

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67172; File No. SR-BATS-2012-020)

June 8, 2012

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of 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 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 31, 2012, BATS Exchange, Inc. (the “Exchange” or “BATS”) 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 proposes to amend the fee schedule applicable to Members<sup>5</sup> and non-members of the Exchange pursuant to BATS Rules 15.1(a) and (c). While changes to the fee schedule pursuant to this proposal will be effective upon filing, the changes will become operative on June 1, 2012.

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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> A Member is any registered broker or dealer that has been admitted to membership in the Exchange.

The text of the proposed rule change is available at the Exchange’s website at <http://www.batstrading.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

The Exchange proposes to modify the “Options Pricing” section of its fee schedule to: (i) modify the rebates provided by the Exchange for Customer<sup>6</sup> orders that add liquidity to Exchange’s options platform (“BATS Options”) in options classes subject to the penny pilot program as described below (“Penny Pilot Securities”),<sup>7</sup> and (ii) modify the BATS Options

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<sup>6</sup> As defined on the Exchange’s fee schedule, a “Customer” order is any transaction identified by a Member for clearing in the Customer range at the Options Clearing Corporation (“OCC”), except for those designated as “Professional”.

<sup>7</sup> The Exchange currently charges different fees and provides different rebates depending on whether an options class is an options class that qualifies as a Penny Pilot Security pursuant to Exchange Rule 21.5, Interpretation and Policy .01 or is a non-penny options class.

NBBO Setter Program<sup>8</sup> by adopting enhanced rebates for liquidity resulting from orders with a significant level of displayed size. The Exchange also proposes minor structural changes to the Options Pricing section of the Exchange's fee schedule, including movement and re-numbering of certain footnotes.

(i) Customer Rebates for Adding Liquidity

The Exchange currently provides rebates for Customer orders that add liquidity to the BATS Options order book in Penny Pilot Securities pursuant to a tiered pricing structure, as described below. The Exchange proposes to modify this tiered pricing structure, which will result in the potential for Customer orders to receive larger rebates per contract.

The Exchange currently provides a rebate of \$0.30 per contract for Customer orders that add liquidity to the BATS Options order book to the extent a Member of BATS Options does not qualify for a higher rebate based on their average daily volume ("ADV").<sup>9</sup> The Exchange also currently provides Members with an ADV equal to or greater than 0.30% of average total consolidated volume ("TCV")<sup>10</sup> with a rebate of \$0.42 per contract for Customer orders that add liquidity to the BATS Options order book in Penny Pilot Securities and a rebate of \$0.44 per contract for Customer orders that add liquidity to the BATS Options order book in Penny Pilot Securities for Members with an ADV equal to or greater than 1% of average TCV. Finally, the

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<sup>8</sup> The NBBO Setter Program is a program that provides additional rebates for executions resulting from orders that add liquidity that set either the national best bid ("NBB") or national best offer ("NBO").

<sup>9</sup> As defined on the Exchange's fee schedule, ADV is average daily volume calculated as the number of contracts added or removed, combined, per day on a monthly basis. The fee schedule also provides that routed contracts are not included in ADV calculation.

<sup>10</sup> As defined on the Exchange's fee schedule, TCV is total consolidated volume calculated as the volume reported by all exchanges to the consolidated transaction reporting plan for the month for which the fees apply.

Exchange currently offers its Grow with Us pricing program to Customer orders that add liquidity by providing a Member with enhanced rebates (and lower execution fees) to the extent such Member shows a minimum of 5 basis points TCV improvement over the Member's previous highest monthly TCV on BATS Options, or "High Water Mark." The Exchange has defined High Water Mark as the greater of a Member's fourth quarter 2011 TCV or a Member's best monthly TCV on BATS Options thereafter.<sup>11</sup> Under the current pricing structure, a Member that does not qualify for the lower tier applicable to Members with an ADV equal to or greater than 0.30% of average TCV but achieves at least a 5 basis point increase over its previous High Water Mark is provided a rebate of \$0.36 per contract for Customer orders that add liquidity to the BATS Options order book in Penny Pilot Securities. A Member that qualifies for the lower tier applicable to Members with an ADV equal to or greater than 0.30% of average TCV but not the 1% of average TCV tier that achieves at least a 5 basis point increase over its previous High Water Mark is provided a rebate of \$0.43 per contract for Customer orders that add liquidity to the BATS Options order book in Penny Pilot Securities.

