

executed Specialist and Market Maker Simple Order contracts per day in a month in SPY. Every Specialist and Market Maker will be equally impacted. Also, the Exchange notes that every Specialist and Market Maker may earn a rebate on each contract as the tier schedule starts with 1 contract.

#### MARS

The Exchange believes that adopting a new Tier 2 with an ADV of 20,000 contracts which pays a MARS Payment of \$0.05 for Non-Penny and Penny does not impose an undue burden on intra-market competition because the Exchange will uniformly pay all Phlx members the rebates specified in the proposed MARS Payment tiers provided the Phlx member has executed the requisite number of Eligible Contracts. Moreover, the Exchange believes that the proposed MARS Payments offered by the Exchange are equitable and not unfairly discriminatory because any qualifying Phlx member that offers market access and connectivity to the Exchange and/or utilizes such functionality themselves may earn the MARS Payment for all Eligible Contracts.

#### *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>24</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-2019-15 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-2019-15. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-PHLX-2019-15 and should be submitted on or before May 13, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

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**BILLING CODE 8011-01-P**

## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-85662; File No. SR-NASDAQ-2019-029]

### **Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Exchange's Pricing Schedule in Options 7, Section 2**

April 16, 2019.

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 April 10, 2019, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to amend the Exchange's Pricing Schedule in Options 7, Section 2, which governs the pricing for Nasdaq participants using The Nasdaq Options Market ("NOM"), Nasdaq's facility for executing and routing standardized equity and index options. The proposed changes are described further below.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaq.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.

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

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

<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>25</sup> 17 CFR 200.30-3(a)(12).

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

1. Purpose

The Exchange proposes a number of changes to NOM pricing in Options 7, Section 2. Each change is discussed below.

The Exchange initially filed the proposed pricing changes on April 1, 2019 (SR-NASDAQ-2019-025). On April 10, 2019, the Exchange withdrew that filing and submitted this filing.

Customer and Professional Fee for Removing Liquidity in Penny Pilot Options

The Exchange currently charges Participants a Penny Pilot Options Fee for Removing Customer<sup>3</sup> or

Professional<sup>4</sup> Liquidity that is \$0.50 per contract, excluding SPY. For Participants that remove Customer or Professional liquidity in SPY, this fee is reduced to \$0.49 per contract.<sup>5</sup> The Exchange also offers a reduced \$0.48 per contract Customer or Professional Penny Pilot Options Fee for Removing Liquidity for Participants that qualify for any MARS<sup>6</sup> Payment Tier in Section (6). SPY is excluded from this discount because Participants are already offered the \$0.49 per contract discounted fee for SPY.

The Exchange now proposes to eliminate both discounts, and instead charge a flat fee of \$0.48 per contract (reduced from \$0.50 per contract) for each Customer or Professional transaction which removes liquidity in Penny Pilot Options, including SPY. The Exchange is making this change to

simplify the operation of the Penny Pilot Options Fee to Remove Customer and Professional Liquidity.

Customer and Professional Rebate To Add Liquidity in Penny Pilot Options

The Exchange proposes a number of changes to the Customer and Professional Rebates to Add Liquidity in Penny Pilot Options set forth in Section 2(1). First, the Exchange is proposing to increase certain volume thresholds in the Tier 5 and Tier 6 Customer and Professional Rebates to Add Liquidity in Penny Pilot Options. Today, the Exchange offers the following Customer and Professional Rebates to Add Liquidity in Penny Pilot Options, which are structured as a six tier program with increasing volume requirements for each tier:

Monthly volume		Rebate to add liquidity
Tier 1	Participant adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of up to 0.10% of total industry customer equity and ETF option average daily volume ("ADV") contracts per day in a month.	\$0.20
Tier 2	Participant adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.10% to 0.20% of total industry customer equity and ETF option ADV contracts per day in a month.	0.25
Tier 3	Participant adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.20% to 0.30% of total industry customer equity and ETF option ADV contracts per day in a month.	0.42
Tier 4	Participant adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.30% to 0.40% of total industry customer equity and ETF option ADV contracts per day in a month.	0.43
Tier 5	Participant adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.40% to 0.75% of total industry customer equity and ETF option ADV contracts per day in a month.	0.45
Tier 6	Participant adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.75% or more of total industry customer equity and ETF option ADV contracts per day in a month, or Participant adds: (1) Customer and/or Professional liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 0.20% or more of total industry customer equity and ETF option ADV contracts per day in a month, and (2) has added liquidity in all securities through one or more of its Nasdaq Market Center MPIDs that represent 1.00% or more of Consolidated Volume in a month or qualifies for MARS.	0.48

