

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89047; File No. SR-CboeBZX-2020-048)

June 11, 2020

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Fee Schedule

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 June 2, 2020, 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, II, and III 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. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend its Fee Schedule. 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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 its fee schedule for its equity options platform (“BZX Options”).³

The Exchange first 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 at a particular venue to be excessive or incentives to be insufficient. More specifically, the Exchange is only one of 16 options venues to which market participants may direct their order flow. Based on publicly available information, no single options exchange has more than 19% of the market share and currently the Exchange represents only approximately 9% of the market share.⁴ Thus, in such a low-concentrated and highly competitive market, no single options exchange, including the Exchange, possesses significant pricing power in the execution of option order flow. The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow, or discontinue to reduce use of certain categories of products, in response to fee changes. Accordingly, competitive forces constrain the Exchange’s transaction fees, and market participants can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable. The

³ The Exchange initially filed the proposed fee changes on June 1, 2020 (SR-CboeBZX-2020-046). On June 2, 2020, the Exchange withdrew that filing and submitted this filing.

⁴ See Cboe Global Markets U.S. Options Market Month-to-Date Volume Summary (May 29, 2020), available at https://markets.cboe.com/us/options/market_statistics/.

Exchange's fee schedule sets forth standard rebates and rates applied per contract. For example, the Exchange assesses a standard rebate of \$0.25 per contract for Customer orders that add liquidity in Penny Pilot Securities and a standard rebate of \$0.85 per contract in Non-Penny Pilot Securities. Additionally, in response to the competitive environment, the Exchange also offers tiered pricing which provides Members opportunities to qualify for higher rebates or reduced fees where certain volume criteria and thresholds are met. Tiered pricing provides an incremental incentive for Members to strive for higher tier levels, which provides increasingly higher benefits or discounts for satisfying increasingly more stringent criteria.

For example, the Exchange currently offers four Customer Non-Penny Pilot Add Volume Tiers under footnote 12 of the fee schedule which provide enhanced rebates between \$0.92 and \$1.05 per contract for qualifying Customer orders which meet certain add liquidity thresholds and yield fee code NY.⁵ Under the current Customer Non-Penny Pilot Add Volume Tiers, a Member may receive an enhanced rebate where the Member has an ADAV⁶ in Customer orders, or Customer and Market Maker and/or Firm orders greater or equal to a specified percentage of OCV⁷. The Exchange now proposes to adopt a Customer Non-Penny Pilot Add Volume Tier 5.

The Exchange believes the proposed Customer Non-Penny Pilot Add Volume Tier will provide Members an additional opportunity to receive an enhanced rebate for meeting the

⁵ Orders yielding fee code NY are Customer orders that add liquidity in Non-Penny Pilot securities and are offered a rebate of \$0.85.

⁶ "ADAV" means average daily added volume calculated as the number of contracts added, "ADRV" means average daily removed volume calculated as the number of contracts removed, and "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day.

⁷ "OCC Customer Volume" or "OCV" means the total equity and ETF options volume that clears in the Customer range at the Options Clearing Corporation ("OCC") for the month for which the fees apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

corresponding proposed criteria. The Exchange believes the proposed tier, along with the existing tiers, also provide an incremental incentive for Members to strive for the highest tier levels, which provide increasingly higher rebates for such transactions. Particularly, the Exchange proposes to add new Customer Non-Penny Pilot Add Volume Tier 5, which would provide an enhanced rebate of \$1.06 per contract on qualifying orders (i.e., yielding fee code NY) where a Member has (1) an ADAV in Customer orders greater than or equal to 2.00% of average OCV; and (2) an ADAV in Customer Non-Penny orders greater than or equal to 1.00% of average OCV. The proposed tier provides an additional opportunity for Members to achieve an increased enhanced rebate on their Customer Non-Penny liquidity adding orders (NY) by reaching a new Customer Non-Penny Pilot tier. Specifically, the proposed fee change is designed to encourage overall Customer liquidity adding order flow (both Penny and Non-Penny orders). The Exchange believes that incentivizing more Customer order flow will create more trading opportunities, which, in turn attracts Market-Makers. A resulting increase in Market-Maker activity may facilitate tighter spreads, which may lead to additional increase of order flow in Non-Penny orders from other market participants, further contributing to a deeper, more liquid market to the benefit of all market participants by creating a more robust and well-balanced market ecosystem.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act,⁸ in general, and furthers the requirements of Section 6(b)(4),⁹ in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its

⁸ 15 U.S.C. 78f.

