

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89291; File No. SR-CboeEDGA-2020-019)

July 10, 2020

Self-Regulatory Organizations; Cboe EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fee Schedule Applicable to its Equities Trading Platform to Introduce a Flat Charge for the Execution of MDOs that are Entered with the QDP Instruction

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 July 1, 2020, Cboe EDGA Exchange, Inc. (the “Exchange” or “EDGA”) 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 EDGA Exchange, Inc. (“EDGA” or the “Exchange”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change to amend the fee schedule applicable to its equities trading platform to introduce a flat charge for the execution of MDOs that are entered with the QDP instruction. 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/edga/), 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

On June 4, 2020, the Commission approved the Exchange’s proposed introduction of a new order instruction, Quote Depletion Protection (“QDP”), that is available for Midpoint Discretionary Orders (“MDOs”).³ QDP, which was launched by the Exchange on June 10, 2020, is designed to provide enhanced protections to MDOs by tracking significant executions on the EDGA Book, and facilitating the ability of Users to avoid potentially unfavorable executions by preventing MDOs entered with the optional QDP instruction from exercising discretion to trade at more aggressive prices when QDP has been triggered. The Exchange now proposes to introduce a flat charge for the execution of MDOs that are entered with the QDP instruction.

EDGA operates pursuant to an inverted pricing model where orders that add liquidity are generally charged a fee, and orders that remove liquidity are generally provided a rebate. Unlike MDOs entered on the Exchange’s affiliate, Cboe EDGX, Exchange, Inc. (“EDGX”), MDOs entered on the Exchange pursuant to EDGA Rule 11.8(e) are allowed to execute both on entry and also after resting on the EDGA Book. MDOs that are executed on the Exchange may

³ See Securities Exchange Act Release No. 89016 (June 4, 2020), 85 FR 35488 (June 10, 2020) (SR-CboeEDGA-2020-005).

therefore be subject to a fee, rebate, or in some instances free executions, depending on whether the order is executed as the adder or remover of liquidity, and whether or not the order is executed within its discretionary range. Specifically, an MDO that adds liquidity is currently charged a fee of \$0.00300 per share for securities priced at or above \$1.00.⁴ This fee applies to MDOs that are executed either within the order's discretionary range or at its displayed or non-displayed ranked price.⁵ Conversely, for MDOs that remove liquidity in securities priced at or above \$1.00, the Exchange's pricing depends on whether the order is executed within its discretionary range or at its displayed or non-displayed ranked price. Specifically, the Exchange currently provides a rebate of \$0.00240 per share for MDOs that remove liquidity at the order's displayed or non-displayed ranked price,⁶ but instead offers free executions for MDOs that remove liquidity within the order's discretionary range, in each case for securities priced at or above \$1.00.⁷ For all MDOs executed in securities priced below \$1.00, the Exchange provides free executions, regardless of whether the order is executed as the adder or remover of liquidity, or whether or not the order is executed within its discretionary range.⁸

The Exchange now proposes to instead introduce a small flat fee for the execution of an MDO that is entered with a QDP instruction. As proposed, MDOs entered with a QDP instruction would be subject to a fee of \$0.00040 per share for securities priced at or above \$1.00, or 0.30% of the dollar value of the trade for securities priced below \$1.00.⁹ This charge

⁴ See EDGA Fee Schedule, Fee Codes DA and DM.

⁵ Id.

⁶ See EDGA Fee Schedule, Fee Code DR.

⁷ See EDGA Fee Schedule, Fee Code DT.

⁸ See EDGA Fee Schedule, Fee Codes DA, DM, DR, and DT.

⁹ To effect this change, the Exchange would introduce a new fee code "DQ" to its fee schedule that applies to MDOs entered with a QDP instruction.

would apply to the execution of MDOs that are entered with a QDP instruction, regardless of whether a QDP Active Period has been enabled in the security. MDOs entered without the optional QDP instruction would continue to be subject to current pricing. The Exchange's affiliate, Cboe EDGX Exchange, Inc. ("EDGX") is simultaneously proposing a similar flat fee pricing model for MDOs entered with a QDP instruction that are executed on that exchange.¹⁰

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,¹¹ in general, and furthers the objectives of Section 6(b)(4),¹² in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its members and other persons using its facilities. Specifically, the Exchange believes that the proposed rule change is consistent with the requirements of the Act as it is designed to compensate the Exchange for the development of new and innovative market features, *i.e.*, QDP, while continuing to provide a pricing model that the Exchange believes is competitive with pricing models offered by other national securities exchanges and off-exchange venues that offer similar protective features to their customers. 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. The proposed rule change reflects a competitive pricing structure designed both to compensate the Exchange for the introduction of innovative features and allow it to continue to compete aggressively with other market centers.