The Exchange first proposes to amend the criteria in Tier 5 to increase the percentage of total industry customer equity and ETF option ADV contracts per day in a month from 0.75% to 0.80%, and to make a corresponding change in Tier 6 to increase the percentage from 0.75% to 0.80%. As proposed, Participants will receive a \$0.45 per contract Tier 5 rebate for adding Customer, Professional, Firm,<sup>7</sup> Non-NOM Market Maker<sup>8</sup> and/or Broker-Dealer<sup>9</sup> liquidity in Penny Pilot

Options and/or Non-Penny Pilot Options above 0.40% to 0.80% of total industry customer equity and ETF option ADV contracts per day in a month. In addition, Participants will receive a \$0.48 per contract Tier 6 rebate for adding Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.80% or more of total industry customer equity and ETF option ADV contracts per day in a month.<sup>10</sup>

Further, the Exchange proposes to decrease the Customer and Professional Rebate to Add Liquidity in Penny Pilot Options set forth in note "e" of Section 2(1). Today, this rebate is \$0.52 per contract if the Participant transacts in all securities through one or more of its Nasdaq Market Center MPIDs that represent 3.00% or more of Consolidated Volume<sup>11</sup> in the same month on The Nasdaq Stock Market. Participants that qualify for this rebate would not be eligible for any other

<sup>3</sup> The term "Customer" or ("C") applies to any transaction that is identified by a Participant for clearing in the Customer range at The Options Clearing Corporation ("OCC") which is not for the account of broker or dealer or for the account of a "Professional" (as that term is defined in Chapter I, Section 1(a)(48)).

<sup>4</sup> The term "Professional" or ("P") 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) pursuant to Chapter I, Section 1(a)(48). All Professional orders shall be appropriately marked by Participants.

<sup>5</sup> See Options 7, Section 2(1), note 3. Firms, Non-NOM Market Makers, NOM Market Makers and

Broker-Dealers are assessed a \$0.50 per contract Penny Pilot Options Fee for Removing Liquidity in SPY, similar to other Penny Pilot Options.

<sup>6</sup> "MARS" is the Market Access and Routing Subsidy program, which offers rebates to Participants that have System Eligibility and have executed the requisite number of Eligible Contracts in a month. See Options 7, Section 2(6).

<sup>7</sup> The term "Firm" or ("F") applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC.

<sup>8</sup> The term "Non-NOM Market Maker" or ("O") is a registered market maker on another options exchange that is not a NOM Market Maker. A Non-NOM Market Maker must append the proper Non-

NOM Market Maker designation to orders routed to NOM.

<sup>9</sup> The term "Broker-Dealer" or ("B") applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

<sup>10</sup> The alternative method to earn the \$0.48 per contract Tier 6 rebate described above is not being amended under this proposal.

<sup>11</sup> Consolidated Volume would be determined as set forth in Equity 7, Section 118(a). In calculating total volume, the Exchange will add the Participant's total volume transacted on The Nasdaq Stock Market in a given month across its Nasdaq Market Center MPIDs, and will divide this number by the total industry Consolidated Volume.

Customer and Professional rebates in Tiers 1–6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1). The Exchange now proposes to reduce this Customer and Professional Rebate to Add Liquidity in Penny Pilot Options from \$0.52 to \$0.50 per contract.

MARS Pricing

The Exchange currently offers a Market Access and Routing Subsidy or “MARS” to qualifying Participants in Options 7, Section 2(6). Participants that have System Eligibility<sup>12</sup> and have executed the requisite number of

Eligible Contracts<sup>13</sup> daily in a month (“Average Daily Volume”) are entitled to a MARS Payment. The Exchange currently pays the following MARS Payments according to Average Daily Volume (“ADV”) submitted on NOM:

Tiers	Average daily volume (“ADV”)	MARS payment (penny)	MARS payment (non-penny)
1 .....	2,000 .....	\$0.07	\$0.15
2 .....	5,000 .....	0.09	0.20
3 .....	10,000 .....	0.11	0.30
4 .....	20,000 .....	0.15	0.50
5 .....	45,000 .....	0.17	0.60

