

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75438; File No. SR-Phlx-2015-57)

July 13, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Section II of the Pricing Schedule

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 June 30, 2015, 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 amend the Exchange’s Pricing Schedule at Section II, entitled “Multiply Listed Options Fees,”³ to: (1) increase the maximum Qualified Contingent Cross (“QCC”) orders rebate which will be paid in a given month; and (2) amend a strategy fee cap

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ These fees include options overlying equities, ETFs, ETNs and indexes which are Multiply Listed.

related to dividend,⁴ merger,⁵ short stock interest,⁶ reversal and conversion,⁷ jelly roll⁸ and box spread⁹ floor option transaction strategies.

While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on July 1, 2015.

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

⁴ A dividend strategy is defined as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed the first business day prior to the date on which the underlying stock goes ex-dividend.

⁵ A merger strategy is defined as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed the first business day prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.

⁶ A short stock interest strategy is defined as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class.

⁷ Reversal and conversion strategies are transactions that employ calls and puts of the same strike price and the underlying stock. Reversals are established by combining a short stock position with a short put and a long call position that shares the same strike and expiration. Conversions employ long positions in the underlying stock that accompany long puts and short calls sharing the same strike and expiration.

⁸ A jelly roll strategy is defined as transactions created by entering into two separate positions simultaneously. One position involves buying a put and selling a call with the same strike price and expiration. The second position involves selling a put and buying a call, with the same strike price, but with a different expiration from the first position.

⁹ A box spread strategy is a strategy that synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively.

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: (1) increase the maximum QCC rebate that will be paid by the Exchange in a given month; and (2) increase the per member organization Monthly Strategy Cap applicable to dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategies.

QCC Rebate

Today, the Exchange pays rebates on QCC Orders based on the following five tier rebate schedule:

QCC Rebate Schedule		
Tier	Threshold	Rebate per Contract
Tier 1	0 to 299,999 contracts in a month	\$0.00
Tier 2	300,000 to 499,999 contracts in a month	\$0.07
Tier 3	500,000 to 699,999 contracts in a month	\$0.08
Tier 4	700,000 to 999,999 contracts in a month	\$0.09
Tier 5	Over 1,000,000 contracts in a month	\$0.11

The Exchange pays a rebate on all qualifying executed QCC Orders, including QCC Orders as defined in Exchange Rule 1080(o)¹⁰ and Floor QCC Orders, as defined in 1064(e),¹¹ (collectively “QCC Orders”) except where the transaction is either: (i) Customer-to-Customer; or (ii) a dividend, merger, short stock interest or reversal or conversion strategy execution. Today, the maximum rebate the Exchange will pay in a given month for QCC Orders is \$375,000. Today,

QCC Transaction Fees for a Specialist,¹² Market Maker,¹³ Professional,¹⁴ Firm¹⁵ and Broker-

¹⁰ A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and Offer and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of Regulation NMS).

¹¹ A Floor QCC Order must: (i) be for at least 1,000 contracts, (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Exemption, (iii) be executed at a price at or between the National Best Bid and Offer (“NBBO”); and (iv) be rejected if a Customer order is resting on the Exchange book at the same price. In order to satisfy the 1,000-contract requirement, a Floor QCC Order must be for 1,000 contracts and could not be, for example, two 500-contract orders or two 500-contract legs. See Rule 1064(e). See also Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR-Phlx-2011-56).

¹² A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

¹³ 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.

¹⁴ 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).

¹⁵ The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC.

Dealer¹⁶ are \$0.20 per contract.

The Exchange will continue to pay rebates on QCC Orders as described above. The Exchange proposes to amend the QCC Rebate Schedule to increase the maximum QCC Rebate of \$375,000 to \$450,000 per month. The Exchange believes that the proposed amendment to its pricing for QCC Orders will enable the Exchange to attract additional QCC Orders.

