

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74180; File No. SR-NYSEMKT-2015-07)

January 30, 2015

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending the NYSE Amex Options Fee Schedule to Make a Change to the Amex Customer Engagement Program in Section I.E. of the Fee Schedule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 28, 2015, 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 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 NYSE Amex Options Fee Schedule (“Fee Schedule”) to make a change to the Amex Customer Engagement (“ACE”) Program in section I.E. of the Fee Schedule. The Exchange proposes to implement the change on February 2, 2015. 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 received on the proposed rule change. The text of those statements may be examined at the places

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

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

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 Exchange proposes to make a change to the ACE Program in section I.E. of the Fee Schedule. The Exchange proposes to implement the change on February 2, 2015.

Section I.E. of the Fee Schedule describes the ACE Program,<sup>3</sup> which features four tiers expressed as a percentage of total industry Customer equity and ETF option average daily volume (“ADV”).<sup>4</sup> Specifically, the ACE Program consists of a four-tiered schedule of per contract credits payable to an Order Flow Provider (“OFP”) solely for Electronic Customer volume that the OFP, as agent, submits to the Exchange.<sup>5</sup> The ACE Program offers the following two methods for OFPs to receive credits:

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<sup>3</sup> See NYSE Amex Options Fee Schedule, dated January 14, 2015, available here, [https://www.theice.com/publicdocs/nyse/markets/amex-options/NYSE\\_Amex\\_Options\\_Fee\\_Schedule.pdf](https://www.theice.com/publicdocs/nyse/markets/amex-options/NYSE_Amex_Options_Fee_Schedule.pdf).

<sup>4</sup> In calculating ADV, the Exchange will utilize monthly reports published by the OCC for equity options and ETF options that show cleared volume by account type. See OCC Monthly Statistics Reports, available here, <http://www.theocc.com/webapps/monthly-volume-reports> (including for equity options and ETF options volume, subtotaled by exchange, along with OCC total industry volume). The Exchange will calculate the total OCC volume for equity and ETF options that cleared in the Customer account type and divide this total by the number of trading days for that month (i.e., any day the Exchange is open for business). For example, in a month having 21 trading days where there were 252,000,000 equity option and ETF option contracts that cleared in the Customer account type, the calculated ADV would be 12,000,000 (252,000,000/21= 12,000,000).

<sup>5</sup> Electronic Customer volume is volume executed electronically through the Exchange System, on behalf of an individual or organization that is not a Broker-Dealer and who does not meet the definition of a Professional Customer.

1. By calculating, on a monthly basis, the average daily Customer contract volume an OFP executes Electronically on the Exchange as a percentage of total industry Customer equity and ETF options ADV<sup>6</sup>; or
2. By calculating, on a monthly basis, the average daily contract volume an OFP executes Electronically in all participant types (i.e., Customer, Firm, Broker-Dealer, NYSE Amex Options Market Maker, Non-NYSE Amex Options Market Maker, and Professional Customer) on the Exchange, as a percentage of total industry Customer equity and ETF options ADV,<sup>7</sup> of which at least 20% must be Customer volume executed Electronically.

The Exchange has received questions regarding qualification for credits under method 2 of the ACE Program and proposes changes to the level of Customer volume required to qualify for credits under method 2. Specifically, the Exchange proposes to revise method 2 by replacing the clause “of which at least 20% must be Customer volume executed Electronically” with the clause “with the further requirement that a specified percentage of the minimum volume required to qualify for the Tier must be Customer volume.”<sup>8</sup> In addition, proposed language changes are shown in the table below, with underlining used to denote new language.

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<sup>6</sup> See supra n. 4.

<sup>7</sup> Id.

<sup>8</sup> As proposed, an OFP qualifies for credits under method 2 “[b]y calculating, on a monthly basis, the average daily contract volume an OFP executes Electronically in all participant types (i.e., Customer, Firm, Broker-Dealer, NYSE Amex Options Market Maker, Non-NYSE Amex Options Market Maker, and Professional Customer) on the Exchange, as a percentage of total average daily industry Customer equity and ETF option volume, with the further requirement that a specified percentage of the minimum volume required to qualify for the Tier must be Customer volume.”