⁹ 15 U.S.C. 78f(b)(4).

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. The proposed rule change reflects a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange, which the Exchange believes would enhance market quality to the benefit of all Members.

In particular, the Exchange believes the proposed tier is reasonable because it provides an additional opportunity for Members to receive a higher rebate by providing additional criteria they can reach for. The Exchange notes that volume-based incentives and discounts have been widely adopted by exchanges,¹⁰ including the Exchange,¹¹ and are reasonable, equitable and non-discriminatory because they are open to all Members on an equal basis and provide additional benefits or discounts that are reasonably related to (i) the value to an exchange's market quality and (ii) associated higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns. Additionally, as noted above, the Exchange operates in a highly competitive market. The Exchange is only one of several options venues to which market participants may direct their order flow, and it represents a small percentage of the overall market. Competing options exchanges offer similar tiered pricing structures to that of the

¹⁰ See e.g., BOX Options Fee Schedule, Section 1(A)(1) [sic], which offers tiered rebates for Public Customer orders in Non Penny Pilot Classes for members that reach certain thresholds of "maker" customer volume in multiply-listed options classes ranging from \$0.15 to \$0.60; Cboe EDGX U.S. Options Exchange Fee Schedule, Footnote 1, Customer Volume Tiers, which provide tiered rebates for Customer Non-Penny and Penny orders where Members meet certain volume thresholds, ranging from \$0.10 to \$0.21.

¹¹ See e.g., The Exchange's Fee Schedule, Footnotes 1 and 12, Customer Penny Pilot and Non-Penny Pilot Volume Tiers which provide enhanced rebates for Customer orders where Members meet certain volume thresholds ranging from \$0.35 to \$1.05.

Exchange, including schedules of rebates and fees that apply based upon Members achieving certain volume and/or growth thresholds. These competing pricing schedules, moreover, are presently comparable to those that the Exchange provides, including pricing incentives tied to comparable tiers.¹²

Moreover, the Exchange believes proposed Customer Non-Penny Pilot Add Volume Tier 5 is a reasonable means to encourage Members to increase their liquidity on the Exchange, specifically their Customer add volume order flow. The Exchange believes that adopting an additional tier under the Customer Non-Penny Pilot Add Volume Tiers will encourage Members to increase their general Customer liquidity adding order flow (both in Penny and Non-Penny securities) on the Exchange in order to achieve the proposed increased enhanced rebate on their qualifying orders (i.e., yielding fee code NY). Increased Customer liquidity benefits all investors by attracting Market-Makers, which facilitates tighter spreads, signaling additional corresponding order flow (thus, more execution opportunities) from other types of market participants. This overall increase in activity deepens the Exchange's liquidity pool, offers additional cost savings, supports the quality of price discovery, promotes market transparency and improves market quality, for all investors.

The Exchange also believes that the proposed enhanced rebate is reasonable based on the difficulty of satisfying the tier's criteria and ensures the proposed rebate and criteria thresholds appropriately reflect the incremental difficulty to achieve the existing Customer Non-Penny Pilot Add Volume Tiers. The proposed criteria under Tier 5 remains in line with the incremental increases in ADAV as a percentage of average OCV from Tier 1 through Tier 3 for Customer orders or for both Customer orders plus other firm-type orders. For example, the proposed

¹² See supra note 10.

criteria in Tier 5 poses an incremental increase in difficulty from Tier 4 (which may be met if a Member adds an ADAV in Customer orders greater than or equal to 2.10% of average OCV) as the sum of overall Customer orders greater than or equal to 2.00% of average OCV plus Customer Non-Penny orders greater than or equal to 1.00% of average OCV presents a two-pronged criteria with thresholds that hover around or are higher than thresholds in preceding tiers. Thus, the Exchange believes the two criteria in proposed Tier 5 pose, in total, an incrementally more difficult tier that Members may strive to achieve. As such, the Exchange believes the enhanced rebate of \$1.06 offered under proposed Tier 5, over the \$1.05 enhanced rebate offered under Tier 4, is a reasonable, incremental increase that corresponds to the incremental increase in difficulty in achieving proposed Tier 5.

