

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-93989; File No. SR-BX-2022-001)

January 18, 2022

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the BX Pricing Schedule at Options 7, Section 2

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on January 3, 2022, Nasdaq BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (the “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 BX Pricing Schedule at Options 7, Section 2, as described further below.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/bx/rules>, 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

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 amend the BX Pricing Schedule at Options 7, Section 2. Specifically, the Exchange proposes to: (1) increase the Taker Fees in Penny Symbols for all market participants except Customers⁴ from \$0.46 to \$0.50 per contract, (2) increase the Customer Taker Fee in SPY from \$0.26 to \$0.31 per contract, and (3) remove the higher Maker Rebate of \$0.42 per contract currently offered to Lead Market Makers⁵ and Market Makers⁶ for IWM, GLD, SLV, and TSLA.

Penny Taker Fee

⁴ 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 Options 1, Section 1(a)(48)).

⁵ The term "Lead Market Maker" or ("LMM") applies to a registered BX Options Market Maker that is approved pursuant to Options 2, Section 3 to be the LMM in an options class (options classes).

⁶ The term "BX Options Market Maker" or ("M") is a Participant that has registered as a Market Maker on BX Options pursuant to Options 2, Section 1, and must also remain in good standing pursuant to Options 2, Section 9. In order to receive Market Maker pricing in all securities, the Participant must be registered as a BX Options Market Maker in at least one security.

Today, the Exchange charges LMM, Market Maker, Non-Customer,⁷ Firm,⁸ and Customer orders in Penny Symbols a Taker Fee of \$0.46 per contract. For Customer orders in SPY, the Exchange charges a reduced Taker Fee of \$0.26 per contract.

The Exchange now proposes to increase the Penny Taker Fees for all market participants except Customers from \$0.46 to \$0.50 per contract. The Exchange also proposes to increase the Customer Taker Fee in SPY from \$0.26 to \$0.31 per contract.

Penny Maker Rebate

The Exchange currently offers LMMs and Market Makers a Maker Rebate in Penny Symbols that is \$0.29 per contract (LMMs) and \$0.25 per contract (Market Makers). For AAPL, IWM, GLD, QQQ, SLV, and TSLA, both LMMs and Market Makers are currently offered a higher Maker Rebate of \$0.42 per contract.

The Exchange now proposes to remove IWM, GLD, SLV, and TSLA from the list of Penny Symbols eligible to receive the higher \$0.42 per contract Maker Rebate. While the Exchange will no longer offer the higher rebate for IWM, GLD, SLV, and TSLA, Participants will still receive the Penny Maker Rebate in these Penny Symbols, albeit at a lower rate of \$0.29 per contract (for LMMs) and \$0.25 per contract (for Market Makers). Furthermore, LMMs and Market Makers will continue to be provided the higher \$0.42 Maker Rebate for AAPL and QQQ orders under this proposal.

⁷ The term “Non-Customer” shall include a Professional, Broker-Dealer and Non-BX Options Market Maker.

⁸ The term "Firm" or ("F") applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁰ 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.

The Exchange's proposed changes to its Pricing Schedule are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for options securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[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’....”¹¹

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

¹¹ NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

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.”¹²

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for options security transaction services. The Exchange is only one of sixteen options exchanges to which market participants may direct their order flow.

Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules. As such, the proposal represents a reasonable attempt by the Exchange to increase its liquidity and market share relative to its competitors.

Penny Taker Fee

The Exchange believes that its proposal to increase the Penny Taker Fees for all market participants except Customers from \$0.46 to \$0.50 per contract is reasonable. While the Penny Taker Fees are increasing in this manner, the Exchange believes that its fees remain competitive with other options exchanges.¹³ Accordingly, the Exchange believes that the proposed fees will

¹² Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

¹³ For example, Nasdaq MRX, LLC (“MRX”) currently charges all market participants except Priority Customers a Penny Taker Fee of \$0.50 per contract. See MRX Options 7, Section 3. In addition, NYSE Arca Options similarly charges all market participants except Customers a take liquidity fee in Penny Issues of \$0.50 per contract. See NYSE Arca Options Fees and Charges, Transaction Fee for Electronic Executions – Per Contract.

continue to attract order flow to BX to the benefit of all market participants. The Exchange further believes that increasing the Penny Taker Fees from \$0.46 to \$0.50 per contract is equitable and not unfairly discriminatory because the proposed changes will apply uniformly to all similarly situated Participants.

