SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81919; File No. SR-BatsBZX-2017-68)

October 23, 2017

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate
Effectiveness of a Proposed Rule Change to Rule 21.1, Definitions, to Modify Stop Orders and
Stop Limit Orders Applicable to the Exchange's Equity Options Platform in Preparation for the
C2 Options Exchange, Incorporated Technology Migration

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and

Rule 19b-4 thereunder,[2] notice is hereby given that on October 10, 2017, Bats BZX Exchange,

Inc. (the "Exchange" or "BZX") filed with the Securities and Exchange Commission

("Commission") the proposed rule change as described in Items I and II below, which Items have

been prepared by the Exchange. The Exchange has designated this proposal as a "non-

controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act[3] and Rule 19b-

4(f)(6)(iii) thereunder,[4] which renders it 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 update Rule 21.1 to make modifications to the

Exchange's rules and functionality applicable to the Exchange's options platform ("BZX

Options") in preparation for the technology migration of the Exchange's affiliated options

exchange, C2 Options Exchange, Incorporated ("C2"), onto the same technology as the

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

[3]   15 U.S.C. 78s(b)(3)(A).

[4]   17 CFR 240.19b-4(f)(6)(iii).

Exchange.

The text of the proposed rule change is available at the Exchange's website at

www.bats.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 parts of such statements.

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

1.   Purpose

In 2016, the Exchange and its affiliates Bats BYX Exchange, Inc. ("BYX"), Bats EDGA

Exchange, Inc. ("EDGA"), and Bats EDGX Exchange, Inc. ("EDGX") received approval to

affect a merger (the "Merger") of the Exchange's indirect parent company, Bats Global Markets,

Inc. ("BGM"), with CBOE Holdings, Inc. ("CBOE Holdings"), the direct parent of Chicago

Board Options Exchange, Incorporated ("CBOE") and C2 Options Exchange, Incorporated

("C2", and together with the Exchange, BYX, EDGA, EDGX, and CBOE the "CBOE Affiliated

Exchanges").[5] The CBOE Affiliated Exchanges are working to align certain system

functionality, retaining only intended differences between the CBOE Affiliated Exchanges, in

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[5]   See Securities Exchange Act Release No. 79585 (December 16, 2016), 81 FR 93988
        (December 22, 2016) (SR-BatsBZX-2016-68; SR-BatsBYX-2016-29; SR-BatsEDGA-
        2016-24; SR-BatsEDGX-2016-60).

the context of a technology migration. Thus, the proposals set forth below are intended to add

certain system functionality that is more similar to functionality offered by CBOE and C2 in

order to ultimately provide a consistent technology offering for market participants who interact

with the CBOE Affiliated Exchanges. Although the Exchange intentionally offers certain

features that differ from those offered by its affiliates and will continue to do so, the Exchange

believes that offering similar functionality to the extent practicable will reduce potential

confusion for Users.

The Exchange proposes to modify its rules regarding Stop Orders and Stop Limit Orders,

as defined in Rules 21.1(d)(11) and (d)(12), respectively.

Stop Orders are currently defined in Rule 21.1(d)(11) as an order that becomes a Market

Order[6] when the stop price is elected. A Stop Order to buy is elected when the consolidated last

sale in the option occurs at, or above, the specified stop price. A Stop Order to sell is elected

when the consolidated last sale in the option occurs at, or below, the specified stop price. Stop

Limit Orders are currently defined in Rule 21.1(d)(12) as an order that becomes a limit order[7]

when the stop price is elected. A Stop Limit Order to buy is elected when the consolidated last

sale in the option occurs at, or above, the specified stop price. A Stop Limit Order to sell

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[6]   "Market Orders" are orders to buy or sell at the best price available at the time of
        execution. Market Orders to buy or sell an option traded on are rejected if they are
        received when the underlying security is subject to a "Limit State" or "Straddle State" as
        defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of
        Regulation NMS under the Act (the "Limit Up-Limit Down Plan"). Any portion of a
        Market Order that would execute at a price more than $0.50 or 5 percent worse than the
        NBBO at the time the order initially reaches BZX Options, whichever is greater, will be
        cancelled.