The Exchange proposes to increase the current Grow with Us rebates and to adopt a new Grow with Us rebate for Customer orders that add liquidity to the BATS Options order book in Penny Pilot Securities, as described below.

The Exchange proposes to increase its rebate for a Member that does not qualify for the lower tier applicable to Members with an ADV equal to or greater than 0.30% of average TCV

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<sup>11</sup> For example, assume that for the fourth quarter of 2011, a Member has an ADV of 0.10% of average TCV. Such Member would not qualify for volume tier pricing applicable to Members with an ADV of 0.30% of average TCV. However, if, in June of 2012, such Member achieves an average TCV of 0.15% on BATS Options, such Member will receive one-half of the economic benefit such Member would receive if the Member had reached the 0.30% TCV volume tier and the Member's new High Water Mark will now be 0.15%.

but achieves at least a 5 basis point increase over its previous High Water Mark from a rebate of \$0.36 per contract to a rebate of \$0.38 per contract for Customer orders that add liquidity to BATS Options in Penny Pilot Securities. Similarly, the Exchange proposes to increase its rebate for a Member that qualifies for the lower tier applicable to Members with an ADV equal to or greater than 0.30% of average TCV but not the 1% of average TCV tier that achieves at least a 5 basis point increase over its previous High Water Mark from a rebate of \$0.43 per contract to a rebate of \$0.45 per contract for Customer orders that add liquidity to BATS Options in Penny Pilot Securities. Finally, the Exchange proposes to adopt a new Grow with Us rebate for Members that have an ADV greater than 1% of average TCV by providing a rebate to those Members that meet this tier but are also increasing their participation on BATS Options as demonstrated by achievement of at least a 5 basis point increase over its previous High Water Mark. The Exchange proposes to provide such Members with a rebate of \$0.46 per contract for Customer orders that add liquidity to BATS Options in Penny Pilot Securities.

The Exchange is not proposing any changes to the tiered rebate structure for Customer orders entered by Members that do not qualify for Grow with Us pricing nor is the Exchange proposing to modify the rebates provided for Professional,<sup>12</sup> Firm and Market Maker<sup>13</sup> orders.

(ii) Enhanced NBBO Setter Rebate for Orders Meeting Size Requirements

The Exchange's NBBO Setter Program is a program intended to incentivize aggressive quoting on BATS Options by providing an additional rebate upon execution for all orders that

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<sup>12</sup> As defined in Rule 16.1, the term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

<sup>13</sup> As set forth on the Exchange's fee schedule, and consistent with the definition of a Customer order, classification as a "Firm" or "Market Maker" order depends on the identification by a Member of the applicable clearing range at the OCC.

add liquidity that set either the NBB or NBO (the “NBBO Setter Rebate”),<sup>14</sup> subject to certain volume requirements. The Exchange currently provides an additional \$0.06 per contract rebate for executions of Professional, Firm and Market Maker orders that qualify for the NBBO Setter Rebate by Members with an ADV equal to or greater than 0.30% of average TCV but less than 1% of average TCV and an additional \$0.10 per contract for qualifying executions of Professional, Firm and Market Maker orders by Members with an ADV equal to or greater than 1% of TCV. The Exchange also applies its Grow with Us pricing program to the NBBO Setter Rebate. Accordingly, a Member that does not qualify for NBBO Setter Rebates applicable to Members with an ADV equal to or greater than 0.30% of average TCV but achieves at least a 5 basis point increase over its previous High Water Mark receives NBBO Setter Rebates of \$0.03 per contract for qualifying executions. Similarly, a Member that qualifies for the lower tier applicable to Members with an ADV equal to or greater than 0.30% of average TCV but not the 1% of average TCV tier that achieves at least a 5 basis point increase over its previous High Water Mark is provided a NBBO Setter Rebate of \$0.08 per contract for qualifying executions.

In order to further incentivize aggressive liquidity by incenting displayed size of contracts, the Exchange proposes to provide twice the rebate for executions that qualify for an NBBO Setter Rebate and result from an order with a displayed size that equals or exceeds 25 contracts. Accordingly, rather than NBBO Setter Rebates of \$0.03, \$0.06, \$0.08 and \$0.10 per contract, as described above, the Exchange proposes to provide enhanced NBBO Setter Rebates of \$0.06, \$0.12, \$0.16 and \$0.20, respectively, for executions that meet the size threshold. The Exchange proposes to limit the enhanced rebate to executions up to 200 contracts. For any

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<sup>14</sup> An order that is entered at the most aggressive price both on the BATS Options book and according to then current OPRA data will be determined to have set the NBB or NBO for purposes of the NBBO Setter Rebate without regard to whether a more aggressive order is entered prior to the original order being executed.

executions above 200 contracts, the Exchange will provide the enhanced rebate based on order size for the first 200 contracts executed, and the standard NBBO Setter Rebate for all remaining contracts executed on that order.

