

or otherwise in furtherance of the purposes of the Act.

#### 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ICC-2012-10 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-ICC-2012-10. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 a.m. and 3 p.m. Copies of such filings also will be available for inspection and copying at the principal office of ICC and on ICC's Web site at [https://www.theice.com/publicdocs/regulatory\\_filings/ICEclearCredit\\_061812.pdf](https://www.theice.com/publicdocs/regulatory_filings/ICEclearCredit_061812.pdf). 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-ICC-2012-10 and should

be submitted on or before August 1, 2012.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Elizabeth M. Murphy,**

*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67352; File No. SR-Phlx-2012-83]

### Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Establish Distributor Fees for Two Related Options Market Data Products

July 5, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that, on June 22, 2012, 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

Phlx proposes to establish distributor fees for two related options market data products, PHLX Depth of Market and PHLX Orders. PHLX Depth of Market includes full depth of quotes and orders, imbalance information and last sale data for options listed on PHLX, and PHLX Orders provides pricing information for options orders on the PHLX limit order book.

The text of the proposed rule change is available at <http://nasdaqomxphlx.cchwallstreet.com/nasdaqomxphlx/phlx/>, at Phlx's principal office, 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

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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

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 the proposed rule change is to establish distributor fees for the PHLX Depth of Market ("PHLX Depth") and PHLX Orders options data products. PHLX Depth is a data product that provides: (i) Order and quotation information for individual quotes and orders on the PHLX book; (ii) last sale information for trades executed on PHLX; and (iii) an Imbalance Message as described in prior rule filings.<sup>3</sup> PHLX Depth provides data that enhances the ability to analyze market conditions, and to create and test trading models and analytical strategies. PHLX Depth of Market is useful for gaining comprehensive insight into the trading activity in a particular option series on the PHLX market.

PHLX Orders is a real-time full limit order book data feed that provides pricing information for orders on the PHLX limit order book. PHLX Orders is currently provided as part of the Top of PHLX Options Plus Orders ("TOPO Plus Orders") data product; PHLX Orders data is identical to the "Orders" portion of the TOPO Plus Orders product. PHLX Orders provides real-time information to enable users to keep track of the single order book(s), single and complex orders,<sup>4</sup> imbalance information, and Complex Order Live Auction ("COLA")<sup>5</sup> for all symbols listed on PHLX. It is a compilation of data for limit orders residing on the Exchange's limit order book for options traded on the Exchange that the Exchange provides through a real-time data feed. The Exchange updates the information upon receipt of each displayed limit

<sup>3</sup> See Securities Exchange Act Release No. 66967 (May 11, 2012); 77 FR 29440 (May 17, 2012).

<sup>4</sup> A Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. See Exchange Rule 1080 08(a)(i).

<sup>5</sup> See Exchange Rule 1080 08(e).

order or change to any order resting on the book.

Market data users should be free to choose the data elements they use and purchase. Some users seek to view the full depth of market, others the orders on the limit book, and still others just the top of the market. The market functions most effectively when it includes numerous participants employing varied trading strategies requiring different use of market data products. Thus, the PHLX Orders product is designed for users that want the order book information provided in TOPO Plus Orders but don't need the entire TOPO Plus Orders data set. PHLX Orders complements the Top of PHLX Options or "TOPO" product that contains the best priced quotes and orders in the PHLX market. The Depth Data product is designed for users that

want a full range of data available from the PHLX options market, and that are willing to pay for the extra technology, telecommunications bandwidth, and other requirements of processing such data. The Exchange makes all data products equally available to all market participants.

PHLX is proposing to establish distributor fees for the Depth Data and Orders Data products. PHLX classifies distributors as either "internal" or "external," depending upon whether the receiving entity transmits the data only to Subscribers within its own corporate organization or those outside that organization.<sup>6</sup> Currently, PHLX assesses distributor fees for TOPO of \$2,000 per month for internal distribution and \$2,500 per month for external distribution. PHLX assesses distributor fees for TOPO Plus Orders of

\$4,000 per month for internal distribution and \$5,000 per month for external distribution. PHLX is hereby proposing to assess fees for Depth Data of \$4,000 per month for internal distribution and \$4,500 per month for external distribution. Additionally, PHLX is proposing to assess fees for PHLX Orders of \$3,000 per month for internal distribution and \$3,500 per month for external distribution. Offering the PHLX Orders feed separately from the TOPO feed allows customers to access the specific data they need and at a lower price. PHLX Orders distributors will pay \$1000 or \$1500 per month less than TOPO Plus Orders distributors currently pay.

