

extensive use of derivatives on impact on the arbitrage mechanism. Will the OTC derivatives held by the Funds negatively impact the arbitrage mechanism? Why or why not?

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-NYSEArca-2013-127 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 Numbers SR-NYSEArca-2013-127. 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 10:00 a.m. and 3:00 p.m. Copies of these filings 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-NYSEArca-2013-127 and should be submitted on or before March 31, 2014. Rebuttal comments should be submitted by April 14, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>28</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-71641; File No. SR-NSX-2014-05]

### Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Fee and Rebate Schedule To Adopt a New Pricing Model and Make Other Conforming Changes

March 4, 2014.

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 February 25, 2014, National Stock Exchange, Inc. ("NSX" or the "Exchange") 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 Exchange. The Commission is publishing this notice to solicit comment 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 is proposing to amend its Fee and Rebate Schedule (the "Fee Schedule") issued pursuant to Exchange Rule 16.1 to: (i) Change the Fee Schedule applicable to executions occurring on the Exchange through the Auto Ex mode of order interaction ("Auto Ex Mode")<sup>3</sup> and the Order Delivery mode of order interaction ("Order Delivery Mode")<sup>4</sup> from the current fee and rebate structure to one that provides for fees for adding liquidity and rebates for removing liquidity (a "taker/maker" pricing model); (ii) in connection with the changes to the fee and rebate structure, eliminate the volume tiers and variable and fixed fees and rebates under Section I. of the current Fee Schedule (Auto Ex Mode) and eliminate the volume tiers

<sup>28</sup> 17 CFR 200.30-3(a)(57).

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

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

<sup>3</sup> See Exchange Rule 11.13 (Proprietary and Agency Orders; Modes of Order Interaction), paragraph (b)(1).

<sup>4</sup> See Exchange Rule 11.13(b)(2).

and rebates for adding liquidity in Order Delivery Mode under Section II. of the current Fee Schedule; and (iii) eliminate the rebate of \$0.0015 per executed share for Double Play Orders<sup>5</sup> routed to and executed on the CBOE Stock Exchange, Inc. ("CBSX"). The Exchange also proposes to delete the Explanatory Endnotes and move the content of certain Endnotes to the text of the Fee Schedule.

The text of the proposed rule change is available on the Exchange's Web site at <http://www.nsx.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 parts of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

As part of its continuous assessment of the U.S. equity securities markets and the competitive environment in which it operates, the Exchange has in recent months undertaken a series of changes to its Fee Schedule with the goal of maximizing the effectiveness of its business model, providing incentives to Equity Trading Permit ("ETP") Holders<sup>6</sup> to access the Exchange through both Auto Ex Mode and Order Delivery Mode, and to continue providing a high-quality and cost-effective execution venue.<sup>7</sup> The Exchange believes that,

<sup>5</sup> Exchange Rule 11.11(c)(10) defines a Double Play order as a market or limit order that, upon entry, routes to designated away Trading Centers which are approved by the Exchange from time to time without first exposing the order to the NSX Book. A Double Play Order that is not executed in full after routing away receives a new time stamp upon return to the Exchange and is ranked and maintained in the NSX Book in accordance with Rule 11.14(a).

<sup>6</sup> Exchange Rule 1.5 defines "ETP" as the Equity Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange's trading facilities.

<sup>7</sup> See Exchange Act Release No. 71332 (January 16, 2014); 79 FR 3900 (January 23, 2014); (SR-NSX-

while these changes to the Fee Schedule have been salutary and have responded to the needs of both the Exchange and its customers, the evolving competitive environment impels additional changes to the Exchange's fee and rebate structure.

Accordingly, as set forth in greater detail below, the Exchange is proposing to restructure its fee and rebate programs for both Auto Ex Mode and Order Delivery Mode and adopt a model whereby ETP Holders adding liquidity, computed as a daily percentage of the ETP Holder's total consolidated volume ("TCV")<sup>8</sup> adding liquidity, will be assessed fees that will decline from \$0.0018 per executed share to \$0.0012 per executed share as the ETP Holder's percentage of TCV increases. The proposed fee structure will apply in both Auto Ex Mode and Order Delivery Mode. ETP Holders removing liquidity in securities priced at \$1.00 and above will receive a rebate. For securities priced below \$1.00, the Exchange proposes to retain its fee and rebate structure as it existed before the instant amendment.

