

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76130; File No. SR-BATS-2015-85)

October 13, 2015

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

Pursuant to the provisions of 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 October 2, 2015, 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 the 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).

The text of the proposed rule change is available at the Exchange’s website at [www.batstrading.com](http://www.batstrading.com), at the principal office of the Exchange, and at the Commission’s Public

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

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 its fee schedule applicable to the Exchange's options platform ("BATS Options") effective immediately, in order to modify certain standard pricing and to amend the thresholds related to meeting certain pricing tiers, the applicability of certain pricing tiers and the fees and rebates associated with certain pricing tiers, as described below.

Standard Pricing

The Exchange proposes to modify certain standard pricing applicable to BATS Options, including: (i) the rebate to add liquidity in non-Penny Pilot Securities<sup>6</sup> applicable to Firm,<sup>7</sup> Broker Dealer ("BD")<sup>8</sup> and Joint Back Office ("JBO")<sup>9</sup> orders, which yield fee code NF; (ii) the

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<sup>6</sup> "Penny Pilot Securities" are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

<sup>7</sup> "Firm" applies to any transaction identified by a Member for clearing in the Firm range at the Options Clearing Corporation ("OCC"), excluding any Joint Back office transaction.

<sup>8</sup> "Broker Dealer" applies to any order for the account of a broker dealer, including a foreign broker dealer, that clears in the Customer range at the OCC.

<sup>9</sup> "Joint Back Office" applies to any transaction identified by a Member for clearing in the Firm Range at the OCC that is identified with an origin code as Joint Back Office.

fee for Customer<sup>10</sup> orders that remove liquidity in Penny Pilot Securities, which yield fee code PC; and (iii) the fee for non-Customer orders that remove liquidity in Penny Pilot Securities, which yield fee code PP. The proposed changes are set forth below.

- The Exchange currently provides a rebate of \$0.40 per contract for Firm, BD and JBO orders that add liquidity in non-Penny Pilot Securities, which yield fee code NF. The Exchange proposes to reduce this rebate to \$0.36 per contract.
- The Exchange currently charges a fee of \$0.45 per contract for Customer orders that remove liquidity in Penny Pilot Securities, which yield fee code PC. The Exchange proposes to increase this fee to \$0.46 per contract.
- The Exchange currently charges a fee of \$0.49 per contract on non-Customer orders that remove liquidity in Penny Pilot Securities, which yield fee code PP. The Exchange proposes to increase this fee to \$0.50 per contract.

Each of the changes to standard pricing described above is proposed in order to increase revenue generated by the Exchange or to decrease the rebates paid by the Exchange in order to contribute to the overall profitability of the Exchange. The Exchange believes that these changes represent relatively modest increases to fees charged and adjustments to the rebates that are necessary to fund the continued growth of the Exchange.

#### Non-Customer Penny Pilot Add Volume Tier Rebates and Thresholds

The Exchange currently offers enhanced rebates under both the Firm, Broker Dealer, and Joint Back Office Penny Pilot Add Volume Tiers (which apply to fee code PF) and the Market Maker and Non-BATS Market Maker Penny Pilot Add Volume Tiers (which apply to fee code

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<sup>10</sup> “Customer” applies to any transaction identified by a Member for clearing in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a “Professional” as defined in Exchange Rule 16.1.

PM) to Members with trading activity on BATS Options that meets certain thresholds. More specifically, in Tier 3 of each of these sets of tiers, BATS Options offers an enhanced rebate of \$0.47 per contract to orders that yield fee code PF and PM where: (i) the Member has an ADAV<sup>11</sup> in Firm, BD and JBO orders in Penny Pilot Securities (yielding Fee Code PF) equal to or greater than 0.25% of average TCV;<sup>12</sup> and (ii) the Member has an ADV<sup>13</sup> equal to or greater than 1.50% of average TCV. The Exchange proposes to reduce the rebate offered in Tier 3 of each of these sets of tiers to \$0.46 per contract. The Exchange has proposed this change for reasons consistent with the reason for the changes to Standard Pricing described above, including the generation of additional revenue by the Exchange in order to contribute to the overall profitability of the Exchange and to fund the continued growth of the Exchange.