The Exchange believes that the proposal represents an equitable allocation of fees and is not unfairly discriminatory because all Members will be eligible for the proposed tier and the corresponding enhanced rebate will apply uniformly to all Members that reach the proposed tier criteria. That is, the proposed tiers are designed as an incentive to any and all Members interested in meeting the tier criteria to submit additional order flow to the Exchange and each will receive the proposed enhanced rebate if the tier criteria is met. Further, the Exchange offers similar tiered pricing to Firm, Broker Dealer, Joint-Back Office,¹³ Away Market Maker,¹⁴ and Market

¹³ See the Exchange's Fee Schedule, Footnote 8, Firm, Broker Dealer, and Joint Back Office Non-Penny Pilot Add Volume Tiers, wherein Tier 4 offers a rebate of up to \$0.82 per contract to Members satisfying the tier.

¹⁴ See the Exchange's Fee Schedule, Footnote 11, Away Market Maker Non-Penny Pilot Add Volume Tiers, wherein Tier 2 offers a rebate of up to \$0.52 per contract to Members satisfying the tier.

Maker¹⁵ orders for liquidity adding volume and corresponding rebates for their qualifying Non-Penny Pilot orders.

Additionally, the Exchange believes that a couple of Members have a reasonable opportunity to satisfy the tier's criteria, which is more stringent than other existing Customer Non-Penny Pilot Add Volume Tiers. While the Exchange has no way of knowing whether this proposed rule change would definitively result in any particular Market Maker qualifying for the proposed tier, the Exchange anticipates at least one or two Members meeting, or being reasonably able to meet, the proposed criteria; however, the proposed tier is open to any Member that satisfies the tier's criteria. The Exchange believes the proposed tier could provide an incentive for other Members to submit additional liquidity on the Exchange to qualify for the proposed enhanced rebate. The Exchange also notes that the proposed tier will not adversely impact any Member's pricing or their ability to qualify for other rebate tiers. Rather, should a Member not meet the proposed criteria, the Member will merely not receive the corresponding enhanced rebate.

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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, as discussed above, the Exchange believes that the proposed change would encourage the submission of additional liquidity to a public exchange, thereby promoting market depth, price discovery and transparency and enhancing order execution opportunities for

¹⁵ See the Exchange's Fee Schedule, Footnote 7, Market Maker Non-Penny Pilot Add Volume Tiers, wherein the applicable tiers offer rebates ranging from \$0.45 up to \$0.88 per contract.

all Members. As a result, the Exchange believes that the proposed change furthers the Commission's goal in adopting Regulation NMS of fostering competition among orders, which promotes "more efficient pricing of individual stocks for all types of orders, large and small."¹⁶

The Exchange believes the proposed rule change does impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed change applies uniformly to market participants. As discussed above, the Exchange believes that adopting a tier with additional criteria to the existing Customer Non-Penny Pilot Add Volume Tiers will encourage Members to increase their order flow in Non-Penny securities on the Exchange. Increased liquidity benefits all investors by deepening the Exchange's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. Also, as indicated above, the Exchange does not believe that the proposed rule change would impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act as it offers similar tiered pricing to Firm, Broker Dealer, Joint-Back Office,¹⁷ Away Market Maker,¹⁸ and Market Maker¹⁹ orders for liquidity adding volume and corresponding rebates for their qualifying Non-Penny Pilot orders.

Next, the Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As previously discussed, the Exchange operates in a highly competitive market. Members

¹⁶ Securities Exchange Act Release No. 51808, 70 FR 37495, 37498-99 (June 29, 2005) (S7-10-04) (Final Rule).

¹⁷ See supra note 13.

¹⁸ See supra note 14.

¹⁹ See supra note 15.

have numerous alternative venues that they may participate on and direct their order flow, including 15 other options exchanges and off-exchange venues. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single options exchange has more than 19% of the market share.²⁰ Therefore, no exchange possesses significant pricing power in the execution of option order flow. Indeed, participants can readily choose to send their orders to other exchange and off-exchange venues if they deem fee levels at those other venues to be more favorable. 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 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.”²¹ 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

²⁰ Supra note 4.

²¹ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

execution of order flow from broker dealers'....".²² 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

The Exchange neither solicited nor received comments on the proposed rule change.

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 Act²³ and paragraph (f) of Rule 19b-4²⁴ thereunder. 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. If the Commission takes such action, the Commission will institute proceedings 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:

²² NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(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-CboeBZX-2020-048 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-CboeBZX-2020-048. 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-CboeBZX-2020-048 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.²⁵

J. Matthew DeLesDernier
Assistant Secretary

²⁵ 17 CFR 200.30-3(a)(12).