In proposing these amendments to the Fee Schedule, the Exchange is replicating certain aspects of the fee and rebate structure currently in effect at CBSX, including the volume tiers

currently in use by CBSX for determining fees for providing liquidity. The CBSX fee and rebate schedule and all amendments thereto have been filed with the Commission.<sup>9</sup> In addition, the Exchange believes that its proposal will further simplify and streamline the Exchange's Fee Schedule by providing for the same fees in both modes of order interaction. Thus, all ETP Holders will be subject to the same fee and rebate structure whether they are accessing the Exchange through Auto Ex Mode or Order Delivery Mode.

**Fee and Rebate Structure Prior to the Proposed Changes**

Prior to the changes proposed in this rule filing, the Fee Schedule as of January 9, 2014 contained separate fee and rebate structures for executions occurring through Auto Ex Mode (as contained in Section I. of the former Fee Schedule) and Order Delivery Mode (as contained in Section II. of the former Fee Schedule). Within each of those separate fee and rebate structures, the Exchange established ADV tiers that provided rebates to ETP Holders for adding liquidity and assessed fees for removing liquidity. ETP Holders were also given a rebate to 50% of the Market Data Revenue ("MDR") for ADV meeting certain volume tiers.

**Section I. Fees and Rebates Applicable to Auto Ex Mode**

The fee and rebate structure for Auto Ex Mode under former Section I. of the Fee Schedule was as follows:

Securities \$1 and Above (All Tapes);<sup>10</sup> Orders That Add and Take Liquidity<sup>11</sup>:

Each ETP Holder was charged \$0.0030 per share for any marketable order that removed liquidity unless the ETP Holder executed ADV of at least 25,000 shares of added liquidity in Auto Ex Mode during a calendar month.

The "Fixed Fee Schedule" applied to each ETP Holder that executed ADV of at least 25,000 shares of added liquidity in Auto Ex Mode during a calendar month unless the ETP Holder elected to adopt the "Variable Fee Schedule" by sending an email indicating this preference to *NSXTrading@NSX.com* prior to 4:00 p.m. EST on the first trading day of the calendar month.

For Tape B securities only, each ETP Holder that executed ADV of at least 25,000 shares of added liquidity in Auto Ex Mode during a calendar month received a rebate of \$0.0034 under the Fixed Fee Schedule per executed share.

The former Section I. fee and rebate structure was as follows:

Tier	ADV	Variable fee schedule		MDR %	Fixed fee schedule	
		Rebate to add liquidity (per share)	Fee to remove liquidity (per share)		Rebate to add liquidity (per share)	Fee to remove liquidity (per share)
1	0 & < 0.5 million shares traded	\$0.0024	\$0.0030	– %	\$0.0024	\$0.0029
2	≥ 0.5 & < 1.5 million shares traded	0.0026	0.0030	50	0.0030	0.0029
3	≥ 1.5 & < 5.0 million shares traded	0.0027	0.0030	50	0.0031	0.0029
4	≥ 5.0 & < 10.0 million shares traded	0.0029	0.0029	50	0.0032	0.0028
5	≥10.0 million shares traded	0.0031	0.0028	50	0.0033	0.0027

The former Fee Schedule provided that, for all Tapes, an ETP Holder posting a Midpoint Peg Zero Display Reserve Order received a fixed rebate of \$0.0017 per executed share; these shares were to be included in the ADV calculation but were not eligible for additional rebates under Section I.

Additionally, for all Tapes, an ETP Holder removing liquidity using a Midpoint-Seeker Order was charged a fixed fee of \$0.0020 per executed share; these shares were to be included in the ADV calculation but not subject to additional fees under Section I.

**Securities under \$1 (All Tapes) Orders that Add and Take Liquidity:**

For executions in securities priced under \$1.00 through Auto Ex Mode, Section I. of the pre-amendment Fee Schedule provided for rebates to add liquidity and fees to remove liquidity as follows:

2014-01) (adopting a single pricing structure for Order Delivery Mode, establishing new rebates based on average daily volume ("ADV") adding liquidity using Order Delivery Mode, eliminating Quotation Update Fees in securities priced above \$1.00 applicable to Order Delivery Users; eliminating the Order Delivery Notification Fee in securities priced above \$1.00, and eliminating the market data revenue rebate to Order Delivery Users). See also Exchange Act Release No. 70890 (November 15, 2013); 78 FR 69900 (November 21, 2013) (SR-NSX-2013-21) (among other amendments, changing fees and rebates for executions in Auto Ex Mode, providing an enhanced rebate for adding liquidity in Tape B

securities, and eliminating the Order Delivery Notification fee and quotation update fee in securities priced below \$1.00).