The Exchange also proposes to modify the criteria necessary to qualify for Tier 2 of the Market Maker and Non-BATS Market Maker Penny Pilot Add Volume Tiers, which applies to fee code PM and provides a rebate of \$0.42 per contract. Currently, in order to qualify for such Tier, a Member of BATS Options must: (i) have an ADAV equal to or greater than 1.00% of average TCV; and (ii) have an ADV equal to or greater than 2.00% of average TCV. The Exchange proposes to modify the first prong of this requirement such that a Member must have an ADAV in Market Maker<sup>14</sup> and/or Non-BATS Market Maker<sup>15</sup> orders equal to or greater than

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<sup>11</sup> “ADAV” means average daily added volume calculated as the number of contracts per day.

<sup>12</sup> “TCV” means 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, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

<sup>13</sup> “ADV” means average daily volume calculated as the number of contracts added or removed, combined, per day.

<sup>14</sup> “Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC.

1.00% of average TCV. The Exchange is proposing to require a Member's ADAV necessary to qualify for Tier 2 to be Market Maker and/or Non-BATS Market Maker orders in order to incentivize the entry of such orders to the Exchange.

#### Non-Customer Penny Pilot Take Volume Tiers

The Exchange currently offers a total of five Non-Customer Penny Pilot Take Volume Tiers that provide discounted fees for Non-Customer orders in Penny Pilot Securities that remove liquidity from BATS Options under fee code PP. The Exchange proposes various updates to the existing tiers as well as to add an additional tier, as set forth below.

- The Exchange currently charges \$0.48 per contract for Members that qualify for Non-Customer Volume Tier 1, which requires that a Member has an ADV equal to or greater than 1.00% of average TCV. The Exchange proposes increasing this fee to \$0.49 per contract.
- The Exchange currently charges \$0.47 per contract for Members that qualify for Non-Customer Volume Tier 2, which requires that a Member has an ADV equal to or greater than 1.25% of average TCV. The Exchange proposes to increase this fee to \$0.48 per contract. The Exchange also proposes to increase the ADV threshold required to reach Non-Customer Volume Tier 2 from 1.25% to 1.50% of average TCV.
- The Exchange currently charges \$0.45 per contract for Members that qualify for Non-Customer Volume Tier 3, which requires that a Member: (i) has an ADAV equal to or greater than 1.00% of average TCV, and (ii) has an ADV equal to or

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<sup>15</sup> “Non-BATS Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is not registered with the Exchange as a Market Maker, but is registered as a market maker on another options exchange.

greater than 2.00% of average TCV. The Exchange proposes to increase this fee to \$0.47 per contract. The Exchange also proposes to eliminate the first prong of the criteria, which contains an ADAV component, such that a Member would simply be required to reach an ADV equal to or greater than 2.00% of average TCV.

- The Exchange proposes to add a new tier, Non-Customer Take Volume Tier 4, which would charge \$0.45 per share for any Member with an ADAV in Customer orders equal to or greater than 0.80% of average TCV. The Exchange notes that this is similar to but easier to attain than current Non-Customer Take Volume Tier 4, which results in a fee of \$0.43 per contract for any Member with an ADAV in Customer orders equal to or greater than 2.00% of average TCV. Because the new tier is easier to attain, the Exchange has proposed a higher fee. In connection with this change, the Exchange proposes to rename current Non-Customer Take Volume Tier 4 as Non-Customer Take Volume Tier 5.

The majority of the changes set forth above represent modest increases in rates or higher criteria to obtain such rates and are proposed for reasons consistent with the reason for the changes to Standard Pricing described above, including the generation of additional revenue by the Exchange in order to contribute to the overall profitability of the Exchange and to fund the continued growth of the Exchange. The Exchange notes that the addition of the new Non-Customer Take Volume Tier 4 is intended to incentivize the entry of additional Customer orders to the Exchange.