Monthly Strategy Cap

Today, the Exchange applies certain strategy caps¹⁷ to dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread floor option transaction strategy executions in Multiply Listed Options.¹⁸ The Exchange further separately caps each member organization for dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions in Multiply Listed Options, combined in a month when trading in their own proprietary accounts (“Monthly Strategy Cap”) at \$60,000.¹⁹ The Exchange proposes

¹⁶ The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

¹⁷ To qualify for a strategy cap, the buy and sell side of a transaction must originate from the Exchange floor.

¹⁸ Fees paid by a Specialist, Market Maker, Professional, Firm and Broker-Dealer for floor option transaction in Multiply Listed Options are capped at \$1,500 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class when such members are trading in their own proprietary accounts. The Exchange will continue to cap at \$700 the fees paid by Specialist, Market Maker, Professional, Firm and Broker-Dealer for reversal and conversion, jelly roll and box spread floor option transaction strategies that are executed on the same trading day in the same options class.

¹⁹ Reversal and conversion, jelly roll and box spread strategy executions are not included in the Monthly Strategy Cap for a Firm. Reversal and conversion, jelly roll and box spread strategy executions are included in the Monthly Firm Fee Cap. All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions are excluded from the Monthly Market Maker Cap. Firms are subject to a maximum fee of \$75,000 (“Monthly Firm Fee Cap”). Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$500,000 for: (i) electronic and floor Option Transaction Charges; and (ii) QCC Transaction Fees.

to increase the Monthly Strategy Cap from \$60,000 to \$65,000 per member organization, per month.

Despite increasing the cap, the Exchange believes that offering members and member organizations the opportunity to continue to cap transaction fees will benefit Phlx members and the Phlx market by encouraging members to transact greater liquidity.

2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act²⁰ in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act²¹ 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.

QCC Rebates

The Exchange believes that it is reasonable to increase the maximum amount of the QCC Rebate the Exchange would pay a market participant in a given month from \$375,000 to \$450,000 because the Exchange believes it will attract additional QCC Orders to the Exchange.

The Exchange believes that it is equitable and not unfairly discriminatory to increase the maximum amount of the QCC Rebate the Exchange would pay a market participant in a given month from \$375,000 to \$450,000 because all qualifying market participants are entitled to obtain this rebate if they transact a qualifying number of QCC Orders. All market participants are eligible to transact QCC Orders.

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(4), (5).

Monthly Strategy Cap

The Exchange's proposal to increase the Monthly Strategy Cap from \$60,000 to \$65,000 is reasonable because, despite the increase to the cap, the Exchange will continue to offer members an opportunity to lower their fees related to the execution of strategy transactions. For example, when a member incurs transaction fees in the amount of \$65,000 in a given month related to strategy executions, the member will not pay for additional strategy executions for the remainder of that month as a result of the fee cap.

The Exchange's proposal to increase the Monthly Strategy Cap from \$60,000 to \$65,000 is equitable and not unfairly discriminatory because the Exchange would continue to offer members the opportunity to cap their floor equity options transaction in Multiply Listed Options fees for all strategies. Customers are excluded because they are not assessed a floor Options Transaction Charge.²² Excluding Firm floor Options Transaction Charges in Multiply Listed Options related to reversal and conversion, jelly roll and box spread strategies from the Monthly Strategy Cap is reasonable, equitable and not unfairly discriminatory because these fees would continue to be capped as part of the Monthly Firm Fee Cap, which applies only to Firms. The Exchange believes that the exclusion of Firm floor Options Transaction Charges in Multiply Listed Options related to reversal and conversion, jelly roll and box spread strategies from the Monthly Strategy Cap is equitable and not unfairly discriminatory because Firms, unlike other market participants, have the ability to cap transaction fees up to \$75,000 per month.²³ The Exchange would include floor option transaction

²² See Section II of the Pricing Schedule.

