

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70969; File No. SR-Phlx-2013-114)

December 3, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Customer Rebate Program

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 25, 2013, NASDAQ OMX PHLX LLC (“Phlx” 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 Customer Rebate Program in Section B of the Pricing Schedule.

The text of the proposed rule change is available on the Exchange’s website at <http://nasdaqomxphlx.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 Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below,

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

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

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 Exchange proposes to increase certain Customer rebates in the “Customer Rebate Program,” in Section B of the Pricing Schedule to provide members an opportunity to receive higher Customer rebates.

Currently, the Exchange has a Customer Rebate Program consisting of four tiers which pays Customer rebates on two Categories, A<sup>3</sup> and B,<sup>4</sup> of transactions.<sup>5</sup> A Phlx member qualifies for a certain rebate tier based on the percentage of total national customer volume in multiply-listed options which it transacts monthly on Phlx. The Exchange calculates Customer volume in Multiply Listed Options by totaling electronically-delivered and executed volume, except volume associated with electronic Qualified Contingent Cross (“QCC”) Orders,<sup>6</sup> as defined in

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<sup>3</sup> Category A rebates are paid to members executing electronically-delivered Customer Simple Orders in Penny Pilot Options and Customer Simple Orders in Non-Penny Pilot Options in Section II of the Pricing Schedule. Rebates are paid on Customer PIXL Orders in Section II symbols that execute against non-Initiating Order interest, except in the case of Customer PIXL Orders that are greater than 999 contracts. All Customer PIXL Orders that are greater than 999 contracts are paid a rebate regardless of the contra party to the transaction.

<sup>4</sup> Category B rebates are paid to members executing electronically-delivered Customer Complex Orders in Penny Pilot Options and Non-Penny Pilot Options in Section II. Rebates are paid on Customer PIXL Complex Orders in Section II symbols that execute against non-Initiating Order interest, except in the case of Customer PIXL Complex Orders that are greater than 999 contracts. All Customer PIXL Complex Orders that are greater than 999 contracts are paid a rebate regardless of the contra-party to the transaction.

<sup>5</sup> See Section B of the Pricing Schedule.

<sup>6</sup> A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and

Exchange Rule 1080(o).<sup>7</sup> Today, the Exchange pays the following rebates:<sup>8</sup>

<b>Customer Rebate Tiers</b>	<b>Percentage Thresholds of National Customer Volume in Multiply-Listed Equity and ETF Options Classes, excluding SPY Options (Monthly)</b>	<b>Category A</b>	<b>Category B</b>
Tier 1	0.00% - 0.75%	\$0.00	\$0.00
Tier 2	Above 0.75% - 1.60%	\$0.12	\$0.17
Tier 3	Above 1.60% - 2.50%	\$0.14	\$0.17
Tier 4	Above 2.50%	\$0.15	\$0.17

The Exchange is proposing to amend the Customer Rebates in both Categories A and B in Tiers 3 and 4 to increase the rebates by \$0.02 per contract. The proposed Tier 3 Category A rebate would be increased from \$0.14 to \$0.16 per contract. The proposed Tier 3 Category B rebate would be increased from \$0.17 to \$0.19 per contract. The proposed Tier 4 Category A

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Offer and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of the Regulation NMS).

<sup>7</sup> Members and member organizations under common ownership may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving rebates. Common ownership means members or member organizations under 75% common ownership or control.

<sup>8</sup> SPY is included in the calculation of Customer volume in Multiply Listed Options that are electronically-delivered and executed for purposes of the Customer Rebate Program, however, the rebates do not apply to electronic executions in SPY.

rebate would be increased from \$0.15 to \$0.17 per contract. The proposed Tier 4 Category B rebate would be increased from \$0.17 to \$0.19 per contract.

