

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87521; File No. SR-CboeBZX-2019-094)

November 13, 2019

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule Applicable to the BZX Equities Trading Platform as it Relates to Pricing for Orders Routed to Cboe EDGA Exchange, Inc. Using the ALLB, TRIM, or SLIM Routing Strategy

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 November 1, 2019, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II 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

Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change to amend the fee schedule applicable to the BZX equities trading platform (“BZX Equities”) as it relates to pricing for orders routed to Cboe EDGA Exchange, Inc. (“EDGA”) using the ALLB, TRIM, or SLIM routing strategy. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 Exchange proposes to amend the BZX Equities fee schedule to change the pricing applicable to orders routed to EDGA using the ALLB, TRIM, or SLIM routing strategy, as a result of a recent pricing change by EDGA effective on November 1, 2019. The Exchange proposes to implement the proposed change to its fee schedule on November 1, 2019. Currently, the Exchange provides a rebate of \$0.0024 per share for orders routed to EDGA using the ALLB, TRIM, or SLIM routing strategy (yielding fee codes AA and BJ), which was a pass-through of the standard rebate EDGA had previously provided to orders that removed liquidity from EDGA. Effective November 1, 2019, EDGA reduced its standard rebate per share for orders that remove liquidity in securities priced at or above \$1.00 from \$0.0024 to \$0.0018. As such, the Exchange proposes to similarly reduce the per share rebate for orders routed to EDGA (yielding fee codes AA and BJ) from \$0.0024 to \$0.0018 in order to reflect the reduction in the rebate available for orders removing liquidity on EDGA.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of Section 6(b) of the Act.³ Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,⁴ which requires that Exchange Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Members and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers. The Exchange operates in a highly-competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or incentives to be insufficient.

In particular, the Exchange believes that the proposed change is reasonable because it reflects a pass-through of a recent pricing change by EDGA for liquidity removing orders, as described above. The Exchange believes that the proposed change is reasonable because it will maintain proportionality with the standard corresponding rebate offered by EDGA while also maintaining Member interest in routing orders through the Exchange by passing on better pricing to Members that choose to enter such orders on the Exchange, thereby encouraging additional order flow to be entered on the BZX Book. The Exchange believes that additional order flow through the BZX Book will result in greater liquidity to the benefit of all market participants on the Exchange by providing more trading opportunities.

The Exchange also believes that the proposed change constitutes an equitable allocation of reasonable fees that is not unfairly discriminatory because the proposed rebate is designed to continue to reflect the rebate offered (and recently updated) by EDGA to orders that remove

³ 15 U.S.C § 78f(b).

⁴ 15 U.S.C. § 78f(b)(4).

liquidity and would apply equally to all Members that choose to use the Exchange to route liquidity removing orders to EDGA. Furthermore, the Exchange notes that routing through the Exchange is voluntary, and, because the Exchange operates in a highly competitive environment as discussed below, Members that do not favor the proposed pricing can readily direct order flow directly to EDGA or through competing venues or providers of routing services.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. The Exchange believes the proposed routing fee change will not impose an undue burden on competition because the proposed rebate is merely intended to maintain consistency between the Exchange's rebates for orders routed to EDGA with the rebates currently offered by EDGA for liquidity removing orders.

The Exchange does not believe the proposed rebate will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As stated, the Exchange will uniformly assess the proposed routing fee on all Members who choose to route orders through the Exchange to EDGA. As noted above, the proposed rebate intends pass through the same rebates for liquidity removing orders from EDGA on to Members, thereby, adding order flow to the BZX Book which will result in more trading opportunities to the benefit of all market participants on the Exchange.

The Exchange does not believe the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As noted above, the Exchange operates in a highly competitive market and routing through the Exchange is voluntary. Therefore, Members may opt to disfavor the Exchange's pricing if

they believe that alternatives, including 12 other equities exchanges and 32 alternative trading systems, offer them better value or if they disfavor the proposed change. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single equities exchange has more than 17% of the market share.⁵ Therefore, no exchange possesses significant pricing power in the execution of equity order flow. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation National Market System (“NMS”), 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.”⁶

The fact that this market is competitive has also 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’”⁷ Regardless, the Exchange notes that the proposed change to the EDGA-related routing fee is merely meant to pass through the rebate associated with executing orders on that

⁵ See Cboe Global Markets U.S. Equities Market Volume Summary (October 28, 2019), available at http://markets.cboe.com/us/equities/market_share/.

⁶ See Securities Exchange Act Release No. 51808 (June 29, 2015) 70 FR 37495 (August 29, 2015).

⁷ *NetCoalition v. Securities and Exchange Commission*, 615 F.3d 525 (D.C. Cir. 2010).

market, and is therefore not designed to have any significant impact on competition.

Accordingly, the Exchange does not believe its proposed fee change imposes any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 is effective upon filing pursuant to Section 19(b)(3)(A)⁸ of the Act and subparagraph (f)(2) of Rule 19b-4⁹ thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such 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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)¹⁰ of the Act to determine whether the proposed rule change 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:

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(2).

¹⁰ 15 U.S.C. 78s(b)(2)(B).

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 No. SR-CboeBZX-2019-094 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549-1090.

All submissions should refer to File No. SR-CboeBZX-2019-094. 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, D.C. 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 No. SR-CboeBZX-2019-094, 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.¹¹

Jill M. Peterson
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).