Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Standard Options Transaction Fees

Pursuant to Section 19(b)(1)\(^1\) of the Securities Exchange Act of 1934 (the “Act”)\(^2\) and Rule 19b-4 thereunder,\(^3\) notice is hereby given that, on March 27, 2013, 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Standard Options Transaction Fees. The text of the proposed rule change is available on the Exchange’s website at 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 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.

\(^3\) 17 CFR 240.19b-4.
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 transaction charges for executing standard options trades on NYSE Arca. The Exchange proposes to raise the Take Liquidity Rate in both Penny Pilot Issues and non-Penny Pilot issues, while reducing the Post Liquidity credit for NYSE Arca Market Makers in non-Penny Pilot issues. The Exchange also proposes to modify the Customer Monthly Posting Credit Tiers and Qualifications to provide additional tiers to incent an increased level of Customer activity, and create new Tiers for a similar increase in Customer activity by providing higher Post Liquidity credits in non-Penny Pilot issues.

First, the Exchange proposes to no longer differentiate the Take Liquidity rate by contra party, so that a participant will have a single fee for Taking Liquidity in Penny Pilot issues. The Exchange proposes to raise the Take Liquidity rate for all non-Customers trading in Penny Pilot issues to $0.47 per contract.

Similarly, the Exchange proposes raising the Take Liquidity fee for Electronic Executions in non-Penny Pilot issues for all participants, with similar increases but differentiated fees by participant type. The Take Liquidity fee for LMMs trading in non-Penny Pilot issues will be increased from $0.78 to $0.84. The Take Liquidity fee for all NYSE Arca Market Makers will also increase to $0.84, from the current $0.80. The Take Liquidity fee for Firm and Broker Dealer transactions in non-Penny Pilot issues will increase from $0.85 to $0.87, while the Take Liquidity fee in non-Penny Pilot issues for Customers will increase from $0.79 to $0.82.

The Exchange proposes to modify the Post Liquidity rate for NYSE Arca Market Makers in non-Penny Pilot issues by reducing it to a credit of $0.05.
The increases in various Take Liquidity rates and the reduction of the Post Liquidity credit for NYSE Arca Market Makers in non-Penny Pilot issues is to provide sufficient funding for various Customer Post Liquidity credits.

NYSE Arca proposes to modify the Customer Monthly Posting Credit Tiers and Qualifications for Executions in Penny Pilot Issues. First, the Exchange proposes to eliminate the first and third qualification requirements for Tier 4. Secondly, the Exchange proposes to reduce the level of activity needed to meet the current second qualification for Tier 4 from 0.95% to 0.85% of Total Industry Customer equity and ETF option Average Daily Volume (ADV) from Posted Orders in Penny Pilot Issues, all account types. Thirdly, the Exchange proposes to add Tier 5 with a credit of $0.45 to be applied to posted electronic Customer executions in Penny Pilot issues. To earn the new Tier 5 credit, a firm must qualify by providing “At least 0.50% of Total Industry Customer equity and ETF option ADV from Customer Posted Orders in both Penny Pilot and non-Penny Pilot Issues, plus executed ADV of Retail Orders of 0.3% of U.S. Equity Market Share Posted and Executed on NYSE Arca Equity Market”. The Exchange also proposes an additional Tier, Tier 6, with a qualification of “At least 0.95% of Total Industry Customer equity and ETF option ADV from Customer Posted Orders in both Penny Pilot and non-Penny Pilot Issues”, with a credit for meeting the qualification of $0.47 per contract applied to posted electronic executions in Penny Pilot issues.

The Exchange also proposes the creation of Customer Posting Credit Tiers in Non-Penny Pilot Issues with two Tiers to receive a higher credit to be applied to posted electronic Customer executions in non-Penny Pilot issues. To qualify for the first tier, Tier A, an Order Flow Provider would need to provide “At least 0.50% of Total Industry Customer equity and ETF option ADV from Customer Posted Orders in both Penny Pilot and Non-Penny Pilot Issues Plus
executed ADV of Retail Orders of 0.3% ADV of U.S. Equity Market Share Posted and Executed on NYSE Arca Equity Market”, the same criterion as Tier 5 in the Customer Posted Liquidity Credits for Penny Pilot issues. Meeting the qualifications for Tier A will provide a credit applied to posted electronic Customer executions in non-Penny Pilot issues of $0.80.

The qualification basis for Tier B would be the same as for the new Tier 6 in the Customer Tiers for Posting Credits in Penny Pilot Issues: at least 0.95% of Total Industry Customer equity and ETF option ADV from Customer posted orders in both Penny Pilot and non-Penny Pilot issues. Order Flow Provider (“OFP”) firms that meet the qualification would, in addition to the higher tier in Penny Pilot issues, also receive a credit of $0.81 applied to posted electronic executions in non-Penny Pilot names.

The changes to various Customer Post Liquidity credit tiers, and the creation of the new Customer Posting Credit Tiers in Non-Penny Pilot Issues, are to encourage additional Customer order flow to be sent to the Exchange.

NYSE Arca also proposes additional language in endnote 8, to define Retail Orders. A Retail Order must qualify for the Retail Order Tier set forth in the Schedule of Fees and Charges for NYSE Arca Equities, Inc.