In addition, PHLX fees compare favorably with fees assessed by other exchanges for similar products:

DEPTH FEEDS

Exchange:	PHLX	NOM	ISE	CBOE
	PHLX depth	ITTO	Depth of market	BBO data feed
Top of market .....	No .....	No .....	Yes .....	Yes.
Depth of market .....	Full depth .....	Full depth .....	Top 5 levels .....	No.
Depth of orders only .....	No .....	No .....	No .....	No.
Trades .....	Yes .....	Yes .....	No .....	Yes.
Imbalance .....	Yes .....	Yes .....	No .....	No.
Complex orders .....	No .....	No .....	No .....	Yes.
Internal .....	\$4,000 .....	\$1,500 .....	\$5,000 .....	\$3,500.
External .....	\$4,500 .....	\$2,000 .....	\$5,000 .....	\$3,500.

ORDERS FEEDS

Exchange:	PHLX	PHLX	ISE	BATS	CBOE
	TOPO plus orders	PHLX orders	Spread book feed	Multicast PITCH	BBO data feed
Top of market .....	Yes .....	No .....	No .....	No .....	Yes.
Depth of market .....	No .....	No .....	No .....	No .....	No.
Depth of orders only .....	Yes .....	Yes .....	No .....	Yes .....	No.
Trades .....	Yes .....	Yes .....	No .....	Yes .....	Yes.
Imbalance .....	Yes .....	Yes .....	No .....	No .....	No.
Complex orders .....	Yes .....	Yes .....	Yes .....	No .....	Yes.
Internal Distributor Fee .....	\$4,000 .....	\$3,000 .....	\$3,000 .....	0 .....	\$3,500.
External Distributor Fee .....	\$5,000 .....	\$3,500 .....	\$3,000 .....	0 .....	\$3,500.

As set forth in more detail below, PHLX believes that the proposed fees are consistent with the Act in that they are fair and reasonable and provide for an equitable allocation of fees among PHLX members and other users of PHLX products.

2. Statutory Basis

PHLX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>7</sup> in general, and with Section 6(b)(4) of the Act,<sup>8</sup> in

particular, in that it provides an equitable allocation of reasonable fees among Subscribers and recipients of PHLX data. In adopting Regulation NMS, the Commission granted self-regulatory organizations and broker-dealers increased authority and flexibility to offer new and unique market data to the public. It was believed that this authority would expand the amount of data available to consumers, and also spur innovation

and competition for the provision of market data.

The Commission concluded that Regulation NMS—by deregulating the market in proprietary data—would itself further the Act's goals of facilitating efficiency and competition:

[E]fficiency is promoted when broker-dealers who do not need the data beyond the prices, sizes, market center identifications of the NBBO and consolidated last sale information are not required to receive (and pay for) such data. The Commission also

<sup>6</sup> See PHLX Fee Schedule, Section IX. Multiple exchanges use similar internal external classifications, including the NASDAQ Options

Market, the Chicago Board Options Exchange ("CBOE"), and the International Securities Exchange ("ISE").

<sup>7</sup> 15 U.S.C. 78f.

<sup>8</sup> 15 U.S.C. 78f(b)(4).

believes that efficiency is promoted when broker-dealers may choose to receive (and pay for) additional market data based on their own internal analysis of the need for such data.<sup>9</sup>

By removing “unnecessary regulatory restrictions” on the ability of exchanges to sell their own data, Regulation NMS advanced the goals of the Act and the principles reflected in its legislative history. If the free market should determine whether proprietary data is sold to broker-dealers at all, it follows that the price at which such data is sold should be set by the market as well. PHLX Depth Data and PHLX Orders are precisely the sort of market data products that the Commission envisioned when it adopted Regulation NMS.