<sup>8</sup> The proposed amended Fee Schedule defines "TCV" as the total consolidated volume calculated as the volume reported by all exchanges and trade reporting facilities to a consolidated transaction reporting plan.

<sup>9</sup> See, e.g., Exchange Act Release No. 66665 (March 27, 2012); 77 FR 19741 (April 2, 2012) (SR-CBOE-2012-029).

<sup>10</sup> The term "Tapes" refers to the designation assigned in the Consolidated Tape Association ("CTA") Plan for reporting trades with respect to

securities in Networks A, B and C. Tape A securities are those listed on the New York Stock Exchange, Inc.; Tape B securities are listed on NYSE MKT, formerly NYSE Amex, and regional exchanges. Tape C securities are those listed on the NASDAQ Stock Market LLC.

<sup>11</sup> This section in the former Fee Schedule referenced former Explanatory Endnote (2), which provided that, except for Midpoint Peg Zero Display reserve orders (as specified in Rule 11.11(c)(2)(B)), only "Displayed orders" are eligible for a rebate, and Displayed Orders mean orders that are not "Zero Display Orders" (which means "Zero Display reserve orders" as specified in Rule 11.11(c)(2)(A)).

Tier	ADV	Rebate to add liquidity (per share)	Fee to remove liquidity (per share)
1	All	Lesser of: 0.25% of trade value <sup>7</sup> and 25% of the quote spread <sup>8</sup>	0.30% of trade value.

**Section II. Fees and Rebates Applicable in Order Delivery Mode**

The fee and rebate structure for Order Delivery Mode under former Section II. of the Fee Schedule was as follows:

Securities \$1 and Above (All Tapes): Each ETP Holder approved for use of Order Delivery Mode ("Order Delivery User") executing ADV of added liquidity of at least 15 million shares in

Order Delivery Mode during a calendar month would receive a per share rebate as follows:

Tier	ADV of added liquidity	Rebate to add liquidity (per share)
1	≥ 15 million shares traded	\$0.0005
2	≥ 20 million shares traded	0.0013
3	≥ 25 million shares traded	0.0017

Each Order Delivery User executing ADV of added liquidity in the following amounts through both Order Delivery

Mode and Auto Ex Mode during a calendar month would receive a per share rebate on the shares executed

through Order Delivery Mode, as well as any volume-based rebate for adding liquidity under Section I. above:

Tier	Order delivery ADV	Auto Ex. ADV	Rebate to add liquidity (per share executed in order delivery mode)
1	≥ 300,000–749,999	≥ 2 million shares traded	\$0.0005
2	≥ 750,000	≥ 3 million shares traded	0.0010

Additionally, the Fee Schedule provided that an Order Delivery User paid no fee for Order Delivery Notifications delivered by the System to that Order Delivery User for potential execution against a posted displayed or undisplayed order in any security priced at \$1.00 and above.

Securities Under \$1 (All Tapes): For securities priced under \$1.00, the Fee Schedule further provided that an Order Delivery User paid no fee for any Order Delivery Notification delivered by the System to that Order Delivery User for potential execution against a posted displayed or undisplayed order in any security priced below \$1.00.

**Section III. (Other Services) Fees and Rebates**

Section III A. of the pre-amendment Fee Schedule, Order Routing (All Tapes) provided that orders routed by the Exchange in accordance with Exchange Rule 11.15(a)(ii)<sup>12</sup> were charged a fee of \$0.0030 per executed share.

The Fee Schedule further provided that an ETP Holder entering a Double Play Order<sup>13</sup> received a fixed rebate for

each share directed to and executed on CBSX of \$0.0015 per share. These shares were not included in the ADV calculation or eligible for additional rebates under Section I. of the Fee Schedule. An ETP Holder entering a Double Play Order would not be charged a routing fee under Section III for the initial routing to a designated away Trading Center. Any unexecuted portion of a Double Play Order that is returned and executed on the Exchange shall be subject to either Section I of this Schedule, or a fee of \$0.0030 per share under Section III if the order is subsequently routed to an away Trading Center in accordance with Exchange Rule 11.15(a)(ii).

**Explanatory Endnotes**

Prior to the instant amendments, the Fee Schedule contained Explanatory Endnotes numbered (1) through (14) inclusive, which are as follows, with

<sup>12</sup> ETP Holder instructs the System to route to designated away Trading Centers which are approved by the Exchange from time to time without first exposing the order to the NSX Book. A Double Play Order that is not executed in full after routing away receives a new time stamp upon return to the Exchange and is ranked and maintained in the NSX Book in accordance with Rule 11.14(a).

additional parenthetical explanatory text in certain instances:

(1) As specified in Rule 11.13(b)(1). (This Endnote references a description of Auto Ex Mode relevant to Section I of the pre-amendment Fee Schedule).

