

Appointed MM or an Appointed OFP. Also, all NOM Participants may qualify for a MARS Payment provided they meet applicable System Eligibility requirements. NOM Participants may participate in only one Affiliated Entity relationship at a given time, which imposes a measure of exclusivity among market participants, allowing each party to rely on the other's executed volume on NOM to receive a corresponding benefit in terms of a rebate. The Exchange will apply all qualifications in a uniform manner to all market participants that elect to become counterparties of an Affiliated Entity.

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>31</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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2016-090 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-NASDAQ-2016-090. 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-NASDAQ-2016-090 and should be submitted on or before August 17, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>32</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-78382; File No. SR-Phlx-2016-62]

**Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to Affiliated Entities**

July 21, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 15, 2016, NASDAQ 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 Preface, Section B and Section II of the Exchange's Pricing Schedule to permit certain affiliated market participants to aggregate volume and qualify for various pricing incentives in the Pricing Schedule.

The text of the proposed rule change is available on the Exchange's Web site at <http://nasdaqphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to permit certain affiliated market participants to aggregate volume and qualify for various pricing incentives in the Pricing Schedule. Specifically, the Exchange proposes to amend the Pricing Schedule at Section B, Customer<sup>3</sup> Rebates and at Section II, Multiply-Listed Options Fees,<sup>4</sup> to offer

<sup>3</sup> The term "Customer" applies to any transaction that is identified by a member or member organization for clearing in the Customer range at The Options Clearing Corporation which is not for the account of a broker or dealer or for the account of a "Professional" (as that term is defined in Rule 1000(b)(14)).

<sup>4</sup> These fees include options overlying equities, ETFs, ETNs and indexes which are Multiply Listed.

<sup>31</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>32</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.

Affiliated Entities certain rebate and fee incentives.

**Affiliated Entity**

The Exchange proposes to add three definitions to the Preface of the Pricing Schedule. The Exchange proposes to define the terms “Appointed MM,” “Appointed OFP,” and “Affiliated Entity.” The Exchange proposes to define the term “Appointed MM” as a Phlx Market Maker<sup>5</sup> or Specialist<sup>6</sup> who has been appointed by an Order Flow Provider (“OFP”) for purposes of qualifying as an Affiliated Entity. An OFP is a member or member organization that submits orders, as agent or principal, to the Exchange.<sup>7</sup> The Exchange proposes to define the term “Appointed OFP” as an OFP who has been appointed by a Phlx Market Maker or Specialist for purposes of qualifying as an Affiliated Entity. The Exchange proposes to define the term “Affiliated Entity” as a relationship between an Appointed MM and an Appointed OFP for purposes of qualifying for certain pricing as specified in the Pricing Schedule. In order to become an Affiliated Entity, Market Makers or Specialists, and OFPs

will be required to send an email to the Exchange to appoint their counterpart, at least 3 business days prior to the last day of the month to qualify for the next month.<sup>8</sup> For example, with this proposal, market participants may submit emails to the Exchange to become Affiliated Entities eligible to qualify for discounted pricing starting August 1, 2016, provided the emails are sent at least 3 business days prior to the first business day of August 2016. The Exchange will acknowledge receipt of the emails and specify the date the Affiliated Entity would be eligible to qualify for applicable pricing, as specified in the Pricing Schedule. Each Affiliated Entity relationship will commence on the 1st of a month and may not be terminated prior to the end of any month. An Affiliated Entity relationship will terminate after a one (1) year period, unless either party terminates earlier in writing by sending an email to the Exchange at least 3 business days prior to the last day of the month to terminate for the next month. Affiliated Entity relationships must be renewed annually. For example, if the start date of the Affiliated Entity

relationship is August 1, 2016, the counterparties may determine to commence a new relationship as of August 1, 2017 by sending two new emails by July 27, 2017 (3 business days prior to the end of the month). Members and member organizations under Common Ownership<sup>9</sup> may not qualify as a counterparty comprising an Affiliated Entity. Each member or member organization may qualify for only one (1) Affiliated Entity relationship at any given time.

As proposed, an Affiliated Entity shall be eligible to aggregate their volume for purposes of qualifying for certain pricing specified in the Pricing Schedule, as described below.