The Exchange also provides Participants that qualify for the Tier 6 Customer and Professional Penny Pilot Options Rebate to Add Liquidity in Section 2(1) an additional \$0.09 per contract, which is paid in addition to any MARS Payment tier on MARS Eligible Contracts the NOM Participant qualifies for in a given month. The specified MARS Payments are paid on all executed Eligible Contracts that add liquidity, which are routed to NOM through a participating NOM Participant’s System and meet the requisite Eligible Contracts ADV. No payments will be made with respect to orders that are routed to NOM, but not executed.<sup>14</sup>

The Exchange now proposes to eliminate the additional \$0.09 per contract incentive provided to Participants that qualify for Customer and Professional Penny Pilot Options Rebate to Add Liquidity Tier 6 for the Non-Penny MARS Payment tiers. The Exchange will make related changes within Section 2(6) to clarify that it will continue to pay an additional \$0.09 per contract in addition to any MARS Payment tier on MARS Eligible Contracts in a given month on the Penny Pilot Options transactions,

provided the Participant qualified for the Customer and Professional Penny Pilot Options Rebate to Add Liquidity Tier 6 in Options 7, Section 2(1). The Exchange did not observe an appreciable increase in Non-Penny Pilot order flow sent to the Exchange to qualify for this rebate, and therefore proposes to eliminate this incentive to apply its resources to other, possibly more effective incentives. As such, the Exchange proposes to offer another incentive in lieu of the eliminated rebate, which the Exchange will pay to qualifying Participants on both Penny and Non-Penny Pilot Options transactions in addition to any MARS Payment tier on MARS Eligible Contracts in a given month. Specifically, the Exchange proposes to offer Participants that have total Affiliated Entity<sup>15</sup> or Common Ownership<sup>16</sup> average daily add volume (“ADAV”) of 3.00% or more of total industry customer equity and ETF option ADV contracts per day in a month an additional \$0.01 per contract in Penny Pilot Options and an additional \$0.03 per contract in Non-Penny Pilot Options, in addition to any MARS Payment tier on MARS Eligible Contracts the Participant qualifies for in

a given month.<sup>17</sup> The Exchange believes that its proposal will encourage Participants that are affiliated either under Common Ownership or as Affiliated Entities to send additional order flow that add liquidity to the Exchange to qualify for the higher MARS rebates.

The Exchange also proposes to provide Participants that qualify for the Tier 5 MARS Payment two supplemental rebates that are based on progressively increasing volume requirements of executed MARS Eligible Contracts ADV and total Affiliated Entity or Common Ownership ADAV. The Exchange believes that its proposal will encourage Participants to bring additional order flow to the Exchange to qualify for the higher MARS incentives. First, the Exchange proposes to offer Participants that execute at least 75,000 of MARS Eligible Contracts per day and have total Affiliated Entity or Common Ownership ADAV of 3.25% or more of total industry customer equity and ETF option ADV contracts per day in a month an additional \$0.01 per contract in Penny Pilot Options and an additional \$0.10 per contract in Non-Penny Pilot Options, in addition to MARS Payment Tier 5 on MARS

<sup>12</sup> To qualify for MARS, the Participant’s routing system (“System”) would be required to: (1) Enable the electronic routing of orders to all of the U.S. options exchanges, including NOM; (2) provide current consolidated market data from the U.S. options exchanges; and (3) be capable of interfacing with NOM’s API to access current NOM match engine functionality. Further, the Participant’s System would also need to cause NOM to be the one of the top three default destination exchanges for (a) individually executed marketable orders if NOM is at the national best bid or offer (“NBBO”), regardless of size or time or (b) orders that establish a new NBBO on NOM’s Order Book, but allow any user to manually override NOM as a default destination on an order-by-order basis. Any NOM Participant would be permitted to avail itself of this arrangement, provided that its order routing functionality incorporates the features described above and satisfies NOM that it appears to be robust