(2) Except for Midpoint Peg Zero Display Reserve Orders (as specified in Rule 11.11(c)(2)(B)), only "Displayed Orders" are eligible for a rebate. Displayed Orders mean orders that are not "Zero Display Orders" (which means "Zero Display Reserve Orders" as specified in Rule 11.11(c)(2)(A)).

(3) Reserved.

(4) "Auto-Ex ADV" means, with respect to an ETP Holder, the average number of shares the ETP Holder has executed in Auto-Ex Mode on the Exchange in all NMS stocks when the Exchange is open for trading (excluding partial trading days) (or partial month, as applicable). Only shares executed by an ETP Holder in Auto-Ex Mode will be used by the Exchange to calculate the minimum ADV contained in Section I. Regardless of an ETP Holder's Auto-Ex ADV, an ETP Holder shall receive a fixed per share rebate for Midpoint Peg Zero Display Reserve Orders, and that ETP Holder will not be eligible for additional rebates under Section I above.

(5) Reserved.

<sup>12</sup> Rule 11.15(a)(ii) entitled *Routing to Away Trading Centers* describes the handling of orders eligible for routing to other Trading Centers.

<sup>13</sup> Exchange Rule 11.11(c)(10) defined a "Double Play Order" as market or limit order for which an

(6) Market Data Revenue (“MDR”) Rebates:

(a) Assuming the minimum ADV threshold(s) are achieved, an ETP Holder will receive a MDR Rebate (in such percent as is specified above) of the MDR attributable to such ETP Holder’s trading and quoting of Displayed Orders at prices equal to or greater than one dollar in Auto-Ex Mode or Order Delivery Mode, as applicable. ETP Holders will not receive MDR Rebates attributable to (x) Zero Display Orders or (y) securities quoted at prices less than one dollar.

(b) Adjustments. To the extent market data revenue from Tape “A”, “B” or “C” transactions is subject to any adjustment, rebates provided under this program may be adjusted accordingly.

(c) De Minimis Rebates. An ETP Holder will not receive a MDR Rebate in any calendar quarter in which the MDR Rebate attributable to the ETP Holder is less than \$250.

(d) Quarterly Payments. MDR Rebates will be paid on a quarterly basis.

(7) “Trade value” means a dollar amount equal to the price per share multiplied by the number of shares executed.

(8) “Quote spread” means a dollar amount equal to the number of shares executed multiplied by the difference at the time of execution between (x) the price per share of the national best bid, and (y) the price per share of the national best offer, in each case as such quotes are disseminated pursuant to an effective National Market System plan and as the terms “national best bid” and “national best offer” are defined in Rule 600 of Regulation NMS; provided, that no rebate based on the quote spread shall be payable during any period in which the market is locked or crossed.

(9) As specified in Rule 11.13(b)(2). A marketable order entered with a handling instruction other than Post Only through an order delivery session by an ETP Holder that is an order delivery participant will be subject to the Auto-Ex Mode fee schedule contained in Section I above. (This Endnote references the description of Order Delivery Mode under Rule 11.13(b)(2) and provides additional

information as to the fees applicable in certain instances.)

(10) Reserved.

(11) Orders that are routed via NSX and executed in another market center. (This Endnote provides a description of what constitutes a “routed order” for purposes of the fees under Section III.A of the Fee Schedule.

(12) Authorized recipients of the Exchange’s Depth of Book feed must execute required documentation with, and be approved by, the Exchange prior to receiving the service.

(13) Upon verification and approval by NSX, the number of shares executed by ETP Holders under common ownership and control will be aggregated for purposes of calculating average daily volumes. See Rule 16.3.

(14) In the event of any change to this Fee and Rebate Schedule at other than the end of a calendar month, volume calculations will be made on the basis of such number of full trading days within such month during which the unchanged pricing or rebate program’s terms are in effect.

Restructured Fee and Rebate Program

The Exchange is proposing to amend Section I. of the Fee Schedule to eliminate the Variable and Fixed Fee Schedules for securities priced at \$1.00 and above across all Tapes and to adopt the fee and rebate structure currently used by CBSX. The Exchange will therefore, consistent with the pricing model in use by CBSX, charge fees to ETP Holders adding liquidity and provide a rebate to ETP Holders removing liquidity. Consequently, the ADV tiers and their associated per share rebates to add liquidity, the fees assessed to remove liquidity, and the Market Data Revenue (“MDR”) rebate under the pre-amendment Fee Schedule, will be rescinded. The Exchange also proposes to eliminate the enhanced rebate for ADV of at least 25,000 shares of added liquidity in Tape B securities.