## Amex Customer Engagement Program – Standard Options

	ACE Program – Standard Options		Credits Payable On Customer Volume Only			
Tier	Customer Electronic ADV as a % of Industry Customer Equity and ETF Options ADV	OR	Total Electronic ADV (of which 20% or greater of the <u>minimum volume for each Tier</u> must be Customer) as a % of Industry Customer Equity and ETF Options ADV	Customer Volume Credits	1 Year Enhanced Customer Volume Credits	3 Year Enhanced Customer Volume Credits
1	0.00% to 0.75%		N/A	\$0.00	\$0.00	\$0.00
2	> 0.75% to 1.00%		N/A	(\$0.13)	(\$0.13)	(\$0.13)
3	>1.00% to 2.00%		1.50% to 3.50% of which 20% or greater of 1.50% must be <u>Customer</u>	(\$0.14)	(\$0.16)	(\$0.18)
4	>2.00%		>3.50% of which 20% or greater of 3.5% must be <u>Customer</u>	(\$0.14)	(\$0.16)	(\$0.20)

The Exchange's current Fee Schedule requires, under method 2 for qualifying for the credits under the ACE Program, that at least 20% of an OFP's Electronic volume<sup>9</sup> be comprised of Customer volume. However, because method 2 does not fix the 20% Customer volume requirement at a specified, minimum level, the more volume that an OFP executes, the more Customer volume required to qualify for credits under method 2. This condition to receiving ACE Program credits under method 2 could create the unintended incentive for an OFP that has a proportional reduction in its Customer volume (*i.e.*, if its overall volume of Non-Customer increases, but its Customer volume does not) to reduce its trading of Non-Customer Electronic volume on the Exchange in order to satisfy the 20% Customer volume condition and receive the credits available under method 2.

To avoid the potential that the 20% Customer volume requirement could induce OFPs to reduce their activity on the Exchange to avoid disqualifying themselves for potential credits under method 2 of the ACE Program, the Exchange proposes to modify method 2 to specify that the Customer volume component for each Tier is 20% of the minimum volume for that Tier. Specifically, as proposed, to qualify for credits under Tier 3, an OFP's Customer volume would have to be at least 20% of volume required to satisfy the 1.50% of total average daily industry Customer equity and ETF option volume that an OFP must execute Electronically on the

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<sup>9</sup> The Fee Schedule describes how the Exchange calculates an OFP's Electronic volume for purposes of the ACE Program. *See* Section I.E of the Fee Schedule. In particular, "the Exchange will exclude volume resulting from Mini Options and QCC trades;" and will likewise exclude "any volume attributable to orders routed to another exchange in connection with the Options Order Protection and Locked/Crossed Market Plan referenced in Rule 991NY." The Exchange will include in its calculation of an OFP's Electronic volume for purposes of the ACE Program, "[v]olume resulting from CUBE Auction executions" and "will include the activity of Affiliates [*i.e.*, entities with 70% common ownership] of the OFP, such as when an OFP has an Affiliated NYSE Amex Options Market Making firm." *Id.* The Exchange notes that any day the Exchange is open, regardless of length, will count as a full day when calculating ADV.