NYSE Arca intends for the new fees to be in effect on April 1, 2013.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,4 in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,5 in particular, because it provides for the equitable allocation of reasonable dues, fees, and other

5 15 U.S.C. 78f(b)(4) and (5).
charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange proposal to raise certain Take Liquidity fees in Penny Pilot issues is reasonable in that all of the non-Customer rates are being raised to a rate that is already applied to certain transactions in Penny Pilot issues. While the rate for Customers will remain at a slightly lower level, this is not unfairly discriminatory, as non-Customers want to attract Customer order flow, and Customers have other costs, such as commissions, which are not charged to non-Customers.

The Exchange proposal to raise the Take Liquidity fees in non-Penny Pilot names is reasonable because they are within the established range of similar fees charged by other markets. One exchange charges a Take Liquidity fee of as much as $0.89 per contract. In addition, the increase in Take Liquidity fees is also non-discriminatory because the Exchange is making a similar increase for all participant types. While the fees are not identical, they are equitable in that the increases are by similar amounts, and the resultant fees are differentiated by the overall costs and obligations of the different participants. The Exchange will now be charging the same Take Liquidity rate to both Market Makers and LMMs. While the rate for Firms and Broker Dealers is slightly higher, it is not unreasonably discriminatory because Market Makers have higher fees for Trading Permits and have market maker obligations which require them to pay for equipment and connectivity. Customers will pay a slightly lower Take Liquidity rate because Customers have other costs not borne by non-Customers, and a lower fee for Customers is not discriminatory because non-Customers wish to have Customer orders attracted to the Exchange by having lower fees.
The Exchange proposal to reduce the Post Liquidity credit in non-Penny Pilot issues for NYSE Market Makers is reasonable in that the range of fees for Market Maker transactions in non-Penny Pilot issues varies across all market centers from a credit of $0.70 to a fee of $0.85. It is not unfairly discriminatory as different market participants have different costs and obligations. It is not unfairly discriminatory to have a higher Post Liquidity credit for Lead Market Makers as compared to other NYSE Arca Market Makers because LMMs have a higher quoting obligation and higher costs and there are barriers to entry and exit of appointment as an LMM that are not imposed on other Market Makers.

The NYSE Arca proposal to modify the Customer Monthly Posting Credit Tiers and Qualifications in Penny Pilot issues is reasonable in that it sets credits within the range of credits offered for similar Customer activity on other markets, which range as high as $0.48. It is not unreasonably discriminatory to set credit tiers to incent higher amounts of Customer volume, as non-Customers wish to have Customer orders attracted to the Exchange by having more attractive fees. The differing Credit Tiers are not unreasonably discriminatory amongst various OFPs because, while firms may be allowed to meet some tiers with a variety of sources, most of the incentive levels can still be met by an Order Flow Provider whose business consists only of Customer order flow. And while the new Tier 5 is available for Order Flow Firms who also have an Equity Trading Permit (“ETP”), those firms who only have an Options Trading Permit may still achieve the highest tier and greatest Customer Posting Credit by meeting a reasonable level of market share and including all options volume, from both Penny Pilot and non-Penny Pilot issues, to meet that market share level.

Additionally, the NYSE Arca creation of new Customer Posting Credit Tiers in non-Penny Pilot issues is reasonable and non-discriminatory in that it extends upon the common and
reasonable concept of rewarding higher Customer volume with higher Post Liquidity credits by applying it to non-Penny Pilot issues. As stated before, it is not unreasonably discriminatory to set credit tiers to incent higher amounts of Customer volume, as non-Customers wish to have Customer orders attracted to the Exchange by having more attractive fees. As with Customer Tier 6 in the Customer Monthly Posting Credit Tiers and Qualifications in Penny Pilot issues, those firms who only have an Options Trading Permit may still achieve Tier B and the greatest Customer Posting Credit by meeting a reasonable level of market share and including all options volume, from both Penny Pilot and non-Penny Pilot issues, to meet that market share level.

In addition, the Exchange believes that the addition of the proposed language in end note 8 to define Retail Orders, which refers to qualification for the Retail Order Tier set forth in the Schedule of Fees and Charges for NYSE Arca Equities, Inc., will provide clarifying language to investors regarding calculation of ADV executed on NYSE Arca Equity Market, for purposes of the proposed charges.

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.

The Exchange believes that the new Take Liquidity rates in Penny Pilot issues does not impose a burden on competition because it sets the same rate for all non-Customer participants, regardless of contra party.

Similarly, by raising all of the Take Liquidity rates for non-Penny Pilot issues by similar amounts, the new Take Liquidity fees for non-Penny Pilot issues do not impose a burden on competition because all participants are affected to the same extent.
In addition, the adjustment of the NYSE Arca Market Maker Post Liquidity rate in non-Penny Pilot issues reduces the burden on competition because it aligns the NYSE Market Maker rate to an equitable balance that reflects both the higher costs of being a Lead Market Maker and the lower overall costs of other non-Customers.

The Exchange notes that the modifications to the Customer Monthly Credit Tiers and Qualifications reduces the burden on competition by providing additional incentives for Customers to bring orders to the Exchange. This incents competition because non-Customers wish to have Customer orders attracted to the Exchange by having attractive fees and incentives.

Similarly, the creation of new Customer Posting Credit Tiers for higher Customer credits in non-Penny Pilot issues does not impose a burden on competition but incents additional order flow to come to NYSE Arca and will increase competition amongst non-Customers to trade against Customer orders.

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.

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) of the

Act and subparagraph (f)(2) of Rule 19b-4\(^7\) 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)\(^8\) 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2013-36 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-2013-36. 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-NYSEArca-2013-36 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.  

Kevin M. O’Neill  
Deputy Secretary

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