and reliable. The Participant remains solely responsible for implementing and operating its System.  
<sup>13</sup> For the purpose of qualifying for the MARS Payment, Eligible Contracts may include Firm, Non-NOM Market Maker, Broker-Dealer, or Joint Back Office or “JBO” equity option orders that add liquidity and are electronically delivered and executed. Eligible Contracts do not include Mini Option orders.  
<sup>14</sup> A Participant will not be entitled to receive any other revenue for the use of its System specifically with respect to orders routed to NOM.  
<sup>15</sup> The term “Affiliated Entity” is a relationship between an Appointed MM and an Appointed OFP for purposes of aggregating eligible volume for pricing in Options 7, Sections 2(1) and 2(6) for which a volume threshold or volume percentage is required to qualify for higher rebates or lower fees. The term “Appointed MM” is a NOM Market Maker

who has been appointed by an Order Flow Provider (“OFP”) for purposes of qualifying as an Affiliated Entity. An OFP is a Participant, other than a NOM Market Maker, that submits orders, as agent or principal, to the Exchange. The term “Appointed OFP” is an OFP who has been appointed by a NOM Market Maker for purposes of qualifying as an Affiliated Entity. Participants under Common Ownership may not qualify as a counterparty comprising an Affiliated Entity. Each Participant may qualify for only one (1) Affiliated Entity relationship at any given time.  
<sup>16</sup> The term “Common Ownership” shall mean Participants under 75% common ownership or control. Common Ownership shall apply to all pricing in Options 7, Section 2 for which a volume threshold or volume percentage is required to obtain the pricing.  
<sup>17</sup> See proposed note “A” in Section 2(6).

Eligible Contracts the Participant qualifies for in a given month.<sup>18</sup> Second, Participants that execute at least 100,000 of MARS Eligible Contracts per day and have total Affiliated Entity or Common Ownership ADAV of 3.25% or more of total industry customer equity and ETF option ADV contracts per day in a month will receive an additional \$0.02 per contract in Penny Pilot Options and an additional \$0.19 per contract in Non-Penny Pilot Options, in addition to MARS Payment Tier 5 on MARS Eligible Contracts the NOM Participant qualifies for in a given month.<sup>19</sup> NOM Participants that qualify for this incentive will not receive the proposed note “@” incentive.

#### NOM Market Maker Rebate To Add Liquidity in Non-Penny Pilot Options

The Exchange currently offers Participants that qualify for the Tier 6 NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options<sup>20</sup> a \$0.86 per contract NOM Market Maker Rebate to Add Liquidity in Non-Penny Pilot options.<sup>21</sup> This rebate is paid to qualifying Participants in lieu of the \$0.35 per contract fee normally charged to NOM Market Maker transactions that add Non-Penny Pilot liquidity.<sup>22</sup> The

note “6” incentive is designed to encourage Participants that transact as NOM Market Makers to send more order flow to the Exchange in either Penny or Non-Penny Pilot Options in order to qualify for the Tier 6 Penny Pilot Rebate to Add NOM Market Maker Liquidity to earn the \$0.86 Non-Penny Rebate to Add NOM Market Maker Liquidity. To further incentivize Participants to direct order flow to NOM, the Exchange proposes to provide an additional \$0.02 per contract NOM Market Maker Rebate to Add Liquidity in Non-Penny Pilot Options for Participants that qualify for the note “&” incentive proposed above in the MARS Payment Schedule, in addition to receiving the \$0.86 per contract NOM Market Maker Rebate to Add Liquidity in Non-Penny Pilot Options. Participants would continue to receive the greater of the note “5” or note “6” incentive if they qualify for both.

#### NOM Market Maker Rebate To Add Liquidity in Penny Pilot Options

Lastly, the Exchange proposes to replace VXX with VXXB in the Tiers 3 and 4 NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options which currently apply to AAPL, QQQ, IWM, SPY and VXX. By way of background, options on the iPath S&P 500 VIX Short-Term Futures exchange-traded note (“VXX”) are no longer listed for trading on the Exchange since VXX matured on January 30, 2019<sup>23</sup> and VXX shares are no longer listed for trading on equity trading venues. Prior to its maturity, VXX’s issuer Barclays Bank PLC introduced a substantially similar product, the iPath Series B S&P 500 VIX Short-Term Futures exchange-traded note (“VXXB”),<sup>24</sup> and was intended to serve as the replacement for VXX upon maturity. The Exchange has since listed VXXB options for trading on NOM. Accordingly, the Exchange proposes to replace references to VXX with VXXB in its Pricing Schedule. In particular, the Exchange proposes to delete references to VXX from the Tiers 3 and 4 NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options currently applicable to AAPL, QQQ, IWM, SPY and VXX, and replace those with VXXB.