The Exchange also proposes as a part of these amendments to amend Section II. of the Fee Schedule to eliminate the separate fee and rebate structure applicable to executions by Order

Delivery Users in Order Delivery Mode and in some instances through a combination of activity through Auto Ex Mode and Order Delivery Mode. As proposed, there will be one schedule of transaction fees and rebates that will apply in both modes of interaction with the Exchange. The section headings of the Fee Schedule will be renumbered in view of the elimination of the separate Order Delivery Mode Fee Schedule that formerly comprised the content of Section II.

Under the proposed new fee and rebate schedule for Section I., the Exchange will assess a per share fee for adding liquidity, based on a percentage of TCV of liquidity in one day. The maximum fee for adding liquidity will be \$0.0018 per executed share, based on the ETP Holder adding less than 0.08% of TCV of liquidity in one day. Proposed amended Section I. of the Fee Schedule provides six additional levels that reduce the per share fee based on successively higher percentages of TCV adding liquidity in one day. The lowest fee of \$0.0012 per executed share would apply to ETP Holders adding 0.052% or more of TCV of liquidity in one day.

The Exchange represents that the tiers are designed to progressively reduce the fees assessed to ETP Holders daily as their liquidity provision increases. Specifically, the Exchange believes that every .08 percent increase in liquidity executed with respect to TCV (.09 percent and .10 percent as such ETP Holder’s quantity of liquidity provision moves up through the tier levels), produces an additive effect on the revenues collected by the Exchange. Therefore, the Exchange is proposing to incentivize greater liquidity provision by reducing fees payable for providing liquidity as an ETP Holder’s level of liquidity provision increases. The Exchange’s proposal represents an aspirational effort to attract greater posted liquidity by reduced fees at the specified levels.

The TCV tiers and the associated fees that the Exchange proposes to charge for providing liquidity at the specified levels are as follows:

FEE SCHEDULE FOR PROVIDING LIQUIDITY (MAKER)

Maker (adds less than 0.08% of TCV of liquidity in one day)	\$0.0018 per share.
Maker (adds at least 0.08% but less than 0.16% of TCV of liquidity in one day)	0.0017 per share.
Maker (adds at least 0.16% but less than 0.24% of TCV of liquidity in one day)	0.0016 per share.
Maker (adds at least 0.24% but less than 0.33% of TCV of liquidity in one day)	0.0015 per share.
Maker (adds at least 0.33% but less than 0.42% of TCV of liquidity in one day)	0.0014 per share.
Maker (adds at least 0.42% but less than 0.52% of TCV of liquidity in one day)	0.0013 per share.
Maker (adds 0.52% or more of TCV of liquidity in one day)	0.0012 per share.
Zero Display Maker.	
Maker (adds liquidity using a Zero Display Order or Zero Display Primary Peg Order)	0.0018 per share.

FEEES FOR PROVIDING LIQUIDITY (MAKER)—Continued

Maker (adds liquidity using a Zero Display Mid-Point Peg or Zero Display Market Peg Order) .....	0.0018 per share.
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As noted in the table above, the Exchange proposes fee provisions for ETP Holders adding liquidity through Zero Display Reserve orders.<sup>14</sup> ETP Holders will pay a fee of \$0.0018 per executed share of added liquidity using a Zero Display Order; a Zero Display Primary Peg Order; a Zero Display Mid-Point Peg Order; or Zero Display Market Peg Order. The fees for adding liquidity in these order types irrespective of TCV

is intended to incentivize ETP Holders to use these “dark” orders.

The Exchange has also proposed to specify that transactions that are (i) Taker; (ii) Routed Away; (iii) Zero Display Maker; or (iv) Maker in securities priced below \$1.00 will not count toward an ETP Holder’s percentage of TCV.

Further, as proposed, the rates for adding liquidity contained in Section I.

of the Fee Schedule will apply to all transactions in securities priced at and above \$1.00 made by the same ETP Holder on any day in which such ETP Holder adds the established percentage or more of TCV of liquidity.

For ETP Holders removing liquidity, the Exchange proposes to adopt the following rebate schedule:

REBATES FOR REMOVING LIQUIDITY (TAKER)

Taker (removes Zero Display Mid-Point Peg or Zero Display Market Peg Order) .....	\$0.0015 rebate per share.
Taker (all other order types) .....	0.0015 rebate per share.

