

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70123; File No. SR-NYSEMKT-2013-63)

August 6, 2013

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the Message To Contracts Traded Ratio Fee in the NYSE Amex 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 August 1, 2013, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) 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 Message To Contracts Traded Ratio Fee in the NYSE Amex Options Fee Schedule (“Fee Schedule”). The Exchange proposes to implement the fee change effective August 1, 2013. 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 Messages To Contracts Traded Ratio Fee in the Fee Schedule. The Exchange proposes to implement the fee change effective August 1, 2013.

Under the current fee, which was first adopted in 2011,<sup>4</sup> an ATP Firm pays \$0.01 per 1,000 messages in excess of one billion messages in a calendar month if the ATP Firm does not execute at least one contract for every 1,500-3,000 messages entered, as determined by the Exchange. The Exchange notifies ATP Firms of any change to the ratio to be used to calculate the fee at least one business day in advance of such change via an Information Memo. Such number is applicable in the following calendar month and thereafter until changed.

The Messages To Contracts Traded Ratio Fee is designed to encourage efficient usage of systems capacity by all ATP Firms by taking into consideration quotes as well as orders entered and looking at the number of contracts traded as a result. ATP Firms that enter excessive amounts of orders and quotes that produce little or no volume are assessed this fee based on the ratio of quotes and orders to contracts traded. The Exchange recognizes that there can be problems at the level of either an ATP Firm or its vendor or at the Exchange that can cause inadvertent bursts of quotes and/or orders. For that reason, the Exchange initially proposed to consider only those ATP Firms that exceed one billion quotes and/or orders in a given month in

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<sup>4</sup> See Securities Exchange Act Release No. 64655 (June 13, 2011), 76 FR 35495 (June 17, 2011) (SR-NYSEAmex-2011-37).

determining whether inefficient utilization of systems capacity has occurred. In doing so, the Exchange intended to maintain its existing, well-understood incentives for order-sending firms to use bandwidth efficiently, while ensuring that NYSE Amex Options Market Makers (“Market Makers”) also have such incentives but with a higher level of traffic permitted before the fee takes effect. The Exchange believes that this higher level of free message traffic for Market Makers is appropriate due to the quoting obligations incurred by Market Makers and their importance as liquidity providers in the options market. In the last six months, about 10% of ATP Firms have exceeded the one billion messages threshold, and all of these ATP Firms were Market Makers quoting over 250 issues. As such, generally only larger firms are potentially subject to the fee.

The Exchange proposes to make three changes to the current fee calculation. First, the Exchange proposes to increase the baseline number of messages that each ATP Firm may send each month before becoming potentially liable for fees from one billion messages to 1.5 billion messages. Overall message traffic has risen since June 2011 due to additional products, series, and exchanges entering the marketplace. For example, the peak rate of traffic experienced by The Options Price Reporting Authority (“OPRA”) in May 2011 was 2.8 million messages per second. In May 2013, the peak rate was 5.8 million messages per second. Due to this increase in message traffic generally, the Exchange believes that it is appropriate to raise the baseline number of messages permitted before the fee applies. Most of the ATP Firms that have met the one billion messages threshold in the last six months would also have exceeded the proposed 1.5 billion messages threshold in that period, which the Exchange believes is reflective not of any inefficient use of its systems but rather of the overall message traffic increase since June 2011 as a result of additional products, series, and exchanges.

Second, the Exchange proposes to expand the range of ratios permitted from 1,500:1 to 5,000:1. Presently the range of the ratios permitted is 1,500:1 to 3,000:1. This expansion will give the Exchange greater flexibility in responding to market conditions that cause heightened levels of message traffic. Thus, if appropriate, the Exchange could increase the ratio during times of market stress so that ATP Firms could continue to foster price discovery and transparency without having to be concerned about incurring the Messages To Contracts Traded Ratio Fee.

Third, the Exchange proposes to grant each ATP Firm acting as Market Maker an additional one million messages per month (above and beyond the 1.5 billion per month that will be applicable to all ATP Firms) for each issue in its primary market making appointment if it executes in the aggregate across all options issues in its assignment at least 20,000 contracts average daily volume (“ADV”) electronically as a Market Maker.<sup>5</sup> For example, if a Market Maker has an appointment in 500 issues and executes electronically at least 20,000 contracts ADV as a Market Maker in the aggregate across all 500 issues, then the Market Maker will receive another 500 million messages for a total of two billion messages that it can send in that month before it potentially becomes liable for the Messages To Contracts Traded Ratio Fee (and then only if it fails to maintain an acceptable ratio of messages sent to contracts executed).

