

Big Four Have Been There Before

Initiatives by the four traditional options exchanges that shift the fee burden away from market makers and towards customers are not new. When the penny pilot launched, in 2007, the exchanges reduced the amount they collected from market makers for payment for order flow as well as the sums they transferred to the retail brokers. Payment-for-order-flow fees dropped from between 70 cents and 65 cents to 25 cents per contract in the penny names. The exchanges also cut prices for the largest market makers. In 2007, the CBOE cut its fees for the largest dealers by switching to tiered pricing. In 2008, the ISE revamped its tiered pricing model for market makers.

The four traditional exchanges are the International Securities Exchange, the Chicago Board Options Exchange, NYSE Amex Options and Nasdaq OMX PHLX. They get most of their revenues from transaction fees. At the CBOE, for instance, \$314 million of its 2009 gross revenues of \$426 million, or 73.7 percent, came from transaction fees.