**Section B—Customer Rebates**

The Exchange proposes to amend Section B, entitled “Customer Rebate Program” to permit Affiliated Entities to aggregate their Customer volume for purposes of calculating Customer Rebate Tiers and receiving rebates. Currently, the Exchange has a Customer Rebate Program consisting of the following five tiers that pay Customer rebates on three Categories, A, B and C, of transactions:

Customer rebate tiers	Percentage thresholds of national customer volume in multiply-listed equity and ETF Options classes, excluding SPY Options (monthly)	Category A	Category B	Category C
Tier 1 .....	0.00%–0.60% .....	\$0.00	\$0.00	\$0.00
Tier 2 .....	Above 0.60%–1.10% .....	\$0.10	\$0.10	\$0.17
Tier 3 .....	Above 1.10%–1.60% .....	\$0.15	\$0.12	\$0.17
Tier 4 .....	Above 1.60%–2.50% .....	\$0.20	\$0.16	\$0.22
Tier 5 .....	Above 2.50% .....	\$0.21	\$0.17	\$0.22

A Phlx member qualifies for a certain rebate tier based on the percentage of total national customer volume in multiply-listed options that it transacts monthly on Phlx. The Exchange calculates Customer volume in Multiply Listed Options by totaling electronically-delivered and executed volume, excluding volume associated

with electronic Qualified Contingent Cross (“QCC”) Orders, as defined in Exchange Rule 1080(o).<sup>10</sup> The Exchange proposes to incentivize certain members and member organizations, who are not under Common Ownership, to enter into an Affiliated Entity relationship for the purpose of aggregating Customer volume to qualify for Section B

Customer Rebates. By aggregating volume, the counterparties comprising the Affiliated Entity are offered an opportunity to qualify for higher rebates, thereby lowering costs and encouraging members to send more order flow. Customer liquidity benefits all market participants by providing

<sup>5</sup> The term “Market Maker” will be utilized to describe fees and rebates applicable to Registered Options Traders (“ROT”), Streaming Quote Traders (“SQTs”), Remote Streaming Quote Traders (“RSQTs”). An ROT is defined in Exchange Rule 1014(b) is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. A ROT includes SQTs and RSQTs as well as on and off-floor ROTs. An SQT is defined in Exchange Rule 1014(b)(ii)(A) as an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An RSQT is defined in Exchange Rule in 1014(b)(ii)(B) as an ROT that is a member affiliated with an RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options

to which such RSQT has been assigned. A Remote Streaming Quote Trader Organization or “RSQTO,” which may also be referred to as a Remote Market Making Organization (“RMO”), is a member organization in good standing that satisfies the RSQTO readiness requirements in Rule 507(a). RSQTs may also be referred to as Remote Market Markers (“RMMs”).  
<sup>6</sup> The term “Specialist” shall apply to the account of a Specialist (as defined in Exchange Rule 1020(a)). A Specialist is an Exchange member who is registered as an options specialist pursuant to Rule 501(a). An options Specialist includes a Remote Specialist which is defined as an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.  
<sup>7</sup> Specialist and Market Makers submitting quotes to the Exchange shall not be considered Appointed

OFPs for the purpose of becoming an Affiliated Entity.  
<sup>8</sup> The Exchange shall issue an Options Trader Alert specifying the email address and details required to apply to become an Affiliated Entity.  
<sup>9</sup> The term “Common Ownership” shall mean members or member organizations under 75% common ownership or control. Phlx members or member organizations that are under 75% common ownership or control shall be considered under Common Ownership for purposes of pricing.  
<sup>10</sup> In calculating electronically-delivered and executed Customer volume in Multiply Listed Options, the numerator of the equation includes all electronically-delivered and executed Customer volume in Multiply Listed Options. The denominator of that equation includes national customer volume in multiply-listed equity and ETF options volume, excluding SPY. See Section B of the Pricing Schedule.

more order flow to the marketplace and more trading opportunities.

Affiliated Entities may aggregate Customer volume as between the Appointed MM and Appointed OFP to qualify for any of the five tiers of Customer Rebates that pay Category, A, B or C rebates on transactions. An Appointed OFP would be eligible to receive the additional \$0.02 per contract Category A and B rebate and the additional \$0.03 per contract Category C rebate, paid in addition to the applicable Tier 2 and 3 rebate, currently available to a Specialist or Market Maker or its member or member organization affiliate under Common Ownership, provided the Appointed MM has reached the Monthly Market Maker Cap, as defined in Section II.