#### NBBO Setter Tiers

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 add liquidity that set either the NBB or NBO, subject to certain volume requirements. The Exchange currently operates three NBBO Setter Tiers that provide an additional rebate of either \$0.02 per contract or \$0.04 per contract to orders from qualifying Members that submit orders that yield PA, PF, PM, NA, NF and NM.

The Exchange is proposing to add a new tier, Tier 4, which would provide an additional rebate of \$0.05 per contract to orders yielding fee code PF or PM that establish a new NBBO and are submitted by a Member that has an ADAV in non-Customer orders equal to or greater than 1.00% of average TCV and has an ADV in non-Customer orders equal to or greater than 1.80% of average TCV. The Exchange proposes to limit the applicability of Tier 4 to orders yielding fee code PF and PM, which represent added liquidity in Penny Pilot Securities for Market Maker orders, Non-BATS Market Maker orders, Firm orders, BD orders and JBO orders. Thus, contrary to other NBBO Setter Tiers, Tier 4 would not apply to Professional Customer orders or to orders in non-Penny Pilot Securities. The Exchange believes that this new tier will incentivize additional entry of orders that set a new NBBO, thereby contributing to the availability of aggressively priced liquidity on the Exchange and the price discovery process.

#### QIP Tiers

Pursuant to the Quoting Incentive Program (“QIP”) the Exchange currently provides an additional rebate per contract for an order that adds liquidity to the BATS Options order book in options classes in which a Member is a Market Maker registered on BATS Options pursuant to Rule 22.2. A Market Maker must be registered with BATS Options in an average of 20% or more of the associated options series in a class in order to qualify for QIP rebates for that class. The Exchange currently offers two tiers, Tier 1 and Tier 2, which provide an additional rebate of

\$0.02 per contract or \$0.04 per contract, respectively, for Members that satisfy applicable QIP criteria. The Exchange does not propose to modify the criteria necessary to qualify for QIP tiers or the rebates provided thereunder, however the Exchange does propose to limit the applicability of such tiers to fee codes PM and NM, which apply to added liquidity for Market Maker and Non-BATS Market Maker orders. Thus, QIP rebates would no longer be provided to orders yielding fee codes NA or PA, which apply to added liquidity in Professional Customer orders, or to fee codes NF or PF, which apply to added liquidity in Firm, BD and JBO orders. Because QIP rebates are no longer applicable, the Exchange also proposes to eliminate references to footnote 5 for each of these fee codes on the Fee Codes and Associated Fees chart.

Firm, Broker Dealer and Joint Back Office Non-Penny Pilot Add Volume Tiers

The Exchange is also proposing to modify its Firm, BD and JBO Non-Penny Pilot Add Volume Tiers, under which there are three tiers offering enhanced rebates for Firm, BD and JBO orders that add liquidity in non-Penny Pilot Securities. Specifically, the tiers provide the following rebates under the following conditions for Firm, BD and JBO orders that add volume in non-Penny Pilot Securities: Tier 1 provides a \$0.50 rebate per contract to a Member that has an ADV equal to or greater than 0.05% of average TCV; Tier 2 provides a \$0.60 rebate per contract to a Member that has an ADV equal to or greater than 0.15% of average TCV; and Tier 3 provides a \$0.65 rebate per contract to Member that has an ADV equal to or greater than 0.25% of average TCV. The Exchange proposes the following changes to these tiers.

- The Exchange proposes to reduce the rebate provided under Tier 1 from \$0.50 per contract to \$0.45 per contract and to increase the requirement such that a Member needs to have an ADV equal to or greater than 0.15% of average TCV (rather than 0.05% as currently required).



- The Exchange proposes to eliminate Tier 2 in its entirety.
- The Exchange proposes to rename current Tier 3 as Tier 2.

#### Other Changes

The Exchange also proposes to amend the Standard Rates table, which summarizes the range of fees at the beginning of the fee schedule, in order to reflect the changes proposed above.

#### Implementation Date

The Exchange proposes to implement these amendments to its Fee Schedule effective immediately.

### 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>16</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>17</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 to be excessive.

Volume-based rebates and fees such as the ones currently maintained on BATS Options have been widely adopted by equities and options exchanges and are equitable because they are open to all Members on an equal basis and provide additional benefits or discounts that are

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<sup>16</sup> 15 U.S.C. 78f.