## 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>15</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>16</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 at a particular venue to be excessive.

Volume-based rebates such as the ones maintained by the Exchange have been widely adopted in the cash equities markets and are increasingly in use by the options exchanges, and are equitable because they are open to all Members on an equal basis and provide 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. Accordingly, the Exchange believes that the continued offering of volume-based rebates for Customer orders in Penny Pilot Securities is not unfairly discriminatory because it is consistent

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

<sup>16</sup> 15 U.S.C. 78f(b)(4).

with the overall goals of enhancing market quality. Similarly, the Exchange believes that continuing to base its tiered fee structure based on overall TCV, rather than a static number of contracts irrespective of overall volume in the options industry, is a fair and equitable approach to pricing.

The Exchange believes that continuing to provide additional financial incentives to Members that demonstrate a 5 basis point increase over their previous High Water Mark offers an additional, flexible way to achieve financial incentives from the Exchange and encourages Members to add increasing amounts of liquidity to BATS Options each month. The Grow with Us pricing program, therefore, is reasonable in that it rewards a Member's growth patterns. Such increased volume increases potential revenue to the Exchange, and will allow the Exchange to continue to provide and potentially expand the incentive programs operated by the Exchange. The increased liquidity also benefits all investors by deepening the BATS Options 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. The Grow with Us program is also fair and equitable and not unreasonably discriminatory in that it is available to all Members, even for Members that do not meet the Exchange's volume based tiers.

More specifically, the increase to Grow with Us rebates for Customer orders in Penny Pilot Securities is reasonable as it is a small increase that encourages growth by Members, which will, in turn, benefit all participants on BATS Options. The proposed rebates are fair and equitable and not unreasonably discriminatory due to the fact that Grow with Us pricing is available to all Members, even those that do not qualify for the Exchange's lowest volume tier. The Exchange notes that, as proposed, BATS Options will be providing a rebate to Members that qualify for the lower tier and Grow with Us pricing (such Members will receive a \$0.45 per



contract rebate for Customer orders) that is higher than the rebate provided to Members that qualify for the higher tier (1% or more) but do not qualify for Grow with Us pricing (such Members will receive a \$0.44 per contract rebate for Customer orders). The Exchange believes that this pricing structure is reasonable and not unreasonably discriminatory because the Exchange is incentivizing Members to increase their activity on BATS Options, to the benefit of other BATS Options participants. Also, consistent with this objective, the Exchange has adopted a new Grow with Us category for Members that qualify for the higher tier and also qualify for Grow with Us pricing (such Members will receive a \$0.46 per contract rebate for Customer orders).

The enhanced NBBO Setter program that focuses on the size of contracts has the potential of increasing the available liquidity at the Exchange. Accordingly, the proposed adoption of a program to provide enhanced NBBO Setter Rebates for executions from orders that qualify based on their size is fair and equitable and not unreasonably discriminatory because such a program is consistent with the overall goals of enhancing market quality and will benefit all investors by deepening the BATS Options 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. The Exchange notes that it does not currently operate any auctions through which orders are held and broadcast to its membership, nor does the Exchange engage in any payment for order flow practices. Rather, the Exchange is proposing to enhance its transparent market structure with an easy to understand and transparent pricing structure by adding incentives for aggressive quoting with size. The Exchange also believes that the rebates as proposed are reasonable in that they significantly incentivize aggressive quoting with respect to both price and size.

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

The Exchange does not believe that the proposed rule change imposes any burden on competition.

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

No written comments were solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>17</sup> and Rule 19b-4(f)(2) thereunder,<sup>18</sup> the Exchange has designated this proposal as establishing or changing a due, fee, or other charge applicable to the Exchange's Members and non-members, which renders the proposed rule change effective upon filing.

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.

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

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<sup>17</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>18</sup> 17 CFR 240.19b-4(f)(2).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2012-020 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BATS-2012-020. 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; 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-2012-020 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>19</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).