As discussed, the proposed rule change would introduce pricing that is specific to MDOs entered with the recently-introduced QDP instruction. Although such MDOs would be subject to

¹⁰ See SR-CboeEDGX-2020-032 (pending publication).

¹¹ 15 U.S.C. 78f.

¹² 15 U.S.C. 78f(b)(4).

a small flat fee instead of a fee, rebate, or free execution under the current pricing model, the Exchange believes that the proposed pricing is reasonable given the enhanced benefits provided to Users that choose to utilize the protective features provided by the QDP instruction. QDP, which was introduced on the Exchange in June, is designed to facilitate the ability for market participants, including buy-side and other investors, to avoid potentially unfavorable executions in an MDO's discretionary range by preventing the exercise of discretion for two milliseconds following the execution of the EDGA best bid or offer on the same side of the market as the MDO below one round lot. While market participants that use this instruction would be subject to a small flat charge, including when the order adds or removes liquidity, the Exchange believes that the value of the protection provided by this feature outweighs the small fee that would be charged by the Exchange. Further, the proposed pricing may actually be beneficial to market participants that primarily add liquidity with MDOs as the proposed flat fee would be lower than the fee charged under the current MDO pricing model. In this respect, the Exchange notes that although MDOs entered on the EDGA Book may remove liquidity, both MDOs and the associated QDP instruction are designed primarily to facilitate liquidity provision by buy-side and other investors that are seeking protection from potential adverse selection risks. As a result, the Exchange believes that the benefits of more attractive pricing for adding liquidity may outweigh, in many respects, the costs of paying a fee when removing liquidity.

The Nasdaq Stock Market LLC ("Nasdaq") similarly charges special fees for the use of orders that are designed to offer certain protections to market participants. Specifically, Nasdaq charges a fee of \$0.0004 per share to members that trade using its Midpoint Extended Life Order ("M-ELO") in securities priced at or above \$1.¹³ The Exchange believes that the proposed fees

¹³ See Nasdaq Rules, Equity 7, Pricing Schedule, Section 118(a)(1),(2),(3). Nasdaq does not

would be competitive with the fees that Nasdaq charges for M-ELO executions, as well as the fees charged by other national securities exchanges and off-exchange venues that provide various protective features.¹⁴ QDP is offered on a voluntary basis, and therefore market participants that would prefer to operate under the current pricing structure can continue to enter MDOs without the QDP instruction. The Exchange believes, however, that market participants may find value in the use of the QDP instruction, and – similar to firms that trade using Nasdaq M-ELO, IEX Discretionary Peg, or other similar trading mechanisms – would be willing to pay a small flat fee to benefit from the protections that this instruction is designed to provide to investors.

The Exchange also believes that the proposed fee change is equitable and not unfairly discriminatory because it would apply equally to all MDOs entered with a QDP instruction. As discussed, QDP is an optional order instruction that a market participant can choose to include on an MDO entered on the Exchange in order to benefit from enhanced protections at times when recent executions on the EDGA Book suggest that the market may be about to move against the resting MDO. Both the MDO order type and the associated QDP instruction are available to all Users on an equal and non-discriminatory basis, and any User that chooses to use the QDP instruction would be subject to the same fee. As proposed, any MDO entered with a QDP instruction would be charged a small flat fee, regardless of how the order is ultimately executed. That is, an MDO entered with a QDP instruction would always be subject to a small transaction fee, whether or not the order acts as the adder or remover of liquidity, whether or not the MDO is

charge a fee for M-ELO executions in securities priced below \$1. See Nasdaq Rules, Equity 7, Pricing Schedule, Section 118(b).

¹⁴ For example, Investors Exchange LLC (“IEX”), charges a fee of \$0.0009 or \$0.0003 per share for adding or removing non-displayed or displayed liquidity, respectively. See IEX Fee Schedule, Fee Codes I and L. Although IEX does not have special pricing for its Discretionary Peg Orders, which are similar in certain respects to an MDO entered with a QDP instruction, firms that trade such orders on IEX would be subject to the general transaction fees described above.

executed within its discretionary range or at its displayed or non-displayed ranked price, and irrespective of whether or not the MDO is executed during a QDP Active Period where executions within the order's discretionary range are prevented.