The Exchange believes that its proposal to increase the Customer Taker Fee in SPY from \$0.26 to \$0.31 per contract is reasonable. While the Customer Taker Fee in SPY is increasing, Customers will continue to receive favorable pricing compared to all other market participants on BX. In particular, no other market participants except Customers are currently eligible to receive this reduced Taker Fee in SPY. These market participants are instead assessed the Penny Taker Fee of \$0.46 per contract today (which is increasing to \$0.50 per contract under this proposal). The Exchange believes that offering the reduced Taker Fee in SPY of \$0.31 per contract to Customers is equitable and not unfairly discriminatory because the proposed pricing will apply uniformly to all similarly situated Participants. Customer liquidity benefits all market participants by providing more trading opportunities which attracts market makers. An increase in the activity of these market participants in turn facilitates tighter spreads and may cause an additional corresponding increase in order flow from other market participants.

Penny Maker Rebate

The Exchange believes that its proposal to remove IWM, GLD, SLV, and TSLA from the list of Penny Symbols eligible to receive the higher \$0.42 per contract Maker Rebate is reasonable. While the Exchange will no longer offer the higher rebate, Participants will still receive a Maker Rebate in these Penny Symbols, albeit at a lower rate of \$0.29 per contract (for LMMs) and \$0.25 per contract (for Market Makers). Other than the \$0.30 Penny Maker Rebate currently provided to Customers, these are still the highest Penny Maker Rebates provided to

market participants today.¹⁴ Accordingly, the Exchange believes that its rebate program for Penny Symbols will remain attractive for LMMs and Market Makers, and will continue to attract order flow to BX to the benefit of all market participants.

The Exchange believes that its proposal is equitable and not unfairly discriminatory as the changes will apply uniformly to all similarly situated Participants. With the proposed changes, the Exchange will still provide LMMs and Market Makers some of the highest Penny Maker Rebates in IWM, GLD, SLV, and TSLA compared to other market participants.¹⁵ Further, the Exchange believes that offering more favorable pricing for LMMs and Market Makers is equitable and not unfairly discriminatory. Unlike other market participants, LMMs and Market Makers add value through continuous quoting and the commitment of capital. As it relates to the higher Penny Maker Rebate provided to LMMs compared to Market Makers, the Exchange believes that this differentiation is equitable and not unfairly discriminatory given that LMMs are subject to heightened quoting obligations compared to Market Makers.¹⁶ The higher rebate therefore recognizes the differing contributions made to the liquidity and trading environment on the Exchange by LMMs. Overall, the Exchange believes that incentivizing both LMMs and Market Makers to provide greater liquidity benefits all market participants through the quality of order interaction.

¹⁴ As a comparison, Non-Customers and Firms are currently provided a Penny Maker Rebate of \$0.12 per contract.

¹⁵ See supra note 13 with accompanying text.

¹⁶ See Options 2, Section 4(j) (setting forth the 90% or higher quoting obligations for LMMs) and Section 5(d) (setting forth the 60% or higher quoting obligations for Market Makers).

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.

In terms of intra-market competition, all pricing would be uniformly assessed to similarly situated market participants. Customers will continue to receive favorable pricing as compared to other market participants because Customer liquidity enhances market quality on the Exchange by providing more trading opportunities, which benefits all market participants. Furthermore, the proposed changes to the Penny Maker Rebate program for LMMs and Market Makers are designed to incentivize these market participants to provide greater liquidity, which benefits all market participants through the quality of order interaction.

In terms of inter-market competition, the Exchange believes that with the proposed changes, its pricing remains competitive with other options markets and will offer market participants with another choice of where to transact options. 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 options 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 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 Participants or competing order execution venues to maintain their competitive standing in the financial markets.

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.¹⁷

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 e-mail to rule-comments@sec.gov. Please include File Number SR-BX-2022-001 on the subject line.

¹⁷ 15 U.S.C. 78s(b)(3)(A)(ii).

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-BX-2022-001. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of 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-BX-2022-001, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

J. Matthew DeLesDernier
Assistant Secretary

¹⁸ 17 CFR 200.30-3(a)(12).