

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76706; File No. SR-BATS-2015-116)

December 21, 2015

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

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 December 9, 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 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 to: (i) bifurcate Market Maker<sup>6</sup> and Non-BATS Market Maker<sup>7</sup> pricing; and (ii) to modify the criteria necessary to meet the Customer Penny Pilot Add Volume Tier 6 and the Non-Customer Penny Pilot Take Volume Tier 3.

Market Maker/Non-BATS Market Maker Pricing

The Exchange proposes to bifurcate Market Maker and Non-BATS Market Maker pricing within the fee schedule. To do so, the Exchange proposes to amend: (i) the Standard Rates table; (ii) the Fee Codes and Associated Fees table to (A) modify fee codes NM and PM;

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<sup>6</sup> "Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37). See the Exchange's fee schedule available at [http://www.batsoptions.com/support/fee\\_schedule/bzx/](http://www.batsoptions.com/support/fee_schedule/bzx/).

<sup>7</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. Id.

and (B) add new fee codes NN and PN; (iii) the NBBO Setter tiers under footnote 4 to reference fee codes NN and PN; (iv) footnote 6 to remove references to Non-BATS Market Maker pricing and copy Tier 1 and relocate Tier 3 and the Step-Up Tier to new footnote 10; and (v) footnote 7 to remove references to Non-BATS Market Maker Pricing and copy Tiers 1 and 2 to new footnote 11. The Exchange notes, other than as proposed herein, pricing for Non-BATS Market Maker transactions are the same as Market Maker transactions. The proposed rule change generally bifurcates the existing pricing for Market Makers and Non-BATS Market Makers.

#### Standard Rates and Fee Codes and Associated Fee Tables

First, the Exchange proposes to amend the Fee Codes and Associated Fee table to amend fee codes NM and PM to remove references to Non-BATS Market Maker Pricing. Pricing for Non-BATS Market Makers would be set forth under new fee codes NN and PN. Under current fee code NM, Market Makers and Non-BATS Market Makers that add liquidity in non-Penny Pilot Securities<sup>8</sup> receive a rebate of \$0.42 per contract. Under proposed fee code NN, Non-BATS Market Makers that add liquidity in non-Penny Pilot Securities would receive a rebate of \$0.36 per contract. Fee code NN would also include references to footnotes 4 and 11, discussed below.

Under current fee code PM, Market Makers and Non-BATS Market Makers that add liquidity in Penny Pilot Securities receive a rebate of \$0.35 per contract. Under proposed fee code PN, Non-BATS Market Makers that add liquidity in Penny Pilot Securities would receive a rebate of \$0.30 per contract. Fee code PN would also include references to footnotes 4 and 10, discussed below.

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<sup>8</sup> “Penny Pilot Securities” are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01. Id.

Second, the Exchange proposes to amend the Standard Rates table to add a row to delineate pricing for Non-BATS Market Makers. Non-BATS Market Maker orders that yield new fee code PN would receive a rebate of \$0.30 per contract if they do not qualify for an enhanced rebates under the Exchange's tiered pricing structure. The Exchange does not propose to amend the enhanced rebates, which are either \$0.40, \$0.43, or \$0.46 per contract depending on the tier that the Non-BATS Market Maker qualifies for. Likewise, Non-BATS Market Maker orders that yield new fee code NN would receive a rebate of \$0.36 per contract if they do not qualify for an enhanced rebates under the Exchange's tiered pricing structure. The Exchange does not propose to amend the enhanced rebates, which are either \$0.45 or \$0.52 per contract depending on the tier that the Non-BATS Market Maker qualifies for.

The Exchange believes it is reasonable to provide Market Makers with improved rates than Non-BATS Market Makers as the proposed differentiation recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants.

#### Footnote 4, NBBO Setter Tiers.

The Exchange proposes to amend the NBBO Setter tiers under footnote 4 to reference fee codes NN and PN. In addition to fee codes PA, PF, PM, NA, NF, and NM, the Exchange proposes to state that NBBO Setter Tiers 1, 2, and 3 are applicable to fee codes PN and NN. NBBO Setter Tier 4 would be applicable to fee code PN, in addition to PF and PM. All of the fee codes referenced in footnote 4 are applicable to orders that add liquidity.

