

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70818; File No. SR-NYSEArca-2013-114)

November 6, 2013

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the NYSE Arca Options Fee Schedule Regarding the Applicable Lead Market Maker Rights Fee for Low-Volume Issues

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 October 31, 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend the NYSE Arca Options Fee Schedule (“Fee Schedule”) regarding the applicable Lead Market Maker (“LMM”) rights fee for low-volume issues within the first six months of being listed on the Exchange. 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

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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.

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the Fee Schedule regarding the applicable LMM rights fee for low-volume issues within the first six months of being listed on the Exchange. The Exchange proposes to implement the fee change effective November 1, 2013.

OTP Firms acting as LMMs are assessed a fee for LMM rights for each appointed issue.<sup>4</sup> The LMM rights fee is based on the average national daily volume (“ADV”) of Customer contracts traded in that issue.<sup>5</sup> The LMM rights fees are assessed at the end of each month on each issue that an LMM holds in its LMM appointment. Currently, the LMM rights fees are charged as follows:

ADV of Customer Contracts	Monthly Issue Fee
0-100	\$125
101-1,000	\$45
1,001 to 2,000	\$75
2,001 to 5,000	\$200
5,001 to 15,000	\$375
15,001 to 100,000	\$750
Over 100,000	\$1,500

The Exchange introduced the current lowest-volume LMM rights fee tier on October 1, 2013 and set the corresponding \$125 fee at a level that is designed to balance the Exchange’s

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<sup>4</sup> “OTP Firm” is defined in NYSE Arca Rule 1.1(r). “Market Maker” is defined in NYSE Arca Rule 6.32. “Lead Market Maker” is defined in NYSE Arca Rule 6.82.

<sup>5</sup> The term “Customer” excludes a broker-dealer. See NYSE Arca Rule 6.1A(a)(4).

revenue with the cost of listing low-volume issues.<sup>6</sup> This lowest-volume LMM rights fee tier currently applies to (i) issues listed on the Exchange on or after October 1, 2013 or (ii) issues listed before October 1, 2013 that are reallocated to a new LMM on or after October 1, 2013. All other issues are grandfathered, such that the LMM rights fee for the next highest tier applies instead, which is currently \$45.

The Exchange proposes that, for issues listed on the Exchange on or after October 1, 2013 for which the lowest-volume LMM rights fee tier would apply (i.e., issues with an ADV of Customer contracts of 0-100 contracts), the fee for the next highest tier would apply instead for a period of six months from the date of listing on the Exchange if, at the time of initial listing, the issue is not listed on any other market. After six months from the date of listing on the Exchange, the standard fee for the lowest-volume LMM rights fee tier would apply.<sup>7</sup> The Exchange proposes that this six-month period also apply to a new issue listed on the Exchange between October 1, 2013 and the implementation date of this proposal (i.e., November 1, 2013) if the issue was not listed on another market at the time of initial listing on the Exchange, except that the proposed six-month period would be decreased by the amount of time that the issue has already been listed on the Exchange.<sup>8</sup>

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<sup>6</sup> See Securities Exchange Act Release No. 70503 (September 25, 2013), 78 FR 60364 (October 1, 2013) (SR-NYSEArca-2013-95).

<sup>7</sup> As is currently the case, if the ADV of Customer contracts for the issue corresponded to a different LMM rights fee tier, the corresponding fee for that different tier would apply, including during the six-month period proposed herein.

<sup>8</sup> For example, if a new issue was listed on the Exchange on October 1, 2013 and qualifies for the lowest-volume LMM rights fee tier, beginning November 1, 2013 the fee for the next highest tier would apply instead for the next five months. The standard fee for the lowest-volume LMM rights fee tier would apply to such issue during October 2013. The Exchange is not proposing any retroactive fees as part of this filing.