The Exchange is proposing to pay a rebate of \$0.0015 per executed share to ETP Holders removing liquidity from the NSX Book. Such rebate will also be paid to ETP Holders for removing “dark” order types, specifically the Zero Display Mid-Point Peg or Zero Display Market Peg order types.

The Exchange believes that, by offering a rebate to ETP Holders removing liquidity in securities priced at \$1.00 or greater, there will be a marked improvement in the quality of execution. It is anticipated that improvement in execution quality should lead to a greater number of market participants attempting to access the resting liquidity on the NSX Book.<sup>15</sup> Furthermore, the Exchange believes that the rebate of \$0.0015 to remove liquidity will offer attractive economic incentives to liquidity takers and, in conjunction with the fee structure for liquidity providers, will offer ETP Holders a better quality of execution.

For securities priced below \$1.00, the Exchange proposes to retain the existing pre-amendment fee and rebate structure. ETP Holders adding liquidity will receive a per share rebate equal to the lesser of 0.25% of the trade value and 25% of the quote spread at the time of execution. A fee of 0.30% of trade value will be charged to ETP Holders removing liquidity in sub-dollar priced securities.

Pursuant to Exchange Rule 16.3, upon an ETP Holder’s request the Exchange will aggregate the activity of the ETP Holder and its affiliates for purposes of applying the fees and rebates applicable to liquidity providers and liquidity takers.

Amendments to Section III; Elimination of Rebate for Double Play Orders

The Exchange proposes that, for orders routed by the Exchange and executed in another market center in accordance with Exchange Rule 11.15(a)(ii), the following fees will apply:

ORDERS ROUTED AWAY

Transactions in securities priced \$1 or greater.	\$0.0030 per share.
Transactions in securities priced below \$1.	0.30% of trade value.

These are the same fees that applied prior to the instant amendments. The proposal by the Exchange also includes eliminating the rebate of \$0.0015 per share for Double Play Orders directed to and executed on CBSX.<sup>16</sup> The proposed changes to Section I. of the Fee Schedule provide a rebate for takers of liquidity in the amount of \$0.0015 per executed share, which renders unnecessary the specific rebate for a

Double Play Order, which is designed to allow ETP Holders to remove liquidity at the designated away Trading Centers.

Elimination of Explanatory Endnotes

The Exchange has also proposed eliminating the Explanatory Endnotes of the Fee Schedule, numbered (1) through (14) inclusive. In certain instances, the Exchange proposes to move the information contained in an Explanatory Endnote to the text of the relevant section of the Fee Schedule; in others, deletion of the Endnote is proposed because the accompanying sections of the Fee Schedule have been deleted.

Endnotes (1) (a reference to the description of Auto Ex Mode in Exchange Rule 11.13) and (9) (a reference to the description of Order Delivery Mode in Rule 11.13 and additional information regarding the fees applicable to an Order Delivery order with instructions other than Post Only), will both be deleted because they are inapposite in the context of the proposed changes to the Fee Schedule and the elimination of separate pricing structures for each mode of order interaction.

Endnote (2) regarding rebates for non-displayed orders is no longer applicable in view of the changes to the pricing model. Similarly, Endnote (4) addresses “Auto- Ex ADV” which is no longer relevant in the proposed pricing model.

<sup>14</sup> Pursuant to Exchange Rule 11.11(c)(2)(A), a Reserve Order entered with zero display quantity is a “Zero Display Reserve Order.” The price of a Zero Display Reserve Order may be set (“pegged”) to track the buy-side of the Protected BBO, the sell-side of the Protected BBO, or the midpoint of the Protected BBO. A pegged Zero Display Reserve

Order which tracks the inside quote of the opposite side of the market is defined as a Market Peg; a pegged Zero Display Reserve Order that tracks the midpoint is defined as a Midpoint Peg; and a pegged Zero Display Reserve Order that tracks the inside quote of the same side of the market is defined as a Primary Peg.

<sup>15</sup> The “NSX Book” is the System’s electronic file of orders (Exchange Rule 1.5).

<sup>16</sup> See Exchange Act Release No. 70890 (November 15, 2013); 78 FR 69900 (November 21, 2013) (SR–NSX–2013–21), cited at footnote 7, *supra*.

Endnote (6) provides information on the MDR, which is being eliminated from the Fee Schedule and thus is no longer needed.