The Exchange also proposes to amend Tier 2, Categories A and B, to pay a \$0.02 per contract rebate in addition to the applicable Tier 2 rebate to a Specialist or Market Maker, or its affiliate under Common Ownership,<sup>9</sup> provided the Specialist or Market Maker has reached the Monthly Market Maker Cap<sup>10</sup> as defined in Section II. The Exchange believes that offering higher Tier 2, 3 and 4 rebates will encourage market participants to direct a greater number of Customer orders to the Exchange.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>11</sup> in general, and with Section 6(b)(4) and 6(b)(5) of the Act,<sup>12</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 the Exchange operates or controls, and is not designed to permit unfair discrimination between customers, issuers,

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<sup>9</sup> The term “Common Ownership” means members or member organizations under 75% common ownership or control.

<sup>10</sup> Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations is aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in this Section II) are excluded from the Monthly Market Maker Cap. In addition, Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap are assessed a \$0.17 per contract fee.

<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b)(4) and (5).

brokers, or dealers.

The Exchange believes that its proposal to increase the Customer rebates in Tiers 3 and 4 in Categories A and B by \$0.02 per contract is reasonable because it will attract a larger amount of Customer liquidity to the Exchange. Today, Phlx offers members certain Customer rebates to encourage Phlx member organizations to direct Customer order flow to the Exchange, and the proposal will provide an additional incentive for Customer order flow. Customer liquidity benefits all market participants by providing more trading opportunities, which attract Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants.

The Exchange believes that its proposal to increase the Customer rebates in Tiers 3 and 4 in Categories A and B by \$0.02 per contract is equitable and not unfairly discriminatory because it will be applied to all market participants in a uniform matter. All members are eligible to receive the rebate provided they submit a qualifying number of electronic Customer volume.

The Exchange believes that its proposal to pay a \$0.02 per contract rebate in addition to the applicable Tier 2 rebate to a Specialist or Market Maker, or its affiliate under Common Ownership, provided the Specialist or Market Maker has reached the Monthly Market Maker Cap is reasonable because the Exchange intends to encourage Specialists and Market Makers to transact Customer orders on the Exchange to receive the enhanced rebate.

The Exchange believes that its proposal to pay a \$0.02 per contract rebate in addition to the applicable Tier 2 rebate to a Specialist or Market Maker, or its affiliate under Common Ownership, provided the Specialist or Market Maker has reached the Monthly Market Maker Cap is equitable and not unfairly discriminatory because unlike other market participants,

Specialists and Market Makers have burdensome quoting obligations<sup>13</sup> to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. Additionally, Specialists and Market Makers incur costs unlike other market participants including, but not limited to, PFOF and other costs associated with market making activities,<sup>14</sup> which results in a higher average cost per execution as compared to Firms, Broker-Dealers and Professionals. The proposed differentiation as between Specialists and Market Makers as compared to other market participants recognizes the differing contributions made to the trading environment on the Exchange by these market participants. The Exchange is continuing to offer the Tier 2 rebate to all market participants.

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

The Exchange does not believe that the proposed rule change will impose an undue burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the Customer Rebate Program will continue to encourage Customer order flow to be directed to the Exchange. By incentivizing members to route Customer orders, the Exchange desires to attract liquidity to the Exchange, which in turn benefits all market participants. All market participants are eligible to qualify for a Customer Rebate. The Exchange believes this pricing amendment does not impose a burden on competition but rather that the proposed rule change will continue to promote competition on the Exchange.

The Exchange does not believe that offering Specialists and Market Makers an enhanced

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<sup>13</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

<sup>14</sup> Specialists and Market Makers pay for certain data feeds including the SQF Port Fee. SQF Port Fees are listed in the Exchange's Pricing Schedule at Section VII. SQF is an interface that allows Specialists and Market Makers to connect and send quotes into Phlx XL and assists them in responding to auctions and providing liquidity to the market.

rebate of \$0.02 per contract in addition to the applicable Tier 2 rebate creates an undue burden on competition because Specialists and Market Makers have burdensome quoting obligations<sup>15</sup> to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace.

The Exchange operates in a highly competitive market, comprised of twelve options exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates to be inadequate. Accordingly, the fees that are assessed and the rebates paid by the Exchange described in the above proposal are influenced by these robust market forces and therefore must remain competitive with fees charged and rebates paid by other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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>16</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

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<sup>15</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

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-Phlx-2013-114 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-Phlx-2013-114. 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

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



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-Phlx-2013-114 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>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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