The Exchange also proposes to make certain non-substantive changes to better organize the text that accompanies the LMM rights fee table in the Fee Schedule, which was added when the Exchange introduced the lowest-volume LMM rights fee tier.<sup>9</sup> First, the Exchange proposes to delete the reference to “grandfathering,” while at the same time adding detail to specify that this sentence is referring to issues listed before October 1, 2013 with an ADV of Customer contracts of 0-100. The “grandfathering” reference was added to explain the fees applicable to issues that were already listed on the Exchange when the lowest-volume LMM rights fee tier was introduced,<sup>10</sup> but it is not necessary and could be confusing in light of the six-month period proposed herein for newly-listed issues on the Exchange. Second, the Exchange proposes to specify that the reference to “existing options” refers to issues listed on the Exchange before October 1, 2013. Finally, the Exchange proposes to clearly distinguish the two categories of issues for which the fee for the lowest-volume LMM rights fee tier would apply, which would be (i) a new issue listed on the Exchange on or after October 1, 2013, except that the fee for the next highest tier would apply during the first six months after listing on the Exchange if the issue is not listed on any other market as of the date of listing, or (ii) an issue that was listed on the Exchange before October 1, 2013 that is reallocated to a new LMM on or after October 1, 2013.

The proposed change is not otherwise intended to address any other issues, and the Exchange is not aware of any problems that LMMs would have in complying with the proposed change.

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<sup>9</sup> See supra note 6.

<sup>10</sup> Id.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,<sup>12</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 believes that the proposed change is reasonable because applying the lower LMM rights fee of \$45 to LMMs appointed to issues with an ADV of Customer contracts of 0-100 contracts would create an incentive for LMMs to request appointments during the first six months that such low-volume issues are listed on the Exchange. This would provide a specific period of time during which trading interest in the newly-listed issues would be generated, but without the appointed LMMs being subject to the higher LMM rights fee that corresponds to the lowest-volume LMM rights fee tier. The Exchange believes that this may increase the likelihood of LMMs seeking appointments to low-volume issues during their initial listing on the Exchange, which would contribute to increased levels of available liquidity on the Exchange and therefore benefit investors.

The Exchange believes that the proposed change is equitable and not unfairly discriminatory because it would apply to all new issues listed on the Exchange with an ADV of Customer contracts of 0-100 contracts, and all LMMs appointed thereto, during the first six months of listing on the Exchange if the issue is not listed on another market at the time of initial listing on the Exchange. The proposed change is also equitable and not unfairly discriminatory

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

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

because the overall quality of the Exchange's market could benefit from the liquidity provided by LMMs appointed to these low-volume issues during the first six months of listing on the Exchange, which would contribute to the Exchange balancing its cost and revenue when listing such low-volume issues.

The proposed change is also equitable and not unfairly discriminatory because of the uncertainty surrounding issues to which this proposed change would apply. Specifically, because such issues would not be listed on any other market at the time an LMM would be appointed, such an LMM would not be able to predict that the ADV of Customer contracts would correspond to the lowest-volume LMM rights fee tier and therefore that the higher corresponding fee would apply. The Exchange believes that the proposed change would account for this uncertainty by providing LMMs with a specified period of time after an issue is listed on the Exchange, during which the higher fee for the lowest-volume LMM rights fee tier would not apply. The Exchange believes that six months is a reasonable period of time because new issues may take several months to generate meaningful trading volume on the Exchange. This could be compounded if other option exchanges do not list the new issue on their markets. However, even when another option exchange lists the new issue within a short period of time after its initial listing on the Exchange, trading interest in such issue could still take several months to increase to a point where the Exchange believes it would be reasonable and equitable to apply the higher fee for the lowest-volume LMM rights fee tier.

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.

For these reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,<sup>13</sup> 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 proposed change would enhance competition by creating an incentive for LMMs to seek appointments in low-volume issues that are not listed on other markets. The Exchange does not believe that the proposed change would burden competition among LMMs because LMMs apply for such appointments based on their own business decisions.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. 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)<sup>14</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>15</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

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<sup>13</sup> 15 U.S.C. 78f(b)(8).

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(2).

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>16</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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-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-NYSEArca-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

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<sup>16</sup> 15 U.S.C. 78s(b)(2)(B).



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-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).