

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72333; File No. SR-BATS-2014-019)

June 5, 2014

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Related to Fees for Use of BATS Exchange, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 28, 2014, 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 filed a proposal 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). Changes to the fee schedule pursuant to this proposal are effective upon filing.

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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 defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

On April 17, 2014, the Exchange filed a proposal to adopt rules to create a Lead Market Maker Program (the "Program") on an immediately effective basis.<sup>6</sup> The Exchange plans to implement the Program on June 2, 2014. The Program is designed to strengthen market quality for BATS-listed ETPs<sup>7</sup> by offering enhanced rebates to market makers registered with the Exchange ("Market Makers")<sup>8</sup> that are also registered as a lead market maker ("LMM") in an LMM Security<sup>9</sup> and meet certain minimum quoting

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<sup>6</sup> See Securities Exchange Act Release No. 72020 (April 25, 2014) 79 FR 24807 (May 1, 2014) (SR-BATS-2014-015).

<sup>7</sup> As defined in Rule 11.8(e)(1)(A), ETP means any security listed pursuant to Exchange Rule 14.11.

<sup>8</sup> See BATS Rule 11.5.

<sup>9</sup> As defined in Rule 11.8(e)(1)(C), LMM Security means an ETP that has an LMM.

standards (“Minimum Performance Standards”).<sup>10</sup> The purpose of this filing is to adopt such enhanced rebates and to make corresponding clarifying changes to the fee schedule.

Effective June 2, 2014, the Exchange proposes to modify its fee schedule applicable to use of the Exchange in order to provide pricing for orders that add displayed liquidity in LMM Securities entered by LMMs that meet the Minimum Performance Standards (a “Qualified LMM”). The Exchange is proposing to implement a tiered rebate structure that is based on the consolidated average daily volume (“CADV”) of the LMM Security.<sup>11</sup> Specifically, the Exchange is proposing that, unless an LMM otherwise qualifies for a higher rebate, a Qualified LMM shall receive the following rebates for each share of added displayed liquidity: where the CADV is 10,000 or less, \$0.0070; where the CADV is between 10,001 and 40,000, \$0.0050; where the CADV is between 40,001 and 80,000, \$0.0045; where the CADV is between 80,001 and 150,000, \$0.0040; and where the CADV is greater than 150,000, \$0.0035. While not possible under the current pricing structure, in the event that a Qualified LMM is ever eligible to receive a higher per share rebate under non-LMM pricing, the Qualified LMM will receive such higher non-LMM rebate. As proposed, LMM rebates are not eligible for additional rebates like the NBBO Setter or NBBO Joiner rebates currently offered by the Exchange.

Under the proposal, CADV is calculated based on the three calendar months preceding the month for which the fees apply, meaning that when calculating the rebates

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<sup>10</sup> As defined in Rule 11.8(e)(1)(D), Minimum Performance Standards means a set of standards applicable to an LMM that may be determined from time to time by the Exchange.

<sup>11</sup> As defined in the proposed fee schedule, “CADV” means consolidated average daily volume calculated as the average daily volume reported for a security by all exchanges and trade reporting facilities to a consolidated transaction reporting plan for the three calendar months preceding the month for which the fees apply.

that apply to a particular LMM Security, the CADV will be based on the three calendar months prior to the current trading month. For example, in calculating the rebates that will apply to an LMM for a particular LMM Security for November, the Exchange will look to the average daily volume reported for the LMM Security by all exchanges and trade reporting facilities to a consolidated transaction reporting plan for August, September, and October. If that LMM Security was an initial listing on BATS (not a transfer listing from another listing market) and was listed beginning on September 15, the calculation of CADV used for November pricing would include all days from August 1 through September 14 with zero volume each trading day. For transfer listings, the determination of the rebates for a month will be based on the CADV for the past three months, regardless of where the ETP was listed during that period.

The Exchange is not proposing to make any changes to its existing price structure. The Exchange notes that all volume, including volume in LMM Securities, will continue to be included in all volume calculations as it relates to other rebates and fees on the Exchange.

#### Corresponding Changes

Finally, the Exchange proposes to make several non-substantive changes to the fee schedule, including amending the footnote numbering in order to accommodate the addition of new footnote 3, which, as described above, defines the term CADV, and, similarly, the deletion of existing footnote 4, which is currently reserved.

#### Implementation Date

The Exchange proposes to implement these amendments to its fee schedule on June 2, 2014.

## 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>12</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) and 6(b)(5) of the Act,<sup>13</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 and it does not unfairly discriminate between customers, issuers, brokers or dealers. 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.

The Exchange believes that the proposed LMM rebates are equitable and not unfairly discriminatory because they will incentivize and reward LMMs that make tangible commitments to enhancing market quality for securities listed on the Exchange. The Exchange further believes that the proposal will encourage the development of new financial products, provide a better trading environment for investors in ETPs, and generally encourage greater competition between listing venues.