<sup>17</sup> 15 U.S.C. 78f(b)(4).

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.

As explained above, the Exchange is proposing various slight increases to fees as well as decreases in rebates in order to contribute to the overall profitability of the Exchange. The Exchange believes that these changes represent relatively modest increases to fees charged and adjustments to the rebates that are necessary to fund the continued growth of the Exchange. For the same reason, the Exchange believes that the modest increases to qualification thresholds for various pricing tiers is reasonable, fair and equitable and non-discriminatory, specifically because such increases will either incentivize participants to further contribute to market quality to the Exchange or the Exchange will be providing fewer or lower enhanced rebates to participants. The Exchange also believes that the proposed fees and rebates remain consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and do not represent a significant departure from the Exchange's general pricing structure.

The Exchange believes that its proposed new Non-Customer Penny Pilot Take Volume Tier 4 is reasonable, fair and equitable, and non-discriminatory in that it is aimed to attract additional liquidity to the Exchange and is consistent with other existing pricing tiers on the Exchange. The Exchange also believes that it is reasonable, fair and equitable, and non-discriminatory to limit the applicability of QIP rebates to Market Maker orders and Non-BATS Market Maker orders because QIP is a program aimed to incentivize active market making on the Exchange. Similarly, the Exchange believes it is reasonable, fair and equitable, and non-discriminatory to modify the Market Maker and Non-BATS Market Maker Penny Pilot Add Tier 2 to require that qualifying ADAV results from Market Maker and Non-BATS Market Maker

orders because the tier is intended to incentivize the entry of market orders and the enhanced rebates are provided to such orders (specifically, those yielding fee code PM, which are Market Maker or Non-BATS Market Maker orders in Penny Pilot Securities).

The Exchange believes that new proposed NBBO Setter Tier 4 is reasonable, fair and equitable, and non-discriminatory because it will help to further incentivize the entry of aggressively priced liquidity to the Exchange. The Exchange believes it is reasonable, fair and equitable, and non-discriminatory to limit the new NBBO Setter Tier, Tier 4, to orders yielding fee codes applicable to Penny Pilot Securities (thus excluding non-Penny Pilot Securities) and to orders on behalf of participants that are most likely to actively engage in providing liquidity on the Exchange (thus excluding Customers and Professional Customers).

The Exchange believes that the pricing continues to be reasonable, fair and equitable, and also consistent with or better than other options exchanges that operate similar market models.

**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 competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that any of the proposed changes to increase fees or decrease rebates burden competition, but instead, that they enhance competition as they are intended to increase the profitability, and thus, competitiveness of BATS Options by allowing the Exchange to create additional pricing incentives and to maintain and improve the infrastructure of the Exchange. Also, the Exchange believes that the increase to certain thresholds necessary to meet tiers offered by the Exchange contributes to rather than burdens competition, as such changes are intended to incentivize participants to increase their participation on the Exchange. Similarly, the introduction of new tiers is intended to provide incentives to Members to encourage them to

enter orders to BATS Options, and thus is again intended to enhance competition. Finally, the Exchange does not believe that its proposal to limit the applicability of certain incentives to certain fee codes unnecessarily burdens competition, as each change is intended to more narrowly reward participation by those that are actually the target of the incentive and that are participating on the Exchange accordingly (i.e., limiting rebates to Market Maker and Non-BATS Market Maker incentives when the incentive is based on market making activity).

As stated above, 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 to be excessive or providers of routing services if they deem routing fee levels to be excessive.

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 is effective upon filing pursuant to Section 19(b)(3)(A)<sup>18</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>19</sup> 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

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</sup> 17 CFR 240.19b-4(f)(2).

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)<sup>20</sup> 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:

##### 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 No. SR-BATS-2015-85 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BATS-2015-85. 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

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<sup>20</sup> 15 U.S.C. 78s(b)(2)(B).

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 such 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 No. SR-BATS-2015-85, 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>21</sup>

Robert W. Errett  
Deputy Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).