On July 21, 2010, President Barack Obama signed into law H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”), which amended Section 19 of the Act. Among other things, Section 916 of the Dodd-Frank Act amended paragraph (A) of Section 19(b)(3) of the Act by inserting the phrase “on any person, whether or not the person is a member of the self-regulatory organization” after “due, fee or other charge imposed by the self-regulatory organization.” As a result, all SRO rule proposals establishing or changing dues, fees, or other charges are immediately effective upon filing regardless of whether such dues, fees, or other charges are imposed on members of the SRO, non-members, or both. Section 916 further amended paragraph (C) of Section 19(b)(3) of the Act to read, in pertinent part, “At any time within the 60-day period beginning on the date of filing of such a proposed rule change in accordance with the provisions of paragraph (1) [of Section 19(b)], the Commission summarily may temporarily suspend the change in the rules of the self-regulatory organization made thereby, 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 this title. If the Commission takes such action, the Commission shall institute proceedings under paragraph (2)(B) [of Section 19(b)] to determine whether the proposed rule should be approved or disapproved.”

The decision of the United States Court of Appeals for the District of Columbia Circuit in *NetCoalition v. SEC*, No. 09–1042 (D.C. Cir. 2010), although reviewing a Commission

decision made prior to the effective date of the Dodd-Frank Act, upheld the Commission’s reliance upon competitive markets to set reasonable and equitably allocated fees for market data. “In fact, the legislative history indicates that the Congress intended that the market system ‘evolve through the interplay of competitive forces as unnecessary regulatory restrictions are removed’ and that the SEC wield its regulatory power ‘in those situations where competition may not be sufficient,’ such as in the creation of a ‘consolidated transactional reporting system.’” *NetCoalition*, at 15 (quoting H.R. Rep. No. 94–229, at 92 (1975), as reprinted in 1975 U.S.C.A.N. 321, 323). The court’s conclusions about Congressional intent are therefore reinforced by the Dodd-Frank Act amendments, which create a presumption that exchange fees, including market data fees, may take effect immediately, without prior Commission approval, and that the Commission should take action to suspend a fee change and institute a proceeding to determine whether the fee change should be approved or disapproved only where the Commission has concerns that the change may not be consistent with the Act.

For the reasons stated above, PHLX believes that the proposed fees are fair and equitable, and not unreasonably discriminatory. As described above, the proposed fees are based on pricing conventions and distinctions that exist in PHLX’s current fee schedule, and the fee schedules of other exchanges. These distinctions are each based on principles of fairness and equity that have helped for many years to maintain fair, equitable, and not unreasonably discriminatory fees, and that apply with equal or greater force to the current proposal.

As described in greater detail below, if PHLX has calculated improperly and the market deems the proposed fees to be unfair, inequitable, or unreasonably discriminatory, firms can diminish or discontinue the use of their data because the proposed fee is entirely optional to all parties. Firms are not required to purchase proprietary data or to utilize any specific pricing alternative if they do choose to purchase proprietary data. PHLX is not required to make Depth-of-Book or Orders data available or to offer specific pricing alternatives for potential purchases. PHLX can discontinue offering a pricing alternative (as it has in the past) and firms can discontinue their use at any time and for any reason (as they often do), including due to their assessment of

the reasonableness of fees charged. PHLX continues to establish and revise pricing policies aimed at increasing fairness and equitable allocation of fees among Distributors and users.

PHLX believes that the Depth Data and Orders Data product pricing promotes increased transparency by offering a pricing options resulting in fees based upon distributors’ and users’ different levels of usage of data elements. While PHLX may need to periodically adjust the distributor fees to reflect market forces, it continues to view the fee cap as a way for firms to make additional information available to the firms’ clients, thereby increasing transparency in the market.

#### *B. Self-Regulatory Organization’s Statement on Burden on Competition*

PHLX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Notwithstanding its determination that the Commission may rely upon competition to establish fair and equitably allocated fees for market data, the *NetCoalition* court found that the Commission had not, in that case, compiled a record that adequately supported its conclusion that the market for the data at issue in the case was competitive. PHLX believes that a record may readily be established to demonstrate the competitive nature of the market in question.

There is intense competition between trading platforms that provide transaction execution and routing services and proprietary data products. Transaction execution and proprietary data products are complementary in that market data is both an input and a byproduct of the execution service. In fact, market data and trade execution are a paradigmatic example of joint products with joint costs. The decision whether and on which platform to post an order will depend on the attributes of the platform where the order can be posted, including the execution fees, data quality and price and distribution of its data products. Without the prospect of a taking order seeing and reacting to a posted order on a particular platform, the posting of the order would accomplish little. Without trade executions, exchange data products cannot exist. Data products are valuable to many end Subscribers only insofar as they provide information that end Subscribers expect will assist them or their customers in making trading decisions.