#### Footnotes 6 and 10, Market Maker and Non-BATS Market Maker Penny Pilot Add Volume Tiers

The Exchange proposes to bifurcate the Market Maker and Non-Market Maker pricing in Penny Pilot Securities under footnote 6 by removing references to Non-BATS Market Maker

pricing and copy Tier 1 and relocate Tier 3 and the Step-Up Tier to new footnote 10. Footnote 6 would be amended to remove references to Non-BATS Market Makers as the tiers under footnote 6 would only apply to Market Maker activity in Penny Pilot Securities. The criteria for Tier 2 under footnote 6 would continue to reference Non-BATS Market Makers as liquidity a Market Maker adds in a non-market making capacity would continue to be applied towards the tier's requirements.

Tiers applicable to Non-BATS Market Maker activity in Penny Pilot Securities would be set forth under new footnote 10. Fee code PN would be applicable to the tiers listed under footnote 10. Under Tier 1, a Non-BATS Market Maker would receive a rebate of \$0.40 per contract where they have an ADV<sup>9</sup> equal to or greater than 0.30% of average TCV.<sup>10</sup> This is identical to Tier 1 under footnote 6 for Market Makers. Tier 3 and the Step-Up Tier would be deleted from footnote 6 relocated to new footnote 10 without change. Tier 3 from footnote 6 would be listed a Tier 2 under footnote 10. As they do today, a Non-BATS Market Maker would receive a rebate of \$0.46 per contract under Tier 2 where they have an ADAV<sup>11</sup> in Firm/BD/JBO<sup>12</sup> orders in Penny Pilot Securities (yielding Fee Code PF) equal to or greater than 0.25% of average TCV or an ADV equal to or greater than 1.50% of average TCV. Likewise, under the Step-Up Tier under footnote 10, a Non-BATS Market Maker would receive a rebate of \$0.43 per contract where they have an Options Step-Up Add TCV<sup>13</sup> in Non-Customer orders

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<sup>9</sup> As defined in the Exchange's fee schedule.

<sup>10</sup> Id.

<sup>11</sup> Id.

<sup>12</sup> Id.

<sup>13</sup> As defined in the Exchange's fee schedule.

from March 2015 baseline equal to or greater than 0.15% or an ADAV in Non-BATS Market Maker/Firm/BD/JBO orders equal to or greater than 0.30% of average TCV.

Footnotes 7 and 11, Market Maker and Non-BATS Market Maker Non-Penny Pilot Add Volume Tiers

The Exchange proposes to bifurcate the Market Maker and Non-Market Maker pricing in non-Penny Pilot Securities under footnote 7 by removing references to Non-BATS Market Maker pricing and copying Tiers 1 and 2 to new footnote 11. Footnote 7 would be amended to remove references to Non-BATS Market Makers as the tiers under footnote 7 would only apply to Market Maker activity in non-Penny Pilot Securities.

Tiers applicable to Non-BATS Market Maker activity in non-Penny Pilot Securities would be set forth under new footnote 11. Tiers 1 and 2 under footnote 7 would be replicated under new footnote 11 without change. Under Tier 1, a Non-BATS Market Maker would continue to receive a rebate of \$0.45 per contract where they have an ADV equal to or greater than 0.30% of average TCV. Under Tier 2, a Non-BATS Market Maker would continue to receive a rebate of \$0.52 per contract where they have an ADV equal to or greater than 1.00% of average TCV. Fee code NN would be applicable to the tiers listed under footnote 11.

Customer Penny Pilot Add Volume Tier 6

The Exchange currently offers a total of eight Customer<sup>14</sup> Penny Pilot Add Volume Tiers that provide enhanced rebates for Customer orders in Penny Pilot Securities that add liquidity under fee code PY. Under the Customer Add Volume Tier 6, the Member would receive a rebate of \$0.53 per contract where they have an ADAV in Customer orders equal to or greater than 1.80% of average TCV. The Exchange proposes to ease the criteria necessary to qualify for

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<sup>14</sup> Id.

the Customer Penny Pilot Add Volume Tier 6 by requiring an ADAV in Customer orders equal to or greater than 1.60%, rather than 1.80% of average TCV.

