

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73580; File No. SR-Phlx-2014-72)

November 12, 2014

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to PIXL Executions in SPY and PIXL Pricing

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that, on October 31, 2014, 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 modify Section I entitled “Rebates and Fees for Adding and Removing Liquidity in SPY³” and Section IV entitled “Other Transaction Fees” of the Phlx Pricing Schedule (“Pricing Schedule”). Specifically, the Exchange proposes to amend its Initiating Order Fee for PIXL⁴ Executions in SPY and PIXL Pricing for Initiating Order that is contra to a Customer⁵ PIXL order, to allow for volume discounts. While the changes proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ SPY options are based on the SPDR exchange-traded fund (“ETF”), which is designed to track the performance of the S&P (Standard and Poors) 500 Index.

⁴ PIXL is the Exchange’s price improvement mechanism known as Price Improvement XL or (PIXLSM). See Rule 1080(n).

⁵ The term “Customer” applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation (“OCC”) which is not for the account of broker or dealer or for the account of a “Professional” (as that term is defined in Rule 1000(b)(14)).

herein are effective upon filing, the Exchange has designated that the amendments be operative on November 3, 2014.

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, 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 purpose of this filing is to amend Section I entitled "Rebates and Fees for Adding and Removing Liquidity in SPY" and Section IV entitled "Other Transaction Fees" of the Pricing Schedule. Specifically, the Exchange proposes to amend the Initiating Order Fee ("Order Fee") for PIXL Executions in SPY ("SPY Pricing") and PIXL Pricing for Initiating Orders ("PIXL Pricing") that is contra to a Customer PIXL order. This would allow for volume discounts for Professional,⁶ Firm,⁷ Broker-Dealer,⁸ Specialist⁹ or Market Maker¹⁰ orders that are

⁶ The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 1000(b)(14).

contra to a Customer PIXL Order, such that the Initiating Order Fee will be reduced to \$0.00 if the Customer PIXL Order is greater than 399 contracts. Today, the Initiating Order Fee for options overlying SPY is \$0.05 per contract and is not specific to market participants.

The Exchange believes that the proposed pricing will encourage market participants to send an even greater amount of orders to the Exchange through PIXL.

Section IV of the Pricing Schedule specifies PIXL pricing for all other options, except SPY. Today, an Initiating Order is assessed \$0.07 per contract or \$0.05 per contract if the Customer Rebate Program¹¹ Threshold Volume defined in Section B is greater than 100,000 contracts per day in a month. Any member or member organization under Common Ownership¹² with another member or member organization that qualifies for a Customer Rebate Tier discount in Section B will receive the PIXL Initiating Order discount as described above. Today, the Initiating Order Fee for Professional, Firm, Broker-Dealer, Specialist and Market

⁷ The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at The Options Clearing Corporation (“OCC”).

⁸ The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

⁹ A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

¹⁰ A “Market Maker” includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (See Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (See Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

¹¹ Currently, the Exchange has in place a four tier structure Customer Rebate Program at Section B of the Pricing Schedule which pays Customer rebates on four Categories (A, B, C and D) of transactions. The four tier structure pays rebates based on percentage thresholds of national customer multiply-listed options volume by month based on the same four Categories (A, B, C and D) of transactions.

¹² The term “Common Ownership” shall mean members or member organizations under 75% common ownership or control. See Preface to the Pricing Schedule.

Maker orders that are contra to a Customer PIXL Order will be reduced to \$0.00 if the Customer PIXL Order is greater than 999 contracts (“volume discount”).

The Exchange proposes to amend 999 contracts to 399 contracts in the volume discount. Section IV PIXL Pricing, as proposed, would state: “The Initiating Order Fee for Professional, Firm, Broker-Dealer, Specialist and Market Maker orders that are contra to a Customer PIXL Order will be reduced to \$0.00 if the Customer PIXL Order is greater than 399 contracts.”

For uniformity, the Exchange also proposes to add the same volume discount in Section I regarding SPY Pricing, so that an alternative to the Initiating Order fee of \$0.05 per contract is indicated. Section I SPY Pricing, as proposed, would state: “The Initiating Order Fee for Professional, Firm, Broker-Dealer, Specialist and Market Maker orders that are contra to a Customer PIXL Order will be reduced to \$0.00 if the Customer PIXL Order is greater than 399 contracts.”

The Exchange believes that this amendment to PIXL pricing will encourage a greater number of PIXL Orders on the Exchange, thereby increasing liquidity.

2. Statutory Basis

The Exchange believes that its proposal to amend the Pricing Schedule is consistent with Section 6(b) of the Act¹³ in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act¹⁴ 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 Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(4), (5).

The Exchange's proposal to adopt new pricing for SPY is reasonable, equitable, and not unfairly discriminatory because pricing by symbol is a common practice on many U.S. options exchanges as a means to incentivize order flow to be sent to an exchange for execution in the most actively traded options classes. SPY options are currently the most actively traded equity or ETF option class.¹⁵ Other options exchanges price by symbol.¹⁶

The Exchange's proposed volume discount for SPY Pricing is reasonable because the Exchange desires to incentivize market participants to transact a greater number of SPY options. The Exchange is offering a volume discount specific to SPY because, as previously mentioned, SPY options are currently the most actively traded options class and therefore the Exchange believes that incentivizing Professionals, Firms, Broker-Dealers, Specialists and Market Makers to add increased liquidity in SPY options and encouraging market participants to send order flow to the Exchange by adding a volume discount will benefit all market participants through increased liquidity, tighter markets and order interaction. The Exchange believes it is reasonable to assess lower fees to transact SPY options to Professionals, Firms, Broker-Dealers, Specialists and Market Makers because the Exchange seeks to incentivize these market participants to transact a greater number of SPY options. The Exchange would assess higher fees if the Customer PIXL Order is 399 contracts or less.