Endnote (7), defining “trade value” and Endnote (8), defining “quote spread” are proposed to be deleted and their content moved to the body of the Fee Schedule. Also, the text of each of Endnotes (11) through (14) has been moved to the body of the Fee Schedule and the deletion of such Endnotes is proposed.

Finally, Endnotes (3), (5) and (10), which were “reserved” will also be deleted.

Pursuant to Exchange Rule 16.1(c), the Exchange will “provide ETP Holders with notice of all relevant dues, fees, assessments and charges of the Exchange” through the issuance of a Regulatory Circular of the changes to the Fee Schedule and will provide a copy of the rule filing on the Exchange’s Web site, [www.nsx.com](http://www.nsx.com).

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b) of the Act,<sup>17</sup> in general and, in particular, Section 6(b)(4) of the Act,<sup>18</sup> which requires that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and with Section 6(b)(5) of the Act,<sup>19</sup> which requires, among other things, that the rules of a national securities exchange not permit unfair discrimination between customers, issuers, brokers, or dealers, and be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system.

The Exchange submits that the proposed changes in the Fee Schedule to restructure its fee and rebate programs for both Auto Ex Mode and Order Delivery Mode are equitably allocated and reasonable, as required by Section 6(b)(4). The Exchange is proposing to adopt a model whereby an ETP Holder’s added liquidity, computed as a daily percentage of the ETP Holder’s TCV adding liquidity, will be subject to fees that will decline from \$0.0018 per executed share to \$0.0012 per executed share as the ETP Holder’s percentage of TCV increases. The proposed fees are equitably allocated in that they will apply to all ETP Holders

accessing the System, using both Auto Ex Mode and Order Delivery Mode. Each ETP Holder will have the ability to determine the extent to which the Exchange’s proposed structure will provide it with an economic incentive to use the System, and model its business accordingly.

Specifically, the Exchange is proposing to eliminate rebates for adding liquidity and the MDR for securities priced at and above \$1.00 under Section I. of the Fee Schedule, and instead provide rebates to ETP Holders removing liquidity in securities priced at \$1.00 and above will receive a standard rebate of \$0.0015 per executed share, including removing Zero Display Mid-Point or Zero Display Market Peg Orders. The Exchange submits that this approach constitutes an equitable allocation of reasonable fees and rebates because the fees and rebates are applicable to all ETP Holders irrespective of the mode of interaction used to access the System.

The Exchange submits that converting the qualification for the different fee tiers for Maker transactions in securities priced \$1 or greater, from measuring by nominal amount of shares to measuring by relative percentage of TCV, is reasonable because it allows the Exchange to account for changes in national industry-wide volume. The Exchange believes that the change is equitable and not unfairly discriminatory because it will be applied to all ETP Holders. Further, other exchanges also measure volume using percentage of TCV.

The Exchange further states that its proposals constitute reasonable dues and fees in that they provide for a more simplified and streamlined approach which will benefit both ETP Holders and the Exchange in determining revenues and expenses. In that regard, the change from the pre-amendment fee and rebate structure also aligns the Exchange’s fee and rebate programs with those used by other national securities exchanges.<sup>20</sup> The Exchange submits that its proposed fee and rebate structure is reasonable in that it is designed to achieve the goal of maximizing the Exchange’s competitive position, simplifying and streamlining its Fee Schedule, and promoting an efficient structure that aligns with that of other exchanges and thereby can operate to reduce the administrative costs and burdens on ETP Holders.

The Exchange believes that retaining the pre-amendment fee and rebate structure for securities priced below \$1.00, *i.e.*, ETP Holders adding liquidity will receive a per share rebate equal to the lesser of 0.25% of the trade value and 25% of the quote spread at the time of execution and ETP Holders removing liquidity will be charged a fee of 0.30% of the trade value, is consistent with Section 6(b)(4) of the Act. The pre-amendment fee and rebate structure for sub-dollar securities will be equitably allocated in that all ETP Holders executing orders in such securities will be subject to its provisions; the fee and rebate structure is reasonable in that it recognizes the differences between securities priced below \$1.00 and those priced at \$1.00 and above and retains the fee and rebate structure that best addresses the Exchange’s goals of greater liquidity, price improvement, and execution quality.

As part of the proposed changes, the Exchange will eliminate the rebate of \$0.0015 per executed share that it pays to ETP Holders that direct Double Play Orders to CBSX. The Exchange submits that eliminating this rebate is consistent with Section 6(b)(4) of the Act. The proposed change is equitably allocated in that it applies to all executions by ETP Holders using Double Play Orders; the proposal is reasonable in that the proposed rebate changes provide for a rebate in the same amount for all ETP Holders removing liquidity, thereby aligning the treatment of executions of Double Play Orders with that of all other orders removing liquidity and providing for a rebate in the same amount.

