

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-77330; File No. SR-BATS-2016-26)

March 9, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc. f/k/a BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use of BATS Exchange, Inc.

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 March 1, 2016, Bats BZX Exchange, Inc. f/k/a BATS Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change effective upon filing with the Commission. 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 filed a proposal to amend the fee schedule applicable to Members<sup>5</sup> and non-members of the Exchange pursuant to BZX Rules 15.1(a) and (c).

The text of the proposed rule change is available at the Exchange’s website at [www.batstrading.com](http://www.batstrading.com), at the principal office of the Exchange, and at the Commission’s Public

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<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)(ii).

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

<sup>5</sup> The term “Member” is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

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 parts of such statements.

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

1. Purpose

The Exchange proposes to modify its fee schedule applicable to the Exchange's options platform to: (i) modify the standard fees for both Customer<sup>6</sup> and Non-Customer<sup>7</sup> orders that remove liquidity in Non-Penny Pilot Securities;<sup>8</sup> (ii) modify the standard fees for Customer orders that remove liquidity in Penny Pilot Securities;<sup>9</sup> (iii) amend the criteria necessary to meet and the rebate associated with the Customer Add Volume Tier 4; (iv) amend the criteria necessary to meet the Customer Step-Up Volume Tier; (v) add a new footnote 12 entitled Customer Non-Penny Pilot Add Volume Tier; and (vi) add a new Non-Customer Take Volume Tier under footnote 3.

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<sup>6</sup> As defined in the Exchange's fee schedule available at [http://www.batsoptions.com/support/fee\\_schedule/bzx/](http://www.batsoptions.com/support/fee_schedule/bzx/).

<sup>7</sup> Id.

<sup>8</sup> Id.

<sup>9</sup> Id.

### Removing Liquidity in Non-Penny Pilot Securities

The Exchange is proposing to modify the standard fees for both Customer and Non-Customer orders that remove liquidity in Non-Penny Pilot Securities under fee codes NC and NP, respectively. Specifically, the Exchange is proposing to increase the standard fee for Customer orders that remove liquidity in Non-Penny Pilot Securities under fee code NC from \$0.84 to \$0.85 per contract and the standard fee for Non-Customer orders that remove liquidity in Non-Penny Pilot Securities under fee code NP from \$0.89 to \$0.94 per contract.

### Customer Orders that Remove Liquidity in Penny Pilot Securities

The Exchange is proposing to modify the standard fees for Customer orders that remove liquidity in Penny Pilot Securities under fee code PC. Specifically, the Exchange is proposing to increase the standard fee for Customer orders that remove liquidity in Penny Pilot Securities under fee code PC from \$0.46 to \$0.48 per contract.

### Customer Add Volume Tier 4

The Exchange is proposing to amend the criteria necessary to meet and the rebate associated with the Customer Add Volume Tier 4 under footnote 1, which currently provides Members with a rebate of \$0.50 per contract for Customer orders that add liquidity in Penny Pilot Securities where the Member has an ADAV<sup>10</sup> equal to or greater than 0.85% of average TCV.<sup>11</sup> Specifically, the Exchange is proposing to amend Customer Add Volume Tier 4 such that a Member will receive a \$0.52 rebate for Customer orders that add liquidity in Penny Pilot Securities where the Member has an ADAV in Customer orders equal to or greater than 1.00% of average TCV.

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<sup>10</sup> Id.

<sup>11</sup> Id.

### Customer Step-Up Volume Tier

The Exchange is proposing to amend the criteria necessary to meet the Customer Step-Up Volume Tier, which currently provides Members with a rebate of \$0.53 per contract where the Member has an Options Step-Up Add TCV<sup>12</sup> in Customer orders from September 2015 baseline equal to or greater than 0.35%. Specifically, the Exchange is proposing to continue offering a rebate of \$0.53 per contract where the Member has an Options Step-Up Add TCV in Customer orders from September 2015 baseline equal to or greater than 0.40%.

### Customer Non-Penny Pilot Add Volume Tier

The Exchange is proposing to create a new footnote 12 entitled “Customer Non-Penny Pilot Add Volume Tier,” which would apply to orders that receive fee code NY. Under the proposed new tier, Customer orders that add liquidity in Non-Penny Pilot Securities would receive \$1.00 per contract where the Member has an ADAV in Customer orders equal to or greater than 0.70% of average TCV.

### New Non-Customer Take Volume Tier

The Exchange is proposing to add a new Non-Customer Take Volume Tier under footnote 3. Under the new Non-Customer Take Volume Tier 3, the Exchange would charge \$0.47 per contract for a Non-Customer order to remove liquidity in Penny Pilot Securities where the Member has an ADAV in Customer orders equal to or greater than 1.00% of average TCV. In conjunction with this proposed change, the Exchange is proposing to change current Non-Customer Take Volume Tier 3 to Non-Customer Take Volume Tier 4.

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<sup>12</sup>

Id.

### Implementation Date

The Exchange proposes to implement these amendments to its fee schedule on March 1, 2016.

### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>13</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>14</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and other persons using any facility or system which the Exchange operates or controls. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels to be excessive.

Volume-based rebates such as those currently maintained on the Exchange have been widely adopted by equities and options exchanges and are equitable because they are open to all Members on an equal basis and provide additional benefits or discounts that are reasonably related to the value to an exchange's market quality associated with higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns, and introduction of higher volumes of orders into the price and volume discovery processes.

### Removing Liquidity in Non-Penny Pilot Securities

The Exchange believes that its proposal to change the standard fee charged for Customer orders that remove liquidity in Non-Penny Pilot Securities from \$0.84 to \$0.85 per contract and

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<sup>13</sup> 15 U.S.C. 78f.