The costs of producing market data include not only the costs of the data

<sup>9</sup> Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005).

distribution infrastructure, but also the costs of designing, maintaining, and operating the exchange's transaction execution platform and the cost of regulating the exchange to ensure its fair operation and maintain investor confidence. The total return that a trading platform earns reflects the revenues it receives from both products and the joint costs it incurs. Moreover, an exchange's customers view the costs of transaction executions and of data as a unified cost of doing business with the exchange. A broker-dealer will direct orders to a particular exchange only if the expected revenues from executing trades on the exchange exceed net transaction execution costs and the cost of data that the broker-dealer chooses to buy to support its trading decisions (or those of its customers). The choice of data products is, in turn, a product of the value of the products in making profitable trading decisions. If the cost of the product exceeds its expected value, the broker-dealer will choose not to buy it. Moreover, as a broker-dealer chooses to direct fewer orders to a particular exchange, the value of the product to that broker-dealer decrease, for two reasons. First, the product will contain less information, because executions of the broker-dealer's orders will not be reflected in it. Second, and perhaps more important, the product will be less valuable to that broker-dealer because it does not provide information about the venue to which it is directing its orders. Data from the competing venue to which the broker-dealer is directing orders will become correspondingly more valuable.

Thus, a super-competitive increase in the fees charged for either transactions or data has the potential to impair revenues from both products. "No one disputes that competition for order flow is 'fierce'." *NetCoalition* at 24. However, the existence of fierce competition for order flow implies a high degree of price sensitivity on the part of broker-dealers with order flow, since they may readily reduce costs by directing orders toward the lowest-cost trading venues. A broker-dealer that shifted its order flow from one platform to another in response to order execution price differentials would both reduce the value of that platform's market data and reduce its own need to consume data from the disfavored platform. Similarly, if a platform increases its market data fees, the change will affect the overall cost of doing business with the platform, and affected broker-dealers will assess whether they can lower their trading costs by directing orders

elsewhere and thereby lessening the need for the more expensive data.

Analyzing the cost of market data distribution in isolation from the cost of all of the inputs supporting the creation of market data will inevitably underestimate the cost of the data. Thus, because it is impossible to create data without a fast, technologically robust and well-regulated execution system, system costs and regulatory costs affect the price of market data. It would be equally misleading, however, to attribute all of the exchange's costs to the market data portion of an exchange's joint product. Rather, all of the exchange's costs are incurred for the unified purposes of attracting order flow, executing and/or routing orders, and generating and selling data about market activity. The total return that an exchange earns reflects the revenues it receives from the joint products and the total costs of the joint products.

Competition among trading platforms can be expected to constrain the aggregate return each platform earns from the sale of its joint products, but different platforms may choose from a range of possible, and equally reasonable, pricing strategies as the means of recovering total costs. For example, some platforms may choose to pay rebates to attract orders, charge relatively low prices for market information (or provide information free of charge) and charge relatively high prices for accessing posted liquidity. Other platforms may choose a strategy of paying lower rebates (or no rebates) to attract orders, setting relatively high prices for market information, and setting relatively low prices for accessing posted liquidity. In this environment, there is no economic basis for regulating maximum prices for one of the joint products in an industry in which suppliers face competitive constraints with regard to the joint offering. This would be akin to strictly regulating the price that an automobile manufacturer can charge for car sound systems despite the existence of a highly competitive market for cars and the availability of after-market alternatives to the manufacturer-supplied system.

The market for market data products is competitive and inherently contestable because there is fierce competition for the inputs necessary to the creation of proprietary data and strict pricing discipline for the proprietary products themselves. Numerous exchanges compete with each other for listings, trades, and market data itself, providing virtually limitless opportunities for entrepreneurs who wish to produce and distribute their own market data. This proprietary

data is produced by each individual exchange, as well as other entities, in a vigorously competitive market.

Broker-dealers currently have numerous alternative venues for their order flow, including nine existing SRO markets (plus two more expected this year), as well as various forms of alternative trading systems ("ATs"). Each SRO market competes to produce transaction reports via trade executions. Competitive markets for order flow, executions, and transaction reports provide pricing discipline for the inputs of proprietary data products.