²³ Firms are subject to a maximum fee of \$75,000 ("Monthly Firm Fee Cap"). Firm Floor Option Transaction Charges and QCC Transaction Fees, in the aggregate, for one billing month will not exceed the Monthly Firm Fee Cap per member organization when such members are trading in their own proprietary account. All dividend, merger, and short stock interest strategy executions will be excluded from the Monthly Firm Fee Cap. Reversal and conversion, jelly roll and box spread strategy executions (as defined in this

charges related to reversal and conversion, jelly roll and box spread strategies in the Monthly Strategy Cap for Professionals, and Broker Dealers, when such members are trading in their own proprietary accounts, because these market participants are not subject to the Monthly Firm Fee Cap or other similar cap. While Specialists and Market Makers are subject to a Monthly Market Maker Cap on both electronic and floor options transaction charges, reversal and conversion, jelly roll and box spread transactions are excluded from the Monthly Market Maker Cap [sic].²⁴ For the reasons described above, the Exchange believes continuing to include reversal and conversion, jelly roll and box spread strategies in the Monthly Firm Fee Cap is reasonable, equitable and not unfairly discriminatory because the cap provides an incentive for Firms to transact floor transactions on the Exchange, which brings increased liquidity and order flow to the floor for the benefit of all market participants.²⁵

The Exchange believes that its proposal to continue to apply strategy fee caps to orders originating from the Exchange floor is reasonable because certain members pay floor brokers to execute trades on the Exchange floor, thereby incurring costs related to this business model. The Exchange believes that offering fee caps to members executing floor transactions would defray brokerage costs associated with executing strategy transactions and continue to incentivize members to utilize the floor for certain executions.²⁶ The Exchange believes that its proposal to continue to apply the fee cap to Multiply Listed Options orders originating from the Exchange floor is equitable and not unfairly discriminatory because today, the fee caps are only applicable

Section II) will be included in the Monthly Firm Fee Cap. QCC Transaction Fees are included in the calculation of the Monthly Firm Fee Cap.

²⁴

Id.

²⁵

Firms are eligible to cap floor options transactions charges and QCC Transaction Fees as part of the Monthly Firm Fee Cap. QCC Transaction Fees apply to QCC Orders as defined in Exchange Rule 1080(o) and Floor QCC Orders as defined in 1064(e). See Section II of the Pricing Schedule.

for floor transactions. The Exchange believes that a requirement that both the buy and sell sides of the order originate from the floor to qualify for the fee cap constitutes equal treatment of members.

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 believes that its proposal to increase the maximum QCC Rebate does not impose a burden on competition. The Exchange's proposal should encourage market participants to transact a greater number of QCC Orders in order to obtain QCC Rebates. All market participants are eligible to transact QCC Orders.

The Exchange does not believe that the proposed rule change to the Monthly Strategy Cap will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act because the proposed changes apply uniformly to all members that incur transaction charges, except Firms.²⁷ Excluding Firm floor options transactions in Multiply Listed Options related to reversal and conversion, jelly roll and box spread strategies from the Monthly Strategy Cap does not create an undue burden on competition because these fees would continue to be capped as part of the Monthly Firm Fee Cap. The Exchange believes the proposal is consistent with robust competition and does not provide any unnecessary burden on competition. Further, certain floor members pay floor brokers to execute trades on the Exchange floor, thereby incurring costs related to this business model. The Exchange believes that offering fee caps to members executing floor transactions and not electronic executions does not create an

²⁶ The fee cap is applied to options transaction charges where buy and sell sides originate from the Exchange floor. See proposed rule text in Section II of the Pricing Schedule.

²⁷ Customers are not assessed options transaction charges in Section II of the Pricing Schedule.

unnecessary burden on competition because the fee caps defray brokerage costs associated with executing strategy transactions. Also, requiring that both the buy and sell sides of the order originate from the floor to qualify for the fee cap constitutes equal treatment of members.

The Exchange operates in a highly competitive market, comprised of twelve options exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates to be inadequate. Accordingly, the fees that are assessed and the rebates paid by the Exchange described in the above proposal are influenced by these robust market forces and therefore must remain competitive with fees charged and rebates paid by other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.²⁸ 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.

²⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

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-2015-57 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-Phlx-2015-57. 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 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-Phlx-2015-57, 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.²⁹

Robert Errett
Deputy Secretary

²⁹ 17 CFR 200.30-3(a)(12).