The Exchange proposes to amend the language in Section B to clarify the applicability of the \$0.02 per contract rebate in addition to Categories A and B and the \$0.03 per contract rebate in addition to Category C, applicable to Tiers 2 and 3. The Exchange proposes to relocate certain language and add language to amend the sentence as follows: “The Exchange will pay a \$0.02 per contract Category A and B rebate and a \$0.03 per contract Category C rebate in addition to the applicable Tier 2 and 3 rebate, provided the Specialist, Market Maker or Appointed MM has reached the Monthly Market Maker Cap as defined in Section II, to: (1) A Specialist or Market Maker who is not under Common Ownership or is not a party of an Affiliated Entity; or (2) an OFP member or member organization affiliate under Common Ownership; or (3) an Appointed OFP of an Affiliated Entity.”

The Exchange’s proposal would incentivize certain members and member organizations, which are not under Common Ownership, to enter into an Affiliated Entity relationship for the purpose of aggregating Customer volume to qualify the Appointed OFP for Customer Rebates in Section B of the Pricing Schedule. Phlx members and member organizations that are under 75% common ownership or control will be considered under Common Ownership and therefore by definition are not eligible to enter an Affiliated Entity relationship.

## Section II—Options Transaction Charge

The Exchange proposes to amend Section II of the Pricing Schedule to offer members and member organizations that are Appointed OFPs of Affiliated Entities transacting non-Customer orders an opportunity to reduce non-Penny Pilot electronic Options Transaction Charges. Today,

the Exchange assesses a Professional,<sup>11</sup> Broker-Dealer<sup>12</sup> and Firm<sup>13</sup> a non-Penny Pilot electronic Options Transaction Charge of \$0.75 per contract and a Specialist and Market Maker a \$0.25 per contract non-Penny Pilot electronic Options Transaction Charge. The Exchange proposes to provide an Appointed OFP of an Affiliated Entity with an opportunity to lower the Professional, Broker-Dealer and Firm non-Penny Pilot electronic Options Transaction Charge from \$0.75 to \$0.60 per contract provided the Affiliated Entity qualifies for Customer Rebate Tiers 4<sup>14</sup> or 5<sup>15</sup> in Section B of the Pricing Schedule. The Exchange proposes to provide an Appointed MM of an Affiliated Entity with an opportunity to lower the Specialist and Market Maker non-Penny Pilot electronic Options Transaction Charge from \$0.25 to \$0.23 per contract provided the Affiliated Entity qualifies for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule.<sup>16</sup>

The Exchange’s proposal would incentivize certain members and member organizations, who are not under Common Ownership, to enter into an Affiliated Entity relationship for the purpose of aggregating Customer volume to qualify for reduced non-Penny Pilot Options Transaction Charges.

## 2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule

<sup>11</sup> 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).

<sup>12</sup> The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

<sup>13</sup> The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at The Options Clearing Corporation.

<sup>14</sup> The Tier 4 Customer Rebate in Section B of the Pricing Schedule requires Customer volume above 1.60% to 2.50% of National Customer Volume in Multiply Listed Equity and ETF Options, excluding SPY. This rebate tier pays a Category A \$0.20 rebate, a Category B \$0.16 rebate and a Category C \$0.22 rebate.

<sup>15</sup> The Tier 5 Customer Rebate in Section B of the Pricing Schedule requires Customer volume above 2.50% of National Customer Volume in Multiply Listed Equity and ETF Options, excluding SPY. This rebate tier pays a Category A \$0.21 rebate, a Category B \$0.17 rebate and a Category C \$0.22 rebate.

<sup>16</sup> Today, any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule is assessed either a \$0.23 or \$0.60 per contract non-Penny Pilot electronic Options Transaction Charge.

is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act,<sup>18</sup> 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 its facilities, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”<sup>19</sup>

Likewise, in *NetCoalition v. Securities and Exchange Commission*<sup>20</sup> (“NetCoalition”) the D.C. Circuit upheld the Commission’s use of a market-based approach in evaluating the fairness of market data fees against a challenge claiming that Congress mandated a cost-based approach.<sup>21</sup> As the court emphasized, the Commission “intended in Regulation NMS that ‘market forces, rather than regulatory requirements’ play a role in determining the market data . . . to be made available to investors and at what cost.”<sup>22</sup>

Further, “[n]o one disputes that competition for order flow is ‘fierce.’ . . . As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’ . . . .”<sup>23</sup> Although the court and the SEC were discussing the cash equities markets, the Exchange believes

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

<sup>18</sup> 15 U.S.C. 78f(b)(4), (5).