<sup>23</sup> See VXX Prospectus and Pricing Supplement available at <http://www.ipathetn.com/US/16/en/documentation.app?instrumentId=259118&documentId=6204338>.

<sup>24</sup> VXXB was introduced on January 17, 2018 and has a maturity date of January 23, 2048. See VXXB Prospectus and Pricing Supplement available at <http://www.ipathetn.com/US/16/en/documentation.app?instrumentId=341408&documentId=6585610>. While VXXB is currently a Non-Penny Pilot Option, it will replace VXX in the Penny Pilot Program as of April 2, 2019. See Options Trader Alert #2019–8.

The Tier 3 and Tier 4 rebates will otherwise remain unchanged under this proposal.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>25</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>26</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 any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

#### Customer and Professional Fee for Removing Liquidity in Penny Pilot Options

The Exchange believes that the proposed changes to the Customer and Professional Fees for Removing Liquidity in Penny Pilot Options are reasonable. As discussed above, the Exchange is proposing to eliminate the reduced fees of \$0.49 per contract (provided to Participants that remove Customer and Professional liquidity in SPY Options) and \$0.48 per contract (provided to Participants that qualify for any MARS Payment Tier). Instead, the Exchange will charge a flat fee of \$0.48 per contract (reduced from \$0.50 per contract) for each Customer or Professional transaction which removes liquidity in Penny Pilot Options, including SPY. The Exchange believes that these changes will simplify the operation of this fee by uniformly charging \$0.48 per contract for all Customer and Professional transactions that remove liquidity in Penny Pilot Options. Furthermore, the Exchange believes that the fee decrease will further incentivize Participants to send more Customer and Professional order flow to NOM. All market participants benefit from the increased order interaction when more order flow is available on NOM.

The Exchange further believes that the proposed fee changes are equitable and not unfairly discriminatory because they will apply equally to all similarly situated Participants. With the proposed changes, Participants will be charged a uniform \$0.48 per contract Fee for Removing Liquidity in all Penny Pilot Options, including SPY. The Exchange also believes that it is equitable and not unfairly discriminatory to offer the lower \$0.48 per contract fee to Participants that transact as Customers or Professionals, and not to other market

<sup>25</sup> 15 U.S.C. 78f(b).

<sup>26</sup> 15 U.S.C. 78f(b)(4) and (5).

<sup>18</sup> See proposed note “@” in Section 2(6).

<sup>19</sup> See proposed note “&” in Section 2(6).

<sup>20</sup> To qualify for the Tier 6 rebate, Participant must: (a)(1) Add NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month, (2) execute Total Volume of 250,000 or more contracts per day in a month, of which 30,000 or more contracts per day in a month must be removing liquidity, and (3) add Firm, Broker-Dealer and Non-NOM Market Maker liquidity in Non-Penny Pilot Options of 10,000 or more contracts per day in a month; or (b)(1) add NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, and (2) execute Total Volume of 250,000 or more contracts per day in a month, of which 15,000 or more contracts per day in a month must be removing liquidity. For purposes of Tier 6, “Total Volume” shall be defined as Customer, Professional, Firm, Broker-Dealer, Non-NOM Market Maker and NOM Market Maker volume in Penny Pilot Options and/or Non-Penny Pilot Options which either adds or removes liquidity on NOM. See Options 7, Section 2(1).

<sup>21</sup> See Options 7, Section 2(1), note “6.”

<sup>22</sup> The Exchange also offers additional incentives in note “5” to reduce this fee or earn a rebate, provided Participants meet the volume-based requirements. Specifically, Participants who add NOM Market Maker liquidity in Non-Penny Pilot Options of 7,500 to 9,999 ADV contracts per day in a month would be assessed a \$0.00 per contract Non-Penny Options Fee for Adding Liquidity in that month. In addition, Participants that add NOM Market Maker liquidity in Non-Penny Pilot Options of 10,000 or more ADV contracts per day in a month would receive a \$0.30 per contract Non-Penny Rebate to Add Liquidity for that month instead of paying the Non-Penny Fee for Adding Liquidity. See Options 7, Section 2(1), note “5.” Participants that qualify for a note “5” incentive would receive the greater of the note “5” or note “6” incentive.

participants. Customer liquidity offers unique benefits to the market 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 a corresponding increase in order flow from other market participants. The Exchange believes that encouraging Participants to add Professional liquidity is similarly beneficial, as the lower fee may cause market participants to select NOM as a venue to send Professional order flow, which benefits all market participants by attracting valuable liquidity to the market and thereby enhancing the trading quality and efficiency of all.