The large number of SROs, BDs, and ATs that currently produce proprietary data or are currently capable of producing it provides further pricing discipline for proprietary data products. Each SRO, ATs, and BD is currently permitted to produce proprietary data products, and many currently do or have announced plans to do so, including NASDAQ, CBOE, ISE, NYSE Amex, and NYSEArca.

Any ATs or BD can combine with any other ATs, BD, or multiple ATs or BDs to produce joint proprietary data products. Additionally, order routers and market data vendors can facilitate single or multiple broker-dealers' production of proprietary data products. The potential sources of proprietary products are virtually limitless.

Market data vendors provide another form of price discipline for proprietary data products because they control the primary means of access to end Subscribers. Vendors impose price restraints based upon their business models. For example, vendors such as Bloomberg and Thomson Reuters that assess a surcharge on data they sell may refuse to offer proprietary products that end Subscribers will not purchase in sufficient numbers. Internet portals, such as Google, impose a discipline by providing only data that will enable them to attract "eyeballs" that contribute to their advertising revenue. Retail broker-dealers, such as Schwab and Fidelity, offer their customers proprietary data only if it promotes trading and generates sufficient commission revenue. Although the business models may differ, these vendors' pricing discipline is the same: they can simply refuse to purchase any proprietary data product that fails to provide sufficient value. PHLX and other producers of proprietary data products must understand and respond to these varying business models and pricing disciplines in order to market proprietary data products successfully.

In addition to the competition and price discipline described above, the market for proprietary data products is

also highly contestable because market entry is rapid, inexpensive, and profitable. The history of electronic trading is replete with examples of entrants that swiftly grew into some of the largest electronic trading platforms and proprietary data producers: Archipelago, BATS Trading and Direct Edge.

Regulation NMS, by deregulating the market for proprietary data, has increased the contestability of that market. While broker-dealers have previously published their proprietary data individually, Regulation NMS encourages market data vendors and broker-dealers to produce proprietary products cooperatively in a manner never before possible. Multiple market data vendors already have the capability to aggregate data and disseminate it on a profitable scale, including Bloomberg and Thomson Reuters.

The court in *NetCoalition* concluded that the Commission had failed to demonstrate that the market for market data was competitive based on the reasoning of the Commission's *NetCoalition* order because, in the court's view, the Commission had not adequately demonstrated that the proprietary data at issue in the case is used to attract order flow. PHLX believes, however, that evidence not before the court clearly demonstrated that availability of data attracts order flow.

Competition among platforms has driven PHLX continually to improve its platform data offerings and to cater to customers' data needs. For example, PHLX has developed and maintained multiple delivery mechanisms (IP, multi-cast, and compression) that enable customers to receive data in the form and manner they prefer and at the lowest cost to them. PHLX has created new products like Depth Data, TOPO and TOPO Plus Orders, because offering data in multiple formatting allows PHLX to better fit customer needs. PHLX offers data via multiple extranet providers, thereby helping to reduce network and total cost for its data products. PHLX has developed an online administrative system to provide customers transparency into their data feed requests and streamline data usage reporting.

Despite these enhancements and a dramatic increase in message traffic, PHLX's fees for market data have remained flat. In fact, as a percent of total Subscriber costs, PHLX data fees have fallen relative to other data usage costs—including bandwidth, programming, and infrastructure—that have risen. The same holds true for execution services; despite numerous

enhancements to PHLX's trading platform, absolute and relative trading costs have declined. Platform competition has intensified as new entrants have emerged, constraining prices for both executions and for data.

The vigor of competition for proprietary information is significant and the Exchange believes that this proposal itself clearly evidences such competition. PHLX is offering a new pricing model in order to keep pace with changes in the industry and evolving customer needs. It is entirely optional and is geared towards attracting new customers, as well as retaining existing customers.

The Exchange has witnessed competitors creating new products and innovative pricing in this space over the course of the past year. PHLX continues to see firms challenge its pricing on the basis of the Exchange's explicit fees being higher than the zero-priced fees from other competitors such as BATS. In all cases, firms make decisions on how much and what types of data to consume on the basis of the total cost of interacting with PHLX or other exchanges. Of course, the explicit data fees are but one factor in a total platform analysis. Some competitors have lower transactions fees and higher data fees, and others are vice versa. The market for this Depth-of-Book information is highly competitive and continually evolves as products develop and change.