<sup>14</sup> 15 U.S.C. 78f(b)(4).

the standard fee for Non-Customer orders that remove liquidity in Non-Penny Pilot Securities under fee code NP from \$0.89 to \$0.94 per contract is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally, because the change will apply equally to all participants, and because, while the change marks an increase in fees for orders in Non-Penny Pilot Securities, such proposed fees remain consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure and will allow the Exchange to earn additional revenue that can be used to offset the addition of new pricing incentives, including those introduced as part of this proposal.

#### Customer Orders that Remove Liquidity in Penny Pilot Securities

The Exchange believes that its proposal to increase the standard fees for Customer orders that remove liquidity in Penny Pilot Securities from \$0.46 to \$0.48 per contract is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally, because such change will apply equally to all participants, and because, while the change marks an increase in fees for such orders, such proposed fees remain consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure and will allow the Exchange to earn additional revenue that can be used to offset the addition of new pricing incentives, including those introduced as part of this proposal.

#### Customer Add Volume Tier 4

The Exchange believes that its proposal to amend Customer Add Volume Tier 4 such that a Member will receive a \$0.52 rebate for Customer orders that add liquidity in Penny Pilot Securities where the Member has an ADAV in Customer orders equal to or greater than 1.00%

of average TCV is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally and because such change will apply equally to all participants and will incentivize such participants to further contribute to market quality on the Exchange. Moreover, the proposed change will provide Members with an increased incentive (increasing the rebate from \$0.50 to \$0.52 per contract) to add liquidity in Customer orders, which the Exchange not only believes will enhance market quality for all market participants, but will also encourage increased participation of Non-Customer orders wanting to interact with such Customer orders, further to the benefit of all market participants. The Exchange also believes that the proposed rebate remains consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure.

#### Customer Step-Up Volume Tier

The Exchange believes that its proposal to increase the Options Step-Up Add TCV in Customer orders from September 2015 baseline to 0.40% in order to receive a rebate of \$0.53 is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally and because such change will apply equal to all participants and incentivize such participants to further contribute to market quality on the Exchange. While the change will require Members to further increase their participation as compared to the September 2015 baseline in order to receive the same rebate, the Exchange believes that such proposed rebates remain consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure and will act to incentivize such Members to increase participation on the Exchange, thereby enhancing liquidity and market quality on the

Exchange for all participants. The Exchange also believes that the proposed rebate remains consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure.

#### Customer Non-Penny Pilot Add Volume Tier

The Exchange believes that its proposal to create a new tier under which Customer orders that add liquidity in Non-Penny Pilot Securities would receive \$1.00 per contract where the Member has an ADAV in Customer orders equal to or greater than 0.70% of average TCV is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally, because such change will apply equally to all participants, and because the change will incentivize such participants to further contribute to market quality on the Exchange. Moreover, the proposed change will provide Members with an increased incentive to add liquidity in Customer orders, which the Exchange not only believes will enhance market quality for all market participants, but will also encourage increased participation of Non-Customer orders wanting to interact with such Customer orders, further to the benefit of all market participants. The Exchange also believes that the proposed rebate remains consistent with pricing previously offered by the Exchange as well as competitors of the Exchange, in particular those of Nasdaq Options Market LLC, which currently offers a rebate of up to \$1.00 for Customer orders in Non-Penny Pilot Securities, and does not represent a significant departure from the Exchange's general pricing structure.

#### New Non-Customer Take Volume Tier

The Exchange believes that its proposal to add a new tier under footnote 3 under which the Exchange would charge \$0.47 per contract for a Non-Customer order to remove liquidity in

Penny Pilot Securities where the Member has an ADAV in Customer orders equal to or greater than 1.00% of average TCV is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally, because such change will apply equally to all participants, and because the change will incentivize such participants to further contribute to market quality on the Exchange. Moreover, the proposed enhanced rebate will provide Members with an increased incentive to add liquidity in Customer orders, which the Exchange not only believes will enhance market quality for all market participants, but will also encourage increased participation of Non-Customer orders wanting to interact with such Customer orders, further to the benefit of all market participants. The Exchange also believes that the proposed fee remains consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure. The Exchange also believes that the clarifying numbering change associated with this change is reasonable, fair and equitable and non-discriminatory because it is non-substantive and is designed to make sure that the fee schedule is as clear and easily understandable as possible.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes the proposed amendments to its fee schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange has designed the proposed amendments to its fee schedule in order to enhance its ability to compete with other exchanges. Rather, the proposal as a whole is a competitive proposal that is seeking further the growth of the Exchange. The Exchange has structured the proposed fees and rebates to attract certain additional volume in both Customer and certain Non-Customer orders, however, the Exchange believes that its pricing for all capacities is competitive with that offered by other options exchanges. Additionally,

Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets. Additionally, Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed changes to the Exchange's tiered pricing structure burdens competition, but instead, enhances competition as it is intended to increase the competitiveness of the Exchange. Also, the Exchange believes that the price changes contribute to, rather than burden competition, as such changes are broadly intended to incentivize participants to increase their participation on the Exchange, which will increase the liquidity and market quality on the Exchange, which will then further enhance the Exchange's ability to compete with other exchanges.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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) of the Act<sup>15</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>16</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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

<sup>16</sup> 17 CFR 240.19b-4(f).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2016-26 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-BATS-2016-26. 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 such filing will also 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-BATS-2016-26 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.<sup>17</sup>

Robert W. Errett  
Deputy Secretary

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