The Exchange's proposed new volume discount for SPY Pricing is equitable and not unfairly discriminatory. Today, the Exchange assesses a \$0.05 per contract Initiating Order Fee

¹⁵ For September 2014, SPY Options accounted for approximately 14.76% of the overall equity and ETF options volume industry-wide (approximately 12.30% of the overall Phlx volume). By comparison, the second most actively traded equity or ETF option is AAPL, which accounts for approximately 7.80% of the overall equity and ETF options volume industry-wide (approximately 6.00% of the overall Phlx volume).

¹⁶ See the Chicago Board Options Exchange Incorporated's Fees Schedule and the International Securities Exchange LLC.

for PIXL Executions in SPY (which apply to fees in Parts A and B). When the PIXL Order is contra to the Initiating Order, a Customer PIXL Order will be assessed \$0.00 per contract and all other non-Customer market participants will be assessed a \$0.38 per contract fee when contra to an Initiating Order. Also, when the PIXL Order is contra to other than the Initiating Order, the PIXL Order will be assessed \$0.00 per contract, unless the order is a Customer, in which case the Customer will receive a rebate of \$0.38 per contract; all other contra parties to the PIXL Order, other than the Initiating Order, will be assessed a Fee for Removing Liquidity of \$0.38 per contract or will receive the Rebate for Adding Liquidity. The Exchange is proposing to continue to assess the aforementioned fees, and is proposing to amend the volume discount. The Exchange believes that assessing lower Fees for Adding Liquidity, greater than 399 contracts, will incentivize Professionals, Firms, Broker-Dealers, Specialists and Market Makers to interact with a greater number of Initiating Orders in SPY options on the Exchange through PIXL. The Exchange believes that it is equitable and not unreasonably discriminatory to assess the same fees for Initiating Orders in SPY options to all market participants based on volume, or liquidity provided to the Exchange. Creating incentives and attracting SPY Orders to the Exchange benefits all market participants through increased liquidity at the Exchange. A higher percentage of SPY Orders in PIXL leads to increased auctions and better opportunities for price improvement.

In addition, the Exchange notes that the volume discount is currently in place for PIXL pricing.

The Exchange believes that it is reasonable, equitable and not unreasonably discriminatory to reduce the threshold for the PIXL Pricing volume discount from 999 contracts

to 399 contracts. With this change in the volume discount,¹⁷ the Initiating Order Fee for Professional, Firm, Broker-Dealer, Specialist and Market Maker orders that are contra to a Customer PIXL Order will be reduced to \$0.00 if the Customer PIXL Order is greater than 399 contracts. The volume discount will be applied uniformly to all according to liquidity brought to the Exchange. The Exchange would offer all market participants, other than Customers who are not assessed an Initiating Order Fee, an incentive to transact large sized orders in PIXL. The Exchange believes that the proposal will continue to attract liquidity, which benefits market participants and provides the opportunity for increased order interaction on the Exchange.

The Exchange notes that in order to remain competitive, the Exchange must implement fees and rebates that are competitive with pricing at other options exchanges that offer a similar auction opportunity. SPY options and the PIXL electronic auction are an increasingly important and crucial segment of options trading. The goal is creating and increasing incentives to attract orders to the Exchange that will, in turn, benefit all market participants through increased liquidity at the Exchange.

The proposal allows the Exchange to continue attracting liquidity to the Exchange.

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 not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposal creates a burden on intra-market competition because the Exchange is applying the same SPY option and PIXL Fees to all market participants in the same manner dependent on volume.

¹⁷ The volume discount has been in place for more than a year. See Securities Exchange Act Release No. 69768 (June 14, 2013), 78 FR 37250 (June 20, 2013) (SR-Phlx-2013-61) [sic] (notice of filing and immediate effectiveness).

The Exchange believes that the proposed new volume discount for SPY options and PIXL Fees creates additional opportunity for incentivizing Professionals, Firms, Broker-Dealers, Specialists and Market Makers to bring additional liquidity to the market. The Exchange believes that effectively assessing lower fees or paying rebates when a market participant brings a certain amount of orders in SPY and other options creates competition among market participants to remove liquidity from the Phlx Book. This competition does not create an undue burden on competition but rather offers all market participants the opportunity to receive the benefit of the pricing when transacting options.

The Exchange's proposal to reduce the threshold for the volume discount for all market participants transacting options on PIXL promotes competition in a highly liquid market and a highly liquid option, SPY. Today, PIXL and SPY pricing is proposed to incentivize Professionals, Firms, Broker-Dealers, Specialists and Market Makers Firms to enter Initiating Orders into the PIXL auction by offering an incentive to reduce the Initiating Order Fee. By expanding the opportunity to all market participants that pay an Initiating Order Fee to reduce those fees, the Exchange encourages competition among market participants to price improve the order.

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

Pursuant to Section 19(b)(3)(A)(ii) of the Act,¹⁸ the Exchange has designated this proposal as establishing or changing a due, fee, or other charge imposed by the self-regulatory

¹⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

organization on any person, whether or not the person is a member of the self-regulatory organization, which renders the proposed rule change effective upon filing.

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 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. Please include File Number SR-Phlx-2014-72 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2014-72. 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-Phlx-2014-72 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.¹⁹

Kevin M. O'Neill
Deputy Secretary

¹⁹ 17 CFR 200.30-3(a)(12).