Although MDOs that include the new QDP instruction would be subject to a simplified pricing model compared to MDOs that do not include this instruction, the Exchange does not believe that this is inequitable or unfairly discriminatory within the meaning of the Act. All similarly situated market participants would be subject to consistent and non-discriminatory pricing based on the instructions that they include on their MDOs, with Users that include the optional QDP instruction paying a small fee that the Exchange believes is modest in relation to the value provided by the QDP instruction in avoiding potentially unfavorable executions. The proposed pricing is designed to be attractive to Users that enter MDOs with a QDP instruction, notwithstanding the fact that market participants would be subject to a fee in all circumstances. Further, the Exchange believes that the ability to charge a flat fee for the execution of such orders would appropriately compensate the Exchange for the development of this feature, while allowing the Exchange to offer pricing that is competitive with other national securities exchanges and off-exchange venues that may offer competing features. To the extent that any particular User believes that the benefits of the QDP instruction are outweighed by the proposed pricing, such Users would be free to enter MDOs without the QDP instruction, in which case their orders would be subject to the same pricing offered today.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, the Exchange believes that the proposed changes to its fees would promote continued competition between the Exchange, other national securities exchanges, and off-exchange venues

that must continuously compete to offer both competitive pricing and services to members and investors. As proposed, the Exchange would charge a small flat fee for the use of its recently-introduced QDP instruction. Charging fees for the use of this instruction would both compensate for the development and introduction of new and innovative features, and provide continued incentives for the Exchange to compete on both cost and the quality of its products and services.

Intramarket Competition

The Exchange believes the proposed rule change would not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed fees would apply to all members equally in that all members would be subject to the same flat fee for the execution of orders that include a QDP instruction. The Exchange and other national securities exchanges (*e.g.*, Nasdaq) offer pricing that is based on the characteristics of the order that is executed on the Exchange. Although MDOs entered with the QDP instruction would be subject to the pricing described in this proposed rule change, the Exchange does not believe that pricing would impose any significant burden on intramarket competition as this fee would be applied in the same manner to the execution of any MDO entered with this instruction. Both MDO and the associated QDP instruction discussed in this filing are available to all Users on an equal and non-discriminatory basis. As a result, any User can decide to use (or not use) the QDP instruction based on the benefits provided by that instruction in potentially avoiding unfavorable executions, and the associated charge that the Exchange proposes to introduce for its use. As discussed, any firm that chooses to use the QDP instruction would be charged the same flat fee for the execution of orders that are entered with this instruction.

Intermarket Competition

The Exchange also believes the proposed fees would not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As discussed, the Exchange operates in a highly competitive market where members can direct their orders to a number of different market centers. These include 12 live U.S. equities exchanges, as well as a large number of off-exchange venues that trade NMS stocks. In addition, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single equities exchange has more than 20% of U.S. equities market share.¹⁵ Therefore, no exchange possesses significant pricing power in the execution of order flow. Indeed, market 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, or if they believe that the products and services that they offer are better serve their trading needs. Since competitors are free to modify their own pricing in response, and as market participants may readily adjust their order routing practices, the Exchange believes that the degree to which pricing changes in this market may impose any burden on competition is extremely limited.

Conclusion

In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share to competing exchanges and off-exchange venues as a result. Accordingly, the Exchange does not believe that the proposed changes would impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets. Indeed, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the

¹⁵ See Cboe Global Markets U.S. Equities Market Volume Summary (May 28, 2020), available at http://markets.cboe.com/us/equities/market_share/.

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.”¹⁶

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’....”¹⁷ Accordingly, the Exchange does not believe the proposed fees impose 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 has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁸ and paragraph (f) of Rule 19b-4¹⁹ thereunder. At any time within 60 days of the filing of

¹⁶ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

¹⁷ See *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)).

¹⁸ 15 U.S.C. 78s(b)(3)(A).

¹⁹ 17 CFR 240.19b-4(f).

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:

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-CboeEDGA-2020-019 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-CboeEDGA-2020-019. 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-CboeEDGA-2020-019, 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.²⁰

J. Matthew DeLesDernier
Assistant Secretary

²⁰ 17 CFR 200.30-3(a)(12).