have a direct effect on the ability of an exchange to compete for order flow.

The Exchange believes that the proposed Program, which offers two alternative methods to qualify, is reasonable because it is designed to incent Floor Brokers to increase the amount of Professional Customer billable order flow directed to the Exchange. The Exchange notes that all market participants stand to benefit from any increase in billable volume by Floor Brokers, which promotes market depth, facilitates tighter spreads and enhances price discovery, and may lead to a corresponding increase in order flow from other market participants.

The Exchange's fees and credits for Floor Broker activity are designed to encourage Floor Brokers to execute a variety of transaction types on the Exchange, and the Program is intended to augment those fees and credits with an incentive to encourage Floor Brokers to execute Professional Customer billable volume. The Exchange believes it is reasonable to only include Professional Customer transactions for which a Floor Broker is billed in the calculation of eligible volume for the Program because Floor Brokers are already incented to execute transactions for which there is no charge (e.g., Firm Facilitation trades) or those on which

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<sup>12</sup> Based on OCC data for monthly volume of equity-based options and monthly volume of ETF-based options, see id., the Exchange's market share in equity-based options decreased slightly from 11.10% for the month of March 2020 to 10.16% for the month of March 2021.

monthly fees are capped (e.g., the Strategy Execution Fee Cap).

Finally, to the extent the proposed Program attracts greater volume and liquidity, the Exchange believes the proposed change would improve the Exchange's overall competitiveness and strengthen its market quality for all market participants. In the backdrop of the competitive environment in which the Exchange operates, the proposed rule change is a reasonable attempt by the Exchange to increase the depth of its market and improve its market share relative to its competitors. The proposed rule change is designed to incent OTP Holders to direct liquidity to the Exchange, thereby promoting market depth, price discovery and improvement and enhancing order execution opportunities for market participants.

The Proposed Rule Change is an Equitable Allocation of Credits and Fees

The Exchange believes the proposed rule change is an equitable allocation of its fees and credits. The proposal is based on the amount and type of business transacted on the Exchange, and Floor Brokers can opt to attempt to trade sufficient volume to qualify for the Credit or not. All Floor Brokers have the opportunity to qualify for the same Credit under two alternatives means offered (i.e., the greater of at least 60% over 20,000 contract sides in Professional Customer Manual billable ADV or a 60% increase over the Floor Broker's Professional Customer Manual billable ADV in contract sides during the second half of 2020).

Moreover, the proposed Credit is designed to incent Floor Brokers to encourage OTP Holders to aggregate their executions -- particularly Professional Customer billable volume -- at the Exchange as a primary execution venue. To the extent that the proposed change attracts more Professional Customer billable volume to the Exchange, this increased order flow would continue to make the Exchange a more competitive venue for, among other things, order execution. Thus, the Exchange believes the proposed rule change would improve market quality

for all market participants on the Exchange and, as a consequence, attract more order flow to the Exchange thereby improving market-wide quality and price discovery.

#### The Proposed Rule Change is Not Unfairly Discriminatory

The Exchange believes that the proposed change is not unfairly discriminatory because the Program and Credit thereunder would be available to all Floor Brokers on an equal and non-discriminatory basis. The proposed Program is not unfairly discriminatory to non-Floor Brokers because it is intended to encourage the important role performed by Floor Brokers in facilitating the execution of orders via open outcry and providing opportunities to obtain price improvement, a function which the Exchange wishes to support for the benefit of all market participants.

The proposed Program is also based on the amount and type of business transacted on the Exchange, and Floor Brokers are not obligated to try to qualify for the Program. Rather, the proposed Program is designed to encourage these participants to utilize the Exchange as a primary trading venue (if they have not done so previously) or increase Professional Customer Manual billable volume sent to the Exchange. To the extent that the proposed change attracts more order flow to the Exchange (and, specifically, to the Floor), this increased order flow would continue to make the Exchange a more competitive venue for order execution. Thus, the Exchange believes the proposed rule change would improve market quality for all market participants on the Exchange and, as a consequence, attract more order flow to the Exchange thereby improving market-wide quality and price discovery. The resulting increased volume and liquidity would provide more trading opportunities and tighter spreads to all market participants and thus would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest.



Finally, the Exchange believes that it is subject to significant competitive forces, as described below in the Exchange's statement regarding the burden on competition.

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

In accordance with Section 6(b)(8) of the Act, the Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Instead, as discussed above, the Exchange believes that the proposed changes would be consistent with charges for similar business at other markets. As a result, the Exchange believes that the proposed changes further the Commission's goal in adopting Regulation NMS of fostering integrated competition among orders, which promotes "more efficient pricing of individual stocks for all types of orders, large and small."<sup>13</sup>

*Intramarket Competition.* The proposed Credit is designed to assist Floor Brokers in (continuing to) attract additional Professional Customer order flow to the Exchange, and, specifically, to the Floor, which would enhance the quality of quoting and may increase the volumes of contracts traded on the Exchange. To the extent that the proposed change imposes an additional competitive burden on non-Floor Brokers, the Exchange believes that offering an incentive to Floor Brokers via the proposed Program does not constitute an undue burden on competition in light of Floor Brokers' role in facilitating the execution of orders via open outcry and providing market participants with opportunities for price improvement.

To the extent that this function is achieved, all of the Exchange's market participants should benefit from the improved market liquidity. Enhanced market quality and increased transaction volume that results from the anticipated increase in order flow directed to the Exchange will benefit all market participants and improve competition on the Exchange.

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<sup>13</sup> See Reg NMS Adopting Release, supra note 10, at 37499.

*Intermarket Competition.* The Exchange operates in a highly competitive market in which market participants can readily favor one of the 16 competing option exchanges if they deem fee levels at a particular venue to be excessive. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and to attract order flow to the Exchange. Based on publicly-available information, and excluding index-based options, no single exchange currently has more than 16% of the market share of executed volume of multiply-listed equity and ETF options trades.<sup>14</sup> Therefore, no exchange currently possesses significant pricing power in the execution of multiply-listed equity & ETF options order flow. More specifically, in March 2021, the Exchange had less than 11% market share of executed volume of multiply-listed equity & ETF options trades.<sup>15</sup>

The Exchange believes that the proposed Credit reflects this competitive environment because it modifies the Exchange's fees in a manner designed to incent Floor Brokers to direct trading interest to the Exchange, to provide liquidity and to attract order flow. To the extent that this purpose is achieved, all the Exchange's market participants should benefit from the improved market quality and increased opportunities for price improvement.

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. The Exchange also believes that the proposed change

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<sup>14</sup> See supra note 11.

<sup>15</sup> Based on OCC data for monthly volume of equity-based options and monthly volume of ETF-based options, supra note 11, the Exchange's market share in equity-based options decreased slightly from 11.10% for the month of March 2020 to 10.16% for the month of March 2021.

could promote competition between the Exchange and other execution venues by encouraging additional orders to be sent to the Exchange (and, specifically, to the Floor) for execution.

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>16</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>17</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>18</sup> of the Act to determine whether the proposed rule change 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

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

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

<sup>18</sup> 15 U.S.C. 78s(b)(2)(B).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2021-41 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-NYSEArca-2021-41. 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-NYSEArca-2021-41, 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>19</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).