<sup>19</sup> Securities Exchange Act Release No. 51808 (June 29, 2005), 70 FR 37496 at 37499 (File No. S7-10-04) (“Regulation NMS Adopting Release”).

<sup>20</sup> *NetCoalition v. SEC*, 615 F.3d 525 (D.C. Cir. 2010).

<sup>21</sup> See *id.* at 534–535.

<sup>22</sup> See *id.* at 537.

<sup>23</sup> See *id.* at 539 (quoting Securities Exchange Act Commission at Release No. 59039 (December 2, 2008), 73 FR 74770 at 74782–74783 (December 9, 2008) (SR–NYSEArca–2006–21)).

that these views apply with equal force to the options markets.

The Exchange's proposal to amend the Preface of the Pricing Schedule to add the definitions of "Appointed MM," "Appointed OFP" and "Affiliated Entity" is reasonable because the Exchange is proposing to identify the applicable market participants that may qualify to aggregate volume as an Affiliated Entity. Further the Exchange seeks to make clear the manner in which members and member organizations may participate on the Exchange as Affiliated Entities by setting timeframes for communicating agreements among market participants and terms of early termination. The Exchange also clearly states that no member or member organization under Common Ownership may become a counterparty to an Affiliated Entity. Any Phlx member or member organization who meets the definition of Common Ownership shall not be eligible to become an Affiliated Entity. The Exchange believes that these terms are reasonable because they would allow members or member organizations to elect to become a counterparty to an Affiliated Entity, provided they are not under Common Ownership.

The Exchange's proposal to amend the Preface of the Pricing Schedule to add the definitions of "Appointed MM," "Appointed OFP" and "Affiliated Entity" is equitable and not unfairly discriminatory because all member or members that are not under Common Ownership by definition may choose to enter into an Affiliated Entity relationship.

#### Section B Customer Rebates

The Exchange's proposal to permit Affiliated Entities to aggregate Customer volume for purposes of qualifying Appointed OFPs for Section B Customer Rebates is reasonable because it will attract additional Customer order flow to the Exchange. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Market Makers and Specialists. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Appointed OFPs directing order flow to the Exchange may be eligible to qualify for a Customer Rebate or a higher Customer Rebate tier, with this proposal, as a result of aggregating volume with an Appointed MM and thereby qualifying for higher Customer Rebates. Permitting members and member organizations to affiliate for purposes of qualifying for Section B

Customer Rebates may also encourage the counterparties that comprise the Affiliated Entities to incentivize each other to attract and seek to execute more Customer volume on Phlx. In turn, market participants would benefit from the increased liquidity with which to interact and potentially tighter spreads on orders. Overall, incentivizing market participants with increased opportunities to earn higher Customer rebates may increase the quality of the liquidity available on Phlx.

The Exchange's proposal to permit Affiliated Entities to aggregate Customer volume for purposes of qualifying Appointed OFPs for Section B Customer rebates is equitable and not unfairly discriminatory because all Phlx members and member organizations, other than those that meet the definition of Common Ownership, may elect to become an Affiliated Entity as either an Appointed MM or an Appointed OFP.<sup>24</sup> Also, each member or member organization may participate in only one Affiliated Entity relationship at a given time, which imposes a measure of exclusivity among market participants, allowing each party to rely on the other's executed Customer volume on Phlx to receive a corresponding benefit in terms of a higher rebate. Any market participant that by definition is not under Common Ownership may elect to become a counterparty of an Affiliated Entity.

The Exchange's proposal to exclude members and member organizations that are under Common Ownership from qualifying as an Affiliated Entity is reasonable because members and member organizations under Common Ownership may aggregate volume today for purposes of Section B Customer Rebates.<sup>25</sup> The Exchange's proposal to exclude members and member organizations that by definition are under Common Ownership from qualifying as an Affiliated Entity is equitable and not unfairly discriminatory because the Exchange will apply all qualifications in a uniform manner when approving Affiliated Entities. Excluding members and member organizations that by definition are under Common Ownership from also qualifying as an Affiliated Entity is equitable and not unfairly discriminatory because they are able to aggregate volume today and

qualify for Customer Rebates in Section B.