Exchange.<sup>10</sup> Similarly, as proposed, to qualify for Tier 4, an OFP's Customer volume would have to be 20% of volume required to satisfy the 3.50% of total average daily industry Customer equity and ETF option volume that an OFP must execute Electronically on the Exchange.<sup>11</sup>

For example, as noted above,<sup>12</sup> in a month having 21 trading days where the OCC reported 252,000,000 equity and ETF option contracts clearing in the Customer range, the calculated ADV is 12,000,000 ( $252,000,000/21= 12,000,000$ ). The ACE Program tiers are based on the ADV an OFP executes Electronically on the Exchange. Under method 2, the ADV associated with Tier 3 credits ranges from 1.5% to 3.5% of industry Customer equity option and ETF option ADV (1.5% of 12,000,000 = 180,000 and 3.5% of 12,000,000 = 420,000). Under the current Fee Schedule, to qualify for the Tier 3 credits, an OFP with total Electronic ADV of 180,000 contracts would be required to have at least 20% of that volume, or 36,000 contracts (20% of 180,000 = 36,000) conducted as Customer. However, an OFP that has total electronic ADV of 420,000 contracts would be required to have at least 84,000 contracts (20% of 420,000 = 84,000) as Customer volume to qualify for Tier 3 credits.

As proposed, to qualify for Tier 3 credits, both OFPs in the above example would be required to have 36,000 contracts as Customer volume. In other words, Tier 3 credits would be available to any OFP with total Electronic ADV of between 1.50% and 3.50% of Industry Customer Equity and ETF Options ADV, provided that the OFP conducted at least 0.3% of industry Customer equity and ETF option ADV as Customer volume (1.50% of 12,000,000 = 180,000 and 20% of 180,000 = 36,000, which is the same as 0.3% of 12,000,000 =

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<sup>10</sup> An OFP's Customer volume would need to be 0.3% (i.e., 1.50% x 20%) of the total average daily industry Customer equity and ETF option volume.

<sup>11</sup> An OFP's Customer volume would need to be 0.7% (i.e., 3.50% x 20%) of the total average daily industry Customer equity and ETF option volume.

<sup>12</sup> See supra n. 4.

36,000). Continuing the example, under the proposed change, an OFP with total electronic ADV greater than 3.5% of industry Customer equity option and ETF option ADV would qualify for the Tier 4 credits provided the OFP also had Customer ADV of at least 0.7% of Industry Customer equity and ETF option ADV (3.50% of 12,000,000 = 420,000 and 20% of 420,000 = 84,000, which is the same as 0.7% of 12,000,000 = 84,000).

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>13</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>14</sup> in particular, because it would provide 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 specifying a minimum volume amount to meet the 20% Customer volume component for each Tier under method 2 of the ACE Program is reasonable, equitable and not unfairly discriminatory because it is designed to reduce the potential that OFPs divert Non-Customer order flow away from the Exchange, which may increase volume and liquidity on the Exchange to the benefit of all market participants by providing tighter quoting and better prices, all of which perfects the mechanism for a free and open market and national market system. The Exchange believes that the proposal is not unfairly discriminatory as it applies equally to all OFPs, enabling each OFP to qualify under method 2 of the ACE Program upon achieving a set minimum threshold for Customer volume based on ADV. The Exchange also believes that the proposal is reasonable, equitable and not unfairly discriminatory because

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

<sup>14</sup> 15 U.S.C. 78f(b)(4) and 78f(b)(5).

specifying a minimum volume amount to meet the 20% Customer volume component for each Tier under method 2 of the ACE Program would add clarity to the Fee Schedule and aid in market participants' comprehension as to how to qualify for the credits under the ACE Program.

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

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. The Exchange believes that the ACE Program will continue to encourage Customer order flow to be directed to the Exchange. By incentivizing OFPs to route Customer orders, the Exchange desires to attract liquidity to the Exchange, which in turn benefits all market participants.

Given the robust competition for volume among options markets, many of which offer the same products, implementing programs to attract order flow similar to the one being proposed in this filing, are consistent with the above-mentioned goals of the Act. 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)<sup>15</sup> of

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

the Act and subparagraph (f)(2) of Rule 19b-4<sup>16</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>17</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-2015-07 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-NYSEMKT-2015-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review

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<sup>16</sup> 17 CFR 240.19b-4(f)(2).

<sup>17</sup> 15 U.S.C. 78s(b)(2)(B).

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 such filing also will be available for inspection and copying at the principal offices 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-2015-07, 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>18</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).