The Exchange also believes that the proposed changes described above satisfy the requirements of Section 6(b)(5) of the Act in that they do not permit unfair discrimination between customers, issuers, brokers, or dealers, and are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system. Under the proposed changes to the Fee Schedule, all ETP Holders executing orders on the Exchange will be subject to one fee and rebate structure applicable to both modes of order interaction, and such changes are thereby designed to meet the requirements of the Section 6(b)(5) that the rules of the Exchange not permit unfair discrimination among ETP Holders and their customers. The Exchange submits that, to the extent that the amendments to the Fee Schedule align with the fee and rebate programs of other exchanges, they will promote just and equitable principles of trade by reducing the administrative burdens

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78(f)(b)(4).

<sup>19</sup> 15 U.S.C. 78f(b)(5).

<sup>20</sup> See, e.g., NASDAQ OMX BX fee schedule at [www.nasdaqtrader.com/Trader.aspx?id=bx\\_pricing](http://www.nasdaqtrader.com/Trader.aspx?id=bx_pricing); CBSX fee schedule at [www.cboe.com/publish/cbsxfeeschedule/cbsxfeeschedule.pdf](http://www.cboe.com/publish/cbsxfeeschedule/cbsxfeeschedule.pdf).

and expenses incurred by ETP Holders in determining the revenues and costs associated with its activity on the Exchange.

Moreover, the Exchange believes that offering rebates to ETP Holders removing liquidity in securities priced at \$1.00 or greater will incentivize more such liquidity-takers to trade on the Exchange, which will in turn provide greater opportunities for liquidity providers to experience a better execution quality. Improvement in execution quality should, the Exchange posits, lead to a greater number of market participants seeking to access the liquidity on the NSX Book, which would inure to the benefit of all ETP Holders seeking greater and better execution opportunities. In this regard, the Exchange believes that proposed amendments to the Fee Schedule meet the test of an equitable allocation of reasonable dues and fees under Section 6(b)(4) as well as promoting just and equitable principles of trade and operating to remove impediments to and perfect the mechanism of a free and open market and a national market system under Section 6(b)(5).

The Exchange submits that its proposal to eliminate the Explanatory Endnotes of the Fee Schedule, numbered (1) through (14) inclusive, in certain instances moving the information contained in an Explanatory Endnote to the text of the relevant section of the Fee Schedule and in others deleting the Endnote because the accompanying sections of the Fee Schedule have been deleted, is consistent with Section 6(b)(5) of the Act. The Exchange is proposing these amendments to add greater clarity and transparency to the Fee Schedule which, it believes will be enhanced by deleting obsolete references and moving relevant retained Endnote text to the accompanying section of the Fee Schedule. The Exchange submits that these amendments are consistent with Section 6(b)(5) in that they promote just and equitable principles of trade and operate to protect investors and the public interest.

#### *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 that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. The proposed rule change seeks to adopt a fee and rebate structure, certain aspects of which are already in use by CBSX, and it will apply to all ETP Holders irrespective of the mode of order interaction used to access the

Exchange. The Exchange submits that, given that it previously had separate fee and rebate programs for executions occurring through Auto Ex Mode and Order Delivery Mode, moving to a single schedule for transaction fees and rebates for both modes of order interaction should impose no burden on competition. Moreover, the proposed changes will, the Exchange believes, operate to enhance rather than burden competition by aspiring to increase liquidity and improve execution quality on the Exchange through reasonable and equitably allocated economic incentives.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

The proposed rule change has taken effect upon filing pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>21</sup> and subparagraph (f)(2) of Rule 19b-4.<sup>22</sup>

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.

#### **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-NSX-2014-05 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.

<sup>21</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>22</sup> 17 CFR 240.19b-4.

All submissions should refer to File Number SR-NSX-2014-05. 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 10:00 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-NSX-2014-05 and should be submitted on or before March 31, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>23</sup>

**Kevin M. O'Neill,**  
*Deputy Secretary.*

[FR Doc. 2014-05030 Filed 3-7-14; 8:45 am]

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#### **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-71648; File No. SR-CBOE-2014-017]

#### **Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing of a Proposed Rule Change, as Modified by Amendment 1, To Amend Its Rules Related to Complex Orders**

March 5, 2014.

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>

<sup>23</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.