#### Customer and Professional Rebate To Add Liquidity in Penny Pilot Options

The Exchange believes that it is reasonable to amend the Customer and Professional Rebates to Add Liquidity in Penny Pilot Options by increasing the percentages of total industry customer equity and ETF option ADV contracts in Tiers 5 and 6, as discussed above. The Exchange believes that the increased volume thresholds are more closely aligned to the corresponding rebates than the current volume threshold. This increase is also reflective of the Exchange's desire to provide incentives to attract order flow to the Exchange in return for significant market-improving behavior. By increasing the volume of liquidity that a Participant must add during the month in order to qualify for the corresponding Tier 5 and Tier 6 rebates, this change will help ensure that Participants are providing significant market-improving behavior in return for the incentives.

In addition, the proposed change in note "e" to decrease the Customer and Professional Rebate to Add Liquidity in Penny Pilot Options provided to eligible Participants that transact 3.00% or more in Consolidated Volume on The Nasdaq Stock Market from \$0.52 to \$0.50 per contract is reasonable because the proposed change is a modest reduction, and the Exchange believes that its rebate program will continue to incentivize Participants to transact greater volume on The Nasdaq Stock Market in order to qualify for a higher rebate on NOM.

The Exchange also believes that the modifications to the Customer and Professional Rebates to Add Liquidity in Penny Pilot Options proposed above are equitable and not unfairly discriminatory because all eligible Participants that meet the relevant qualifications will uniformly receive the rebates. Further, the Exchange believes that it is equitable and not unfairly

discriminatory to offer the rebates to Participants that transact as Customers or Professionals, and not to other market participants. Customer liquidity offers unique benefits to the market 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. The Exchange believes that encouraging Participants to add Professional liquidity is similarly beneficial, as the rebates may cause market participants to select NOM as a venue to send Professional order flow, which benefits all market participants by attracting valuable liquidity to the market and thereby enhancing the trading quality and efficiency of all.

#### MARS Pricing

The Exchange's proposal to modify MARS pricing in Section 2(6) is reasonable, equitable and not unfairly discriminatory for the reasons that follow.

The Exchange believes that the elimination of the additional \$0.09 per contract incentive for Non-Penny MARS Payment Tiers proposed above is reasonable because as noted above, the Exchange did not observe an appreciable increase in Non-Penny Pilot order flow sent to the Exchange to qualify for this rebate. The Exchange must periodically assess the effectiveness of the incentives it provides in the form of discounts or rebates and, in the case of ineffective incentives, eliminate the incentive so that the Exchange may apply its resources to other, possibly more effective discounts or rebates such as the note "A" incentive based on total Affiliated Entity or Common Ownership proposed above. Accordingly, while the Exchange is eliminating the additional \$0.09 per contract incentive for Non-Penny MARS Payment Tiers, the Exchange believes that the additional note "A" incentives of \$0.01 and \$0.03 in Penny and Non-Penny Pilot Options respectively, will better align the cost of the MARS program with the benefit it brings to the marketplace.

Furthermore, the Exchange believes that the proposed total Affiliated Entity or Common Ownership ADAV requirement of 3.00% is reasonable because it is set at a level that the Exchange believes will encourage Participants to bring more order flow to the Exchange to qualify for the higher note "A" incentive. To the extent that order flow is increased by the proposal, market participants will increasingly

compete for the opportunity to trade on the Exchange, including sending more orders to reach higher tiers or rebates. The resulting increased volume and liquidity will benefit all market participants by providing more trading opportunities and tighter spreads. The Exchange also notes that the concept of allowing market participants to aggregate volume for purposes of volume pricing is not novel. Other options markets have similar incentives in place to attract volume to their markets.<sup>27</sup>

The Exchange believes that the qualifying volume requirements in the two additional incentives proposed in note "@" and note "&" of Section 2(6) are reasonable and equitable for the same reasons discussed above for the note "A" incentive. Specifically, the Exchange believes that the total Affiliated Entity or Common Ownership ADAV requirement of 3.25% proposed for both incentives is set at an appropriate level, which the Exchange believes will encourage Participants to bring more order flow to the Exchange to qualify for the higher note "@" and note "&" incentives, which liquidity will benefit all market participants. The Exchange similarly believes that the proposed MARS Eligible Contracts ADV requirements of 75,000 and 100,000 ADV for note "@" and note "&," respectively, are reasonable and equitable because they are set at levels that the Exchange believes will encourage Participants and, in particular, Participants that transact in Firm, Non-NOM Market Maker, Broker-Dealer, or JBO electronic equity and ETF options orders that add liquidity to execute more volume on NOM.

