

SEC Looks to Put a Cap On Fees

Given the moves by Nasdaq OMX PHLX and the ISE to adopt maker-taker pricing this year, the model that rebates liquidity providers and charges liquidity takers appears to be taking over in the options industry.

Two-thirds of all volume in options contracts tied to the SPDR exchange-traded fund was traded with maker-taker pricing in May, and equally high numbers for other liquid options were also racked up.

The trend is good news for liquidity providers, but not always so good for liquidity takers. They may face fees where before there were none, or at least higher fees than before.

The Philly, for instance, is now charging nonprofessional customers 25 cents to take liquidity in about 80 maker-taker names where previously it charged nothing. The PHLX is now charging professional customers 40 cents in those names, where previously it only charged 20 cents. The ISE increased its fee for professional customers from 20 to 25 cents for trades in its maker-taker names. It is charging large-lot customers—those trading 100 contracts at a time—a 20-cent fee where before it charged nothing.

Riding to the rescue of liquidity takers is the SEC. The regulator put out a proposal in April to cap exchange access fees at 30 cents a contract. While the vast majority of fees fall below this level, any rule would impact just about every exchange.

Arca has some of the highest fees, charging all its members 45 cents to take liquidity. Nasdaq is equally expensive, with 35-cent take fees for customers and 45-cent fees for broker-dealers.

The SEC is not just looking at maker-taker fees. It's got traditional pricing in its sights, as well. Both the PHLX and the Chicago Board Options Exchange, for instance, charge broker-dealers trading electronically 45 cents.

A cap on the CBOE's broker-dealer fee is the least of that exchange's worries. The SEC is also targeting the CBOE's proprietary index products, including the immensely popular option on the S&P 500 Index, where fees can run 35 cents a contract or 44 cents, depending on the premium.