#### Section II—Options Transaction Charges

The Exchange's proposal to amend note 3 of Section II of the Pricing Schedule to offer members and member organizations that are Affiliated Entities an opportunity to reduce non-Customer non-Penny Pilot electronic Options Transaction Charges is reasonable because the Exchange believes it will encourage these market participants to transact a greater amount of Customer volume on Phlx. The Exchange's proposal to permit Appointed OFPs of Affiliated Entities to qualify for the reduced non-Penny Pilot electronic Options Transaction Charges by qualifying for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule will attract additional Customer order flow to the Exchange. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Market Makers and Specialists. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause a corresponding increase in order flow from other market participants. Appointed OFPs directing order flow to the Exchange may be eligible to qualify for these Customer rebate tiers as a result of aggregating volume with another appointed member and benefit from reduced non-Penny Pilot electronic Options Transaction Charges. Permitting members and member organizations to affiliate for purposes of qualifying for Section B Customer rebates may also encourage the counterparties of an Affiliated Entity to incentivize each other to attract and seek to execute more Customer volume on Phlx. The Affiliated Entity relationship would permit the Appointed OFP to benefit from reduced non-Penny Pilot electronic Options Transaction Charges. In turn, market participants would benefit from the increased liquidity with which to interact and potentially tighter spreads on orders. The Exchange believes that lowering these fees for electronic non-Penny Pilot Options Transaction Charges, as compared to Penny Pilot Options Transaction Charges, is reasonable because today, Penny Pilot Options are the most traded and more liquid than Non-Penny Pilot Options. Electronic Penny Pilot Options Transaction Charges are lower for Professionals, Broker-Dealers and Firms because of the demand in the marketplace. The Exchange is offering Appointed OFPs the opportunity to reduce the higher electronic non-Penny Pilot Options Transaction Charges for

<sup>24</sup> Both members must elect each other to become an Affiliated Entity for one year. Participation is effected by an agreement of both parties that have provided proper notification to the Exchange. A party may elect to terminate the agreement at any time prior to one year.

<sup>25</sup> See Section B of the Pricing Schedule.

Professionals, Broker-Dealers and Firms with this incentive, provided they qualify for the reduced non-Penny Pilot electronic Options Transaction Charges by qualifying for Customer Rebate Tiers 4 or 5 in Section B of the Pricing Schedule.

The Exchange's proposal to amend note 3 of Section II of the Pricing Schedule to offer members and member organizations that are Affiliated Entities an opportunity to reduce non-Customer non-Penny Pilot electronic Options Transaction Charges is equitable and not unfairly discriminatory because the Exchange will assess Appointed OFPs a reduced Professional, Broker-Dealer and Firm electronic Options Transaction Charge in Non-Penny Pilot Options. The Exchange does not assess Customers an electronic Options Transaction Charge in Non-Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Non-Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>26</sup> They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The proposed differentiation as between Customers, Specialists and Market Makers and other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. The Exchange believes that offering Appointed OFPs an opportunity to lower fees for electronic non-Penny Pilot Options Transaction Charges as compared to Penny Pilot Options Transaction Charges is equitable and not unfairly discriminatory because the Exchange seeks to offer lower fees to those market participants paying the highest

electronic non-Penny Pilot Options Transaction Charges.

The Exchange's proposal to amend note 4 of Section II of the Pricing Schedule to offer Appointed MMs of an Affiliated Entity an opportunity to reduce the Specialist and Market Maker electronic non-Penny Pilot electronic Options Transaction Charges is reasonable because today the Exchange offers all market participants, excluding Customers who are not assessed a non-Penny Pilot electronic Options Transaction Charges, a means to reduce electronic Options Transaction Charges by qualifying for a Customer Rebate in Section B of the Pricing Schedule. Even with the reduced rate for Professionals, Broker-Dealers and Firms of \$0.60 per contract, Specialists and Market Makers will continue to be assessed the lowest electronic Options Transaction Charge in Non-Penny Pilot Options because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>27</sup> The Exchange believes that offering Appointed MMs an opportunity to benefit from lower fees for electronic non-Penny Pilot Options Transaction Charges is reasonable because the reduced electronic non-Penny Pilot will be consistent with the current lower reduced Penny Pilot Options Transaction charges (\$0.25 vs. \$0.22 per contract).