As described above, the Exchange proposes to provide rebates to Qualified LMMs for adding displayed liquidity ranging from \$0.0035 to \$0.0070 per share. This range is based on an LMM Security's CADV such that as the CADV increases, the

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<sup>12</sup> 15 U.S.C. 78f.

<sup>13</sup> 15 U.S.C. 78f(b)(4) and (5).

proposed rebate decreases. Typically, the lower a security's CADV, the higher the risks and costs to a market maker associated with making markets in the security, such as holding inventory in the security. As the CADV for a security increases, and thus the liquidity increases, typically these same costs associated with making markets in a security decrease. Similarly, the lower a security's CADV, the wider the bid-ask spread in that security will typically be, which means that anyone that wants to buy (sell) the security will have to pay a higher (receive a lower) price for the security. As a security's CADV increases, the narrower the bid-ask spread typically becomes, which means that a buyer (seller) pays (receives) a lower (higher) price when buying (selling) the security. As such, the Exchange's proposal to pay rebates between \$0.0070 and \$0.0035 per share to Qualified LMMs as the CADV of the LMM Security increases is designed to provide higher rebates to Qualified LMMs for meeting the Minimum Quoting Standards in securities that are most likely to cost them the most to make a market, which the Exchange believes will have the effect of shrinking the bid-ask spread in such securities and reducing (increasing) the price for anyone that wants to buy (sell) the security. As the CADV of a security increases, the cost of making markets in the security decreases, which is why the Exchange is proposing to offer smaller rebates to Qualified LMMs for LMM Securities with higher CADV, while still having the effect of tightening spreads. The Exchange believes that the tightened spreads and the increased liquidity from the proposal will benefit 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.

Based on the foregoing, the Exchange believes that these rebates will incent Qualified LMMs to narrow spreads, increase liquidity, and generally enhance the quality of quoting in all securities, particularly in lower CADV securities, which will reduce trading costs and benefit investors generally. Accordingly, the Exchange believes that the proposal is equitably allocated and not unfairly discriminatory because the proposal is consistent with the overall goals of enhancing market quality.

The Exchange notes that the proposed pricing structure is not dissimilar from volume-based rebates and fees (“Volume Tiers”) that have been widely adopted, including those maintained on the Exchange, and are equitable and not unfairly discriminatory because they are open to all members on an equal basis and provide higher rebates and lower fees that are reasonably related to the value to an exchange’s market quality. While Volume Tiers are generally designed to incentivize higher levels of liquidity provision and/or growth patterns on the Exchange across all securities, the proposal is designed to more precisely garner the same benefits specifically in LMM Securities. Stated another way, while Volume Tiers aim to enhance market quality generally, the proposed rebates are designed to enhance market quality on a security by security basis and particularly in securities with a lower CADV. As such, the Exchange believes that the proposed changes will strengthen its market quality for BATS-listed securities by enhancing the quality of quoting in such securities and will further assist the Exchange in competing as a listing venue for issuers seeking to list ETPs. Accordingly, the Exchange believes that the proposal will complement the Exchange’s program for listing securities on the Exchange, which will, in turn, provide issuers with another option

for raising capital in the public markets, thereby promoting the principles discussed in Section 6(b)(5) of the Act.<sup>14</sup>

#### Corresponding Changes

Finally, the Exchange believes that the clarifying change that changes the footnote reference to facilitate the addition of footnote 3 as well as the deletion of footnote 4 is reasonable as it will help to avoid confusion for those that review the Exchange's fee schedule. The Exchange notes that the proposed change is not designed to amend any fee or rebate, nor alter the manner in which it assesses fees or calculates rebates. The Exchange believes that the proposed amendment is intended to make the fee schedule clearer and less confusing for investors and eliminate potential investor confusion, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and, in general, protecting investors and the public interest.

#### 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. With respect to the proposed new LMM rebates, the Exchange does not believe that the changes burden competition, but instead, enhance competition, as they are intended to increase the competitiveness of the Exchange's listings program. The Exchange also believes the proposed changes would enhance competition because they are similar to pricing incentives provided by both Arca and Nasdaq. As stated above, the Exchange notes that it operates in a highly competitive market in which

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<sup>14</sup> 15 U.S.C. 78f(b)(5).



market participants can readily direct order flow to competing venues if the deemed fee structures to be unreasonable or excessive. The proposed changes are generally intended to enhance the rebates in LMM Securities for Qualified LMMs, which is intended to enhance market quality in BATS-listed securities. As such, the proposal is a competitive proposal that is intended to add additional liquidity to the Exchange, which will, in turn, benefit the Exchange and all Exchange participants. In addition, the Exchange believes that the proposed non-substantive changes to the footnotes on the fee schedule would not affect intermarket nor intramarket competition because the change does not alter any fees or rebates on the Exchange or the criteria associated therewith.

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

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. 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 Act<sup>15</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>16</sup> 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.

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

<sup>16</sup> 17 CFR 240.19b-4(f).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2014-019 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-BATS-2014-019. 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; 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-2014-019, 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.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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