### Non-Customer Penny Pilot Take Volume Tier 3

The Exchange currently offers a total of three Non-Customer<sup>15</sup> Penny Pilot Take Volume Tiers that provide discounted fees for Non-Customer orders in Penny Pilot Securities that remove liquidity under fee code PP. Under the Non-Customer Take Volume Tier 3, the Member would be charged a discounted fee of \$0.46 per contract where they have an ADAV in Non-Customer orders equal to or greater than 1.80% of average TCV. The Exchange proposes to ease the criteria necessary to qualify for the Non-Customer Penny Pilot Take Volume Tier 3 by requiring an ADAV in Customer orders equal to or greater than 1.60%, rather than 1.80% of average TCV.

### Implementation Date

The Exchange proposes to implement these amendments to its fee schedule immediately.<sup>16</sup>

## 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>17</sup> Specifically, the

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<sup>15</sup> Id.

<sup>16</sup> The Exchange initially filed the proposed fee change on November 30, 2015 (SR-BATS-2015-107). On December 9, 2015, the Exchange withdrew that filing and submitted filing SR-BATS-2015-116.

<sup>17</sup> 15 U.S.C. 78f.

Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>18</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.

#### Market Maker/Non-BATS Market Maker Pricing

The Exchange also believes it is equitable, reasonable and not unfairly discriminatory to bifurcate Market Maker and Non-BATS Market Maker pricing within the fee schedule. The Exchange notes, other than as proposed herein, pricing for Non-BATS Market Maker transactions are the same as Market Maker transactions. The proposed rule change generally bifurcates the existing pricing for Market Makers and Non-BATS Market Makers. The proposed rule change would serve to clearly delineate within the fee schedule the fees, rebates and tiers available to Market Makers and Non-BATS Market Makers; thereby, avoiding Members confusion regarding the applicable fees and rebates.

The Exchange also believes it is equitable, reasonable and not unfairly discriminatory to provide Market Makers with improved rates than Non-BATS Market Makers. The proposed differentiation between Market Makers and Non-BATS Market Makers recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. Market Makers, unlike Non-BATS Market Makers, have obligations on the Exchange and regulatory requirements,<sup>19</sup> which do not apply to Non-BATS Market Makers. A

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<sup>18</sup> 15 U.S.C. 78f(b)(4).

<sup>19</sup> See Exchange Rule 22.5, Obligations of Market Makers.



Market Maker on the Exchange has the obligation to make continuous markets, engage in course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with such course of dealings. On the other hand, Non-BATS Market Makers, do not have such obligations on the Exchange.

#### Customer Penny Pilot Add and Remove Tier Amendments

Volume-based rebates and fees such as the ones currently maintained on the Exchange 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 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. Easing the criteria for the Customer Penny Pilot Add Volume Tier 6 and Non-Customer Penny Pilot Take Volume Tier 3 are intended to incentivize Members to send additional orders to the Exchange in an effort to qualify for the enhanced rebate or discounted fee available by the respective tier.

The Exchange believes that these changes are reasonable, fair and equitable and non-discriminatory, for the reasons set forth with respect to volume-based pricing generally and because such changes will either incentivize participants to further contribute to market quality on the Exchange or will allow the Exchange to earn additional revenue that can be used to offset the addition of new pricing incentives. 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.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes the proposed amendments to its fee schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed change represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Additionally, Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets. The Exchange does not believe its bifurcation of Market Maker and Non-BATS Market Maker pricing would burden competition as they are intended to simply clearly delineate within the fee schedule the fees, rebates and tiers available to Market Makers and Non-BATS Market Makers; thereby, avoiding Members confusion regarding the applicable fees and rebates. The Exchange also does not believe that providing Market Makers with improved rates than Non-BATS Market Makers would burden competition as the proposed differentiation recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants.

The Exchange also does not believe that any of the proposed changes to the Exchange's tiered pricing structure burden competition, but instead, that they enhance competition as they are intended to increase the competitiveness of the Exchange by easing the criteria necessary to qualify for certain tiers. Also, the Exchange believes that the decrease to these thresholds necessary to meet the respective tiers contributes to, rather than burdens competition, as such changes are intended to incentivize participants to increase their participation on the Exchange.

(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>20</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>21</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.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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-2015-116 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.

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-BATS-2015-116. 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 such filing will also 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-2015-116 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>22</sup>

Brent J. Fields  
Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).