The Exchange's proposal to amend note 4 of Section II of the Pricing Schedule to offer Appointed MMs of an Affiliated Entity an opportunity to reduce the Specialist and Market Maker electronic non-Penny Pilot electronic Options Transaction Charges is equitable and not unfairly discriminatory because the Exchange seeks to incentivize Specialists and Market Makers to increase their activity on Phlx and in turn facilitate tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Specialists and Market Makers have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>28</sup> They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The Exchange believes that offering Appointed MMs the opportunity to receive this additional benefit will continue to benefit the

marketplace as described herein. The Exchange believes that lowering electronic non-Penny Pilot Options Transaction Charges as compared to electronic Penny Pilot Options Transaction Charges is equitable and not unfairly discriminatory because the Exchange is offering market participants the opportunity to reduce the higher electronic non-Penny Pilot Options Transaction Charges for Specialists and Market Makers with this incentive and permitting Appointed MMs to also receive this discount, provided they qualify.

#### *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. Specifically, the Exchange does not believe that permitting counterparties to an Affiliated Entity to aggregate volume to qualify for certain rebates and reduced fees will impose any undue burden on competition, as discussed below.

The Exchange operates in a highly competitive market in which many sophisticated and knowledgeable market participants can readily and do send order flow to competing exchanges if they deem fee levels or rebate incentives at a particular exchange to be excessive or inadequate. Additionally, new competitors have entered the market and still others are reportedly entering the market shortly. These market forces ensure that the Exchange's fees and rebates remain competitive with the fee structures at other trading platforms.

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. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee

<sup>26</sup> See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

changes in this market may impose any burden on competition is extremely limited.

In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets. In terms of inter-market competition, the Exchange notes that other options markets have similar incentives in place to attract volume to their markets.<sup>29</sup>

The Exchange's proposal to amend the Preface of the Pricing Schedule to add the definitions of "Appointed MM," "Appointed OFP" and "Affiliated Entity" does not impose an undue burden on competition because these definitions apply to all members and member organizations uniformly.

#### Section B Customer Rebates

In terms of intra-market competition, the Exchange does not believe that its proposal to permit counterparties of an Affiliated Entity to aggregate Customer volume for purposes of qualifying for Section B Customer Rebates imposes an undue burden on intra-market competition because all Phlx members and member organizations, other than those under Common Ownership, may become an Affiliated Entity as either an Appointed MM or an Appointed OFP. Also, each Phlx member or member organization may participate in only one Affiliated Entity relationship at a given time, which imposes a measure of exclusivity among market participants, allowing each party to rely on the other's executed Customer volume on Phlx to receive a corresponding benefit in terms of a higher rebate. The Exchange will apply all qualifications in a uniform manner to all market participants that elect to become counterparties of an Affiliated Entity. Any market participant that is by definition a member or member organization under Common Ownership may not become a counterparty of an Affiliated Entity.

Market Makers and Specialists are valuable market participants that

provide liquidity in the marketplace and incur costs that other market participants do not incur. Market Makers and Specialists are subject to burdensome quoting obligations<sup>30</sup> to the market that do not apply to other market participants. Incentivizing these market participants to execute Customer volume on Phlx may result in tighter spreads. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Appointed OFPs directing order flow to the Exchange may be eligible to qualify for a Customer Rebate or a higher Customer Rebate tier, with this proposal, as a result of aggregating volume with an Appointed MM and thereby qualifying for higher Customer Rebates. Permitting members and member organizations to affiliate for purposes of qualifying for Section B Customer Rebates may also encourage the counterparties that comprise the Affiliated Entities to incentivize each other to attract and seek to execute more Customer volume on Phlx.

The Exchange's proposal to exclude members and member organizations that are under Common Ownership from becoming an Affiliated Entity does not impose and [sic] undue burden on intra-market competition because member and member organizations under Common Ownership may aggregate volume today for purposes of qualifying for Customer Rebates.