#### *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.<sup>10</sup> 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.

<sup>10</sup> 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2012-83 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-Phlx-2012-83. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 a.m. and 3 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-2012-83 and should be submitted on or before August 1, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Elizabeth M. Murphy,  
Secretary.

[FR Doc. 2012-16876 Filed 7-10-12; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67353; File No. SR-ISE-2012-61]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by International Securities Exchange To Amend ISE Rule 715 To Reflect a Modification in the Functionality of the Add Liquidity Order

July 5, 2012.

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 June 27, 2012, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (“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 Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 715 (Types of Orders) to reflect a modification in the functionality of the Add Liquidity Order and to rename the order type.

The text of the proposed rule change is available on the Exchange’s Internet Web site at <http://www.ise.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 these statements may be examined at

the places specified in Item IV below. The self-regulatory organization 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 proposed rule change is [sic] amend ISE Rule 715(n), Add Liquidity Order (“ALO”), to add a sentence describing a change to the functionality.<sup>3</sup>

The ALO was adopted to accommodate investors and market participants who wish only to provide liquidity in certain circumstances, such as to receive a maker fee (rebate) upon execution of an order. ALOs are limit orders that will only be executed as a “maker” on the ISE. Members can choose whether an ALO that is executable on the ISE upon entry (or that locks or crosses an away market upon entry) will be cancelled or re-priced to one minimum price variation above the national best bid or below the national best offer. For an ALO to be accepted by the system the Member must designate whether the order shall be re-priced or cancelled; there is no default option. An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price.

The Exchange is now proposing additional functionality, such that, if at the time of entry, an ALO would lock or cross one or more non-displayed orders on the Exchange, the ALO will be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders).<sup>4</sup> Currently, the only type of non-displayed order available on the Exchange is the all-or-none order (“AON”). AONs are contingency orders that have no priority on the book,<sup>5</sup> are not included in the ISE best bid or offer and, as such, are not included in the national best bid or offer (“NBBO”).

<sup>3</sup> ALOs have not yet been implemented on the Exchange. While the rule change adopting the ALO became operative on April 6, 2012, the implementation date for the order type was delayed until such time as the technology incorporating this functionality was released. See Securities Exchange Act Release No. 66617 (March 19, 2012), 77 FR 17102 (March 23, 2012) (Notice of Filing and Immediate Effectiveness of SR-ISE-2012-20).

<sup>4</sup> For example, if the NBBO is 2.00 x 2.06 and there is a non-displayed all-or-none (“AON”) order (due to the size contingency, AON orders are not displayed) on the book to sell 10 contracts at 2.05, an incoming ALO to buy 10 contracts at 2.06 will be re-priced to 2.04.

<sup>5</sup> See Supplemental Material .02 to ISE Rule 713.

AONs are considered to be “non-displayed” because they are not disseminated to OPRA to be included in the NBBO. However, they are not truly a “non-displayed” order as AONs are disseminated via the ISE Order Feed which Members can subscribe to for a fee.<sup>6</sup> Accordingly, Members entering AONs do not have an expectation that their order is “non-displayed” and would not have concerns that the ALO could disclose the existence of the AON by re-pricing to one minimum price variation above the AON bid price or below the AON offer price as Members have access to the existence of AONs via the ISE Order Feed.

The Exchange believes that adding this functionality is imperative to ensure that ALOs are only executed when providing liquidity. Without the ability to re-price an ALO that locks or crosses a non-displayed order, under certain circumstances, an incoming ALO could execute against a non-displayed order resting on the ISE limit order book, which would be in direct contravention with the purpose of an ALO—to provide liquidity, not take liquidity.

Additionally, for branding and marketing purposes, the Exchange proposes to rename the “Add Liquidity Order” to the “Add Liquidity Only” order.

As the implementation date for this order is not certain, the Exchange will announce the specific operative date via an Information Circular.

##### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>7</sup> in general, and with Section 6(b)(5) of the Act,<sup>8</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. Specifically, the ALO order is designed to provide market participants with the ability to provide liquidity and have more control over their execution costs. When an ALO would lock or cross a non-displayed order on the ISE limit

<sup>6</sup> See ISE Schedule of Fees.

<sup>7</sup> 15 U.S.C. 78f.

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> 17 CFR 200.30-3(a)(12).

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

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