[7]   "Limit Orders" orders to buy or sell an option at a specified price or better. A limit order
        is marketable when, for a limit order to buy, at the time it is entered into the System, the
        order is priced at the current inside offer or higher, or for a limit order to sell, at the time
        it is entered into the System, the order is priced at the inside bid or lower.

becomes a sell limit order when the consolidated last sale in the option occurs at, or below, the specified stop price.

The Exchange proposes to modify Stop Orders and Stop Limit Orders to add that such orders will be elected based on quotations as well. Specifically, in addition to electing a Stop Order or Stop Limit Order to buy (sell) when the consolidated last sale in the option occurs at or above (below), the specified stop price, the Exchange proposes to elect such an order when the NBB (NBO) is equal to or higher (lower) than the stop price. The Exchange notes that CBOE and C2 also trigger stop orders based on quotations.[8] The Exchange further notes that it has proposed to elect Stop Orders and Stop Limit Orders based on consolidated quotations (the NBB and NBO) rather than quotations only on the Exchange. The Exchange believes that this is more consistent with its current functionality for Stop Orders and Stop Limit Orders, which are elected based on the consolidated last sale in the option.

The Exchange also proposes a minor change to the definition of Stop Limit Orders to ensure that there is consistent language between Stop Limit Orders to buy and Stop Limit Orders to sell. The current language related to Stop Limit Orders to buy focuses on the election of such orders whereas the current language related to Stop Limit Orders to sell focuses on the conversion of such orders to limit orders. The Exchange proposes to include language related both election and conversion to limit orders with respect to both Stop Limit Orders to buy and Stop Limit Orders to sell.

In addition, the Exchange proposes to restrict Stop Orders, which, as described above are converted to Market Orders when elected, from being elected when the underlying security is in a Limit State, as defined in the Limit Up-Limit Down Plan. Such an order would be held until

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[8]   See CBOE Rules 6.53(c)(iii) and (c)(iv) and C2 Rules 6.10(c)(3) and (c)(4).

the end of the Limit State, at which point the order would again become eligible to be elected. This aspect of the proposal is also based on the rules of CBOE[9] and C2[10] and is consistent with the Exchange's current handling of Market Orders, which are not accepted when the underlying security is in a Limit State.[11] As Stop Orders become Market Orders when elected, the Exchange believes that this change is merely an extension of its existing functionality.

Below are examples of the current and proposed functionality for Stop Orders and Stop Limit Orders.

Example 1A – Stop Order is Triggered (Current Functionality)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Order to buy 500 shares with a stop price of 8.05.

- Assume the NBBO updates to 8.00 by 8.05. An execution reported by another exchange at 8.05 will trigger the stop price of the Stop Order, which will convert into a Market Order to buy.

- Note: this example would still be accurate under the proposed functionality, however, there is an additional way that a Stop Order could be elected, a change to the NBBO, as set forth in Example 1B below.

Example 1B – Stop Order is Triggered (Proposed Functionality)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Order to buy 500 shares with a stop price of 8.05.

- Assume the NBBO updates to 8.05 by 8.10. The NBB equal to the stop price of the order will trigger the stop price of the Stop Order, which will convert into a Market Order to buy. The result would be the same if the NBB were instead higher than the stop price, such as with an NBBO of 8.10 by 8.15.

Example 2A – Stop Limit Order is Triggered (Current Functionality)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Limit Order to buy 500 shares at 8.04 with stop limit price of 8.05.

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[9] See CBOE Rule 6.53, Interpretation and Policy .01C.

[10] See C2 Rule 6.10, Interpretation and Policy .01C.

[11] See Exchange Rule 21.1(d)(5).

- Assume the NBBO updates to 8.03 by 8.05. An execution reported by another exchange at 8.05 will trigger the stop price of the Stop Limit Order, which will convert into a limit order to buy at 8.04.

- Note: this example would still be accurate under the proposed functionality, however, there is an additional way that a Stop Limit Order could be elected, a change to the NBBO, as set forth in Example 2B.

Example 2B – Stop Limit Order is Triggered (Proposed Functionality)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Limit Order to buy 500 shares at 8.04 with stop limit price of 8.05.