The Exchange notes that the ATP Firms that would have exceeded a 1.5 billion messages threshold in the last six months each acted as Market Maker for between approximately 800 to 2,100 issues, with an average of 1,436 issues quoted. If an execution requirement of at least 20,000 contracts ADV as Market Maker had applied to such ATP Firms, the average ATP Firm

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<sup>5</sup> The Market Maker is not required to execute at least 20,000 contracts ADV as Market Maker in each of the assigned issues; rather, execution volume in the aggregate across all issues is considered.

could have obtained the additional one million messages by executing just 14 contracts per day (20,000 contracts divided by 1,436 issues). Based on this historical analysis, the Exchange believes that most Market Makers that exceed the 1.5 billion messages threshold will be capable of reaching the 20,000 contracts ADV threshold to obtain the additional one million messages per month for each issue they quote.

The proposed change is not intended to address any other issues, and the Exchange is not aware of any problems that ATP 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 Act,<sup>6</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) 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 believes that the proposed increase in the total number of monthly messages from one billion to 1.5 billion per month is reasonable in light of the additional products, series, and exchanges that have entered the marketplace since the fee was first adopted; message traffic has nearly doubled since that time. Thus, the Exchange believes that it must adjust the fee ratio to reflect current market conditions that can lead to increased message traffic and are not necessarily reflective of any inefficient use of the Exchange's systems. The increase is also equitable and not unfairly discriminatory because it will apply to all ATP Firms.

The proposal to increase the range of ratios of messages per contracts traded is reasonable because it will give the Exchange greater flexibility in responding to market conditions,

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

<sup>7</sup> 15 U.S.C. 78f(b)(4) and (5).

including volatility, that cause heightened levels of message traffic. The proposed change is equitable and not unfairly discriminatory because it will apply to all ATP Firms.

The proposed change to grant ATP Firms acting as Market Makers an additional one million messages per month (above and beyond the 1.5 billion per month that will be applicable to all ATP Firms) for each issue in its primary market making appointment if the Market Maker executes electronically at least 20,000 contracts ADV as a Market Maker is reasonable because Market Makers have quoting obligations that require them to submit quotes to the Exchange for each issue, thereby increasing their message traffic. The Exchange believes that the threshold of requiring executions of at least 20,000 contracts ADV as Market Maker is reasonable because it is consistent with the Exchange's practice of tying the permitted number of messages to actual executions on the Exchange, thereby encouraging efficient use of the Exchange's systems capacity. As described above, the Exchange believes that most Market Makers potentially subject to the fee will be able to meet the requirement for the additional messages because on average they quote 1,436 issues, which would require them to execute on average 14 contracts per day in each issue to qualify for the additional messages.

The Exchange believes that the proposed change with respect to raising to [sic] message threshold level to 1.5 billion messages and adjusting the range of ratios permitted is equitable and not unfairly discriminatory because Market Makers' quoting activity fosters price discovery and transparency and is an important source of liquidity for all market participants. Thus, all market participants may benefit from the change. The proposed change is not inequitable or unfairly discriminatory to non-Market Makers because such firms generally have not reached the initial threshold of one billion messages under the current fee and similarly are not expected to reach the new threshold of 1.5 billion messages that would potentially trigger the new fee. The

Exchange also believes that the proposed change is equitable and not unfairly discriminatory among Market Makers because the number of additional messages granted if the 20,000 share ADV threshold is met is tied directly to the number of issues quoted. Market Makers that quote more issues should be expected to have a higher volume of messages, which in no way reflects inefficient use of the Exchange's systems and thus is fair to Market Makers. For the reasons stated above, the Exchange believes that it will not be difficult for a Market Maker subject to the fee to reach that threshold given the small number of contracts it must execute per appointment. A requirement to achieve a minimal level of electronic Market Maker volume as evidence of the price discovery fostered in exchange for the additional messages is necessary to ensure the allocation of extra messages is done equitably and in a manner that is not unfairly discriminatory.

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>8</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. Rather, the proposed fee is designed to discourage inefficient use of the Exchange's systems capacity by the Exchange's market participants. The Exchange believes that the 20,000 contract ADV threshold will not burden competition among Market Makers on the Exchange based on the analysis of historical data described above; specifically, the Exchange expects that Market Makers should be able to meet the threshold because on average they will need to execute a relatively small number of contracts per issue per

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

day. The Exchange does not anticipate that non-Market Makers will be subject to the fee for the reasons described above.

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 or credits available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees and credits to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees and credits in response, and because market participants may readily adjust their trading practices, the Exchange believes that the degree to which fee or credit changes in this market may impose any burden on competition is extremely limited. As a result of all of these considerations, the Exchange does not believe that the proposed change will impair the ability of ATP Firms or competing order execution venues to maintain their competitive standing in the financial markets.

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>9</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>10</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

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f)(2).



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>11</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-NYSEMKT-2013-63 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-NYSEMKT-2013-63. 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

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<sup>11</sup> 15 U.S.C. 78s(b)(2)(B).

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 at 100 F Street, NE, Washington, DC 20549-1090 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-NYSEMKT-2013-63, 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).