#### Section II—Options Transaction Charges

The Exchange's proposal to amend note 3 of Section II of the Pricing Schedule to offer Appointed OFPs of Affiliated Entities an opportunity to reduce non-Customer non-Penny Pilot electronic Options Transaction Charges does not impose an undue burden on intra-market competition because the Exchange will assess Appointed OFPs a reduced Professional, Broker-Dealer and Firm electronic Options Transaction Charge in Non-Penny Pilot Options. The Exchange does not assess Customers an electronic Options Transaction Charge in Non-Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market

participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Non-Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>31</sup> They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The proposed differentiation as between Customers, Specialists and Market Makers and other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. The Exchange will apply all qualifications for the reduced rate in a uniform manner. The Exchange believes that lowering these fees for electronic non-Penny Pilot Options Transaction Charges as compared to electronic Penny Pilot Options Transaction Charges does not impose an undue burden on intra-market competition because the Exchange seeks to offer lower fees to those market participants paying the highest electronic non-Penny Pilot Options Transaction Charges.

The Exchange's proposal to amend note 4 of Section II of the Pricing Schedule to offer Appointed MMs of Affiliated Entities an opportunity to reduce non-Customer electronic non-Penny Pilot electronic Options Transaction Charges does not impose an undue burden on intra-market competition because the Exchange seeks to incentivize Specialists and Market Makers to increase their activity on Phlx and in turn facilitate tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Specialists and Market have obligations to the market and regulatory requirements, which normally do not apply to other market participants.<sup>32</sup> They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The Exchange believes that permitting Affiliated [sic] MMs to receive this additional benefit will continue to benefit the market place as

<sup>29</sup> See NYSE MKT LLC's ("NYSE Amex") pricing at NYSE Amex Options Fee Schedule). NYSE Amex permits aggregation of volume to qualify for the Amex Customer Engagement or ACE Program. See Bats BZX Exchange, Inc.'s ("BZX") fee schedule. BZX permits aggregation of volume to qualify for tiered pricing. See the Chicago Board Options Exchange Incorporated ("CBOE") Fees Schedule. CBOE permits aggregation of volume to qualify for credits available under an Affiliated Volume Plan or "AVP."

<sup>30</sup> See note 26 above.

<sup>31</sup> See note 26 above.

<sup>32</sup> See note 26 above.

described herein. The Exchange believes that lowering these fees for electronic non-Penny Pilot Options Transaction Charges as compared to Penny Pilot Options Transaction Charges does not impose an undue burden on intra-market competition because the electronic non-Penny Pilot Options Transaction Charges is higher (\$0.25 vs. \$0.22 per contract).

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

No written comments were either solicited or received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>33</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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2016-62 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-2016-62*. 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-Phlx-2016-62 and should be submitted on or before August 17, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

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**BILLING CODE 8011-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-78386; File No. SR-NYSEArca-2016-79]**

**Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Designation of a Longer Period for Commission Action on a Proposed Rule Change Relating to the Listing and Trading of Shares of the Virtus Japan Alpha ETF Under NYSE Arca Equities Rule 8.600**

July 21, 2016.

On May 24, 2016, NYSE Arca, Inc. ("Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares of the Virtus Japan Alpha ETF under NYSE Arca Equities Rule 8.600. The proposed rule change

was published for comment in the **Federal Register** on June 9, 2016.<sup>3</sup> On June 20, 2016, the Exchange filed Amendment No. 1 to the proposed rule change. The Commission received no comments on the proposed rule change.

Section 19(b)(2) of the Act<sup>4</sup> provides that within 45 days of the publication of notice of the filing of a proposed rule change, or within such longer period up to 90 days as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding, or as to which the self-regulatory organization consents, the Commission shall either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved. The 45th day after publication of the notice for this proposed rule change is July 24, 2016. The Commission is extending this 45-day time period.

The Commission finds it appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider this proposed rule change. Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> designates September 7, 2016, as the date by which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change (File No. SR-NYSEArca-2016-79).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

[FR Doc. 2016-17672 Filed 7-26-16; 8:45 am]

**BILLING CODE 8011-01-P**

<sup>3</sup> See Securities Exchange Act Release No. 77992 (Jun. 3, 2016) 81 FR 37222.

<sup>4</sup> 15 U.S.C. 78s(b)(2).

<sup>5</sup> 15 U.S.C. 78s(b)(2).

<sup>6</sup> 17 CFR 200.30-3(a)(31).

<sup>34</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.

<sup>33</sup> 15 U.S.C. 78s(b)(3)(A)(ii).