The Exchange also believes that the proposed rebate amounts for the note "@" and note "&" incentives reflect the progressively increasing volume requirements to earn the highest MARS incentives by bringing the most order flow to the Exchange. For instance, Participants will have to meet the 3.25% total Affiliated Entity or Common Ownership ADAV requirement and execute 75,000 of MARS Eligible Contracts ADV, to qualify for the proposed "@" incentives and receive the additional \$0.01 per contract in Penny Pilot Options and the additional \$0.10 per contract in Non-Penny Pilot

<sup>27</sup> See Cboe Exchange ("CBOE") Fees Schedule. CBOE permits aggregation of volume to qualify for credits available under an Affiliated Volume Plan or AVP. See NYSE American Options ("NYSE Amex") Fee Schedule at Section I.E. NYSE Amex permits aggregation of volume to qualify for the Amex Customer Engagement or ACE Program.

Options.<sup>28</sup> Participants that qualify for note “@” would therefore receive total MARS rebates of \$0.18 per contract for Penny Pilot Options and \$0.70 per contract for Non-Penny Pilot Options.

Furthermore, Participants will have to meet the 3.25% total Affiliated Entity or Common Ownership ADAV requirement and execute 100,000 of MARS Eligible Contracts ADV, to qualify for the proposed “&” incentives and receive the additional \$0.02 per contract in Penny Pilot Options and the additional \$0.19 per contract in Non-Penny Pilot Options.<sup>29</sup> Participants that qualify for note “&” would therefore receive total MARS rebates of \$0.19 per contract for Penny Pilot Options and \$0.79 per contract for Non-Penny Pilot Options. The Exchange further believes that it is reasonable to not provide the note “@” incentives to Participants that qualify for the note “&” incentives. As noted above, the proposed note “&” incentives are higher, and in some cases significantly higher, than the proposed incentives in note “@,” and also require higher qualifying volume thresholds. Accordingly, the Exchange believes it is reasonable to provide the note “@” incentives instead of the note “&” incentives to Participants that qualify for both.

The Exchange’s proposal to modify MARS pricing in Section 2(6) is equitable and not unfairly discriminatory because all Participants may elect to become an Affiliated Entity as either Appointed MM or Appointed OFP, or an affiliate under Common Ownership, for purposes of aggregating eligible volume to qualify for higher rebates or lower fees. Furthermore, any Participant may qualify for MARS provided they have the requisite System Eligibility. The Exchange will also uniformly pay MARS rebates to qualifying Participants on all Eligible Contracts.

#### NOM Market Maker Rebate To Add Liquidity in Non-Penny Pilot Options

The Exchange believes that its proposal to provide an additional \$0.02 per contract NOM Market Maker Rebate to Add Liquidity in Non-Penny Pilot Options for Participants that qualify for the note “&” incentive proposed above, in addition to receiving the \$0.86 per contract NOM Market Maker Rebate to Add Liquidity in Non-Penny Pilot

Options, is reasonable, equitable, and not unfairly discriminatory. The Exchange notes that the additional incentive in note “6” will be the highest available rebate (totaling \$0.88 per contract) provided to Participants that add NOM Market Maker liquidity in Non-Penny Pilot Options. The Exchange believes that the additional incentive is reasonable because it will require Participants to meet the stringent volume requirements set forth in the note “&” incentive proposed above, in addition to those set forth in the Tier 6 Penny Pilot Options Rebate to Add NOM Market Maker Liquidity.<sup>30</sup> The Exchange believes that this incentive will continue to encourage Participants to bring order flow to the Exchange to qualify for the higher rebate, which will be beneficial for all market participants and will encourage an active and liquidity market on NOM. The Exchange also believes that it is reasonable to offer Participants that qualify for a note “5” incentive the greater of the current note “5” or new note “6” incentive because the Participant will be able to receive the greater of the two rebates with this proposal.