Assume the NBBO updates to 8.05 by 8.10. The NBB equal to the stop price of the order will trigger the stop price of the Stop Limit Order, which will convert into a limit order to buy at 8.04. The result would be the same if the NBB were instead higher than the stop price, such as with an NBBO of 8.10 by 8.15.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[12] in general, and furthers the objectives of Section 6(b)(5) of the Act[13] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. In particular, consistent rules and functionality between the Exchange and its affiliated exchanges will reduce complexity and help avoid potential confusion by the Users of the Exchange that are also participants on other CBOE Affiliated Exchanges.[14]

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[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

[14]   The Exchange notes that its affiliate, EDGX, also intends to adopt Stop Orders and Stop Limit Orders that would function identical to Stop Orders and Stop Limit Orders on the Exchange, as amended by this proposal. In addition, as CBOE and C2 migrate to the same technology platform as the Exchange, CBOE and C2 intend to modify rules and

The Exchange believes the proposed amendment will reduce complexity and increase the understanding of the Exchange's operations for all Users of the Exchange. In particular, by triggering Stop Orders and Stop Limit Orders based on quotations, in addition to trades, the Exchange's functionality will be more similar to that of CBOE and C2. In turn, when CBOE and C2 are migrated to the same technology as that of the Exchange, Users of the Exchange and other CBOE Affiliated Exchanges will have access to similar functionality on all CBOE Affiliated Exchanges. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

With respect to Stop Orders not being elected when the underlying security is in a Limit State, this proposal is based on the rules of CBOE and C2 and is also consistent with the Exchange's current handling of Market Orders, which are not accepted when the underlying security is in a Limit State.[15] As Stop Orders become Market Orders when elected, the Exchange believes that this change is merely an extension of its existing functionality.

(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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposal will further promote consistency between the Exchange and its affiliated exchanges, and is part of a larger technology integration that will ultimately reduce complexity for Users of the Exchange that are also participants on other CBOE Affiliated

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functionality to be consistent with the Exchange and EDGX, unless the retention of differences is intended.

[15]   See supra, notes 8-10.

Exchanges. The Exchange does not believe that the proposed changes will have any direct impact on competition. Thus, the Exchange does not believe that the proposal creates any significant impact on competition.

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

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.   <u>Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action</u>

Because the foregoing proposed rule change does not: (A) significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designate it has become effective pursuant to Section 19(b)(3)(A) of the Act[16] and paragraph (f)(6) of Rule 19b-4 thereunder,[17] the Exchange has designated this rule filing as non-controversial.

A proposed rule change filed under Rule 19b-4(f)(6)[18] normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)[19] permits the Commission to designate a shorter time if such action is consistent with the protection of

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[16]   15 U.S.C. 78s(b)(3)(A).

[17]   17 CFR 240.19b-4 (f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

[18]   17 CFR 240.19b-4(f)(6).

[19]   17 CFR 240.19b-4(f)(6)(iii).

investors and the public interest. The Exchange has asked the Commission to waive the 30-day

operative delay so that the proposed rule change may become operative immediately upon filing.

The Exchange notes that the proposed rule change will promote consistency between the

Exchange and CBOE Affiliated Exchanges, and is part of a larger technology integration that

will ultimately reduce complexity for Users of the Exchange that are also participants on other

CBOE Affiliated Exchanges.

The Commission believes that waiver of the 30-day operative delay is consistent with the

protection of investor and the public interest. The Commission notes that the proposed rule

change is based on rules of its affiliated exchanges, CBOE and C2, and thus does not raise any

new or novel issues. Accordingly, the Commission hereby waives the 30-day operative delay

and designates the proposed rule change as operative upon filing.[20]

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: (1) necessary or appropriate in the public interest; (2) for the protection of investors; or

(3) 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:

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[20]   For purposes only of waiving the 30-day operative delay, the Commission has also
considered the proposed rule's impact on efficiency, competition, and capital formation.
See 15 U.S.C. 78c(f).

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-BatsBZX-2017-68 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BatsBZX-2017-68. 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-BatsBZX-2017-68 and should be submitted on or before [insert date 21 days from publication in the <u>Federal Register</u>].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[21]

Eduardo A. Aleman
Assistant Secretary

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[21]   17 CFR 200.30-3(a)(12).