The Exchange believes that the additional \$0.02 per contract incentive in note “6” is equitable and not unfairly discriminatory because all similarly-situated Participants are equally capable of qualifying for the proposed rebates, and the rebate will be uniformly paid to all qualifying Participants. Further, the Exchange believes that offering only Participants that transact as NOM Market Makers the opportunity to qualify for the additional incentive is equitable and not unfairly discriminatory. Unlike other market participants, NOM Market Makers add value through continuous quoting and the commitment of capital.<sup>31</sup> Because NOM Market Makers have these obligations to the market and regulatory requirements that normally do not apply to other market participants, the Exchange believes that offering these rebates to only NOM Market Makers is equitable and not unfairly discriminatory in light of their

<sup>30</sup> See note 22 above.

<sup>31</sup> Pursuant to Chapter VII (Market Participants), Section 5 (Obligations of Market Makers), in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Further, all Market Makers are designated as specialists on NOM for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

obligations. Finally, encouraging NOM Market Makers to add greater liquidity benefits all market participants in the quality of order interaction.

#### NOM Market Maker Rebate To Add Liquidity in Penny Pilot Options

The Exchange believes that the replacing VXX with VXXB in the Tiers 3 and 4 NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options currently applicable to AAPL, QQQ, IWM, SPY and VXX is reasonable, equitable and not unfairly discriminatory because VXX options are no longer listed for trading on the Exchange, and have been replaced by a substantially similar product, VXXB options.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The pricing changes proposed above are generally designed to attract additional order flow to NOM, which strengthens NOM’s competitive position. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by market makers. An increase in the activity of these market participants in turn facilitates tighter spreads.

The Exchange 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 and rebates to remain competitive. Because competitors are free to modify their own fees and rebates in response, the Exchange believes that the degree to which pricing changes in this market may impose any burden on competition is extremely limited.

#### 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.

<sup>28</sup> The supplemental rebates would be paid in addition to the Tier 5 MARS Payments of \$0.17 per contract in Penny Pilot Options and \$0.60 per contract in Non-Penny Pilot Options.

<sup>29</sup> The supplemental rebates would be paid in addition to the Tier 5 MARS Payments of \$0.17 per contract in Penny Pilot Options and \$0.60 per contract in Non-Penny Pilot Options.

### 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>32</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-2019-029 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-2019-029. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE,

Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2019-029, and should be submitted on or before May 13, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>33</sup>

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2019-07988 Filed 4-19-19; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-85667; File No. SR-CboeEDGX-2019-023]

### Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Extend the Pilot Program Related to EDGX Rule 11.16, Trading Halts Due to Extraordinary Market Volatility, to the Close of Business on October 18, 2019

April 16, 2019.

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 April 12, 2019, Cboe EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

Cboe EDGX Exchange, Inc. ("EDGX" or the "Exchange") is filing with the Securities and Exchange Commission (the "Commission") a proposed rule change to extend the pilot program related to EDGX Rule 11.16, Trading Halts Due to Extraordinary Market Volatility, to the close of business on October 18, 2019. The text of the proposed rule change is attached as Exhibit 5[sic].

The text of the proposed rule change is also available on the Exchange's website ([http://markets.cboe.com/us/options/regulation/rule\\_filings/edgx/](http://markets.cboe.com/us/options/regulation/rule_filings/edgx/)), at the Exchange's Office of the Secretary, 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

EDGX Rules 11.16(a) through (d), (f) and (g) describe the methodology for determining when to halt trading in all stocks due to extraordinary market volatility, *i.e.*, market-wide circuit breakers. The market-wide circuit breaker mechanism was approved by the Commission to operate on a pilot basis, the term of which is to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS (the "LULD Plan" or "Plan"),<sup>5</sup> including any extensions to the pilot period for the Plan. The Commission published an amendment to the LULD Plan for it to operate on a permanent, rather than pilot, basis on December 18, 2018,<sup>6</sup> and

<sup>5</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (the "Limit Up-Limit Down Release").

<sup>6</sup> See Securities Exchange Act Release No. 84843 (December 18, 2018), 83 FR 66464 (December 26, 2018) (Amendment No. 18 Proposing Release).

<sup>32</sup> 15 U.S.C. 78s(b)(3)(A)(ii).