

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80204; File No. SR-BatsEDGX-2017-14)

March 10, 2017

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees as the Apply to the Equity Options Platform

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 March 1, 2017, Bats EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 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 Act³ and Rule 19b-4(f)(2) thereunder,⁴ 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 Members⁵ and non-members of the Exchange pursuant to EDGX Rules 15.1(a) and (c).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ 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).

The text of the proposed rule change is available at the Exchange’s website at www.bats.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 amend its fee schedule for its equity options platform (“EDGX Options”) to: (i) adopt fees for its recently adopted Qualified Contingent Cross Orders (“QCC”)⁶; and (ii) modify the criteria of two tiers related to orders executed in Bats Auction Mechanism (“BAM”).

Background of QCC

The Exchange recently filed to adopt functionality allowing participants on the Exchange the ability to submit to the Exchange Qualified Contingent Cross Orders, an order type offered by multiple other options exchanges.⁷ The operation of Qualified Contingent Cross Orders on

⁶ See Securities Exchange Act Release No. 79942 (February 1, 2017), 82 FR 9804 (February 8, 2017) (SR-BatsEDGX-2017-11) (“QCC Filing”).

⁷ See ISE Rule 715(j), Supplementary Material .01 to ISE Rule 715 and ISE Rule 721(b); see also CBOE Rule 6.53(u); NASDAQ PHLX Rule 1080(o); NYSE Arca Rule 6.62(bb), Commentary .02 to NYSE Arca Rule 6.62 and NYSE Arca Rule 6.90.

the Exchange will be substantially similar in all material respects to the operation of such orders on such other exchanges.⁸

Definitions of QCC

In connection with this fee proposal, the Exchange proposes to adopt definitions necessary for QCC pricing. First, the Exchange proposes to adopt defined terms of “QCC” to refer to Qualified Contingent Cross Orders on the fee schedule. Second, the Exchange proposes to adopt the defined term “QCC Agency”, which would be defined as a Qualified Contingent Cross Order represented as agent by a Member on behalf of another party, and submitted for execution pursuant to Rule 21.1. Third, the Exchange proposes to adopt the defined term “QCC Contra”, which would be defined as a Qualified Contingent Cross Order submitted by a Member that will potentially execute against the QCC Agency Order pursuant to Rule 21.1.

Pricing of QCC Orders

The Exchange proposes to adopt four new fee codes in connection with QCC, which would be added to the Fee Codes and Associated Fees table of the Fee Schedule. These fee codes represent the fees applicable to QCC, as described below. As proposed, initially all executions in QCC orders would be provided free of charge. The Exchange proposes to adopt two fee codes for QCC Agency Orders, fee code QA and fee code QM, which would be applicable to Customer⁹ and Non-Customer¹⁰ QCC Agency Orders, respectively. The Exchange proposes to adopt two fee codes for QCC Contra Orders, fee code QC and fee code QN, which would be applicable to Customer and Non-Customer QCC Contra Orders, respectively.

⁸ See QCC Filing supra, note 6.

⁹ “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.

¹⁰ “Non-Customer” applies to any transaction that is not a Customer order.

Modification of Customer Volume Tier 6

The Exchange proposes to modify the required criteria for the Tier 6 under footnote 1 of the fee schedule. The Exchange currently offers enhanced rebates ranging from \$0.10 to \$0.25 per share under six Add Volume Tiers set forth in footnote 1. Under Tier 6, qualifying Members earn a rebate per share of \$0.25 on orders yielding fee codes PC¹¹ and NC¹². Currently, to qualify for this tier a Member must: (i) have an ADV¹³ in Customer orders greater than or equal to 0.05% of average OCV¹⁴; (ii) have an ADV in Customer or Market Maker¹⁵ orders greater than or equal to 0.35% of average OCV; and (iii) have an ADV in BAM Agency Orders¹⁶ greater than or equal to 1 contract. The Exchange now proposes to modify the third prong of this tier to require that a Member have an ADV in BAM Agency Orders greater than or equal to 10,000 contracts.

Modification of Market Maker Volume Tier 8

The Exchange proposes to modify the required criteria for the Tier 8 under footnote 2 of the fee schedule. The Exchange currently offers reduced fees ranging from \$0.01 rebate to a

¹¹ Fee code PC is appended to Customer orders in Penny Pilot securities. Orders that yield fee code PC receive a standard rebate of \$0.05 per contract. See the Exchange's fee schedule available at http://www.bats.com/us/equities/membership/fee_schedule/edgx/.

¹² Fee code NC is appended to Customer orders in Non-Penny Pilot securities. Orders that yield fee code NC receive a standard rebate of \$0.05 per contract. *Id.*

¹³ "ADV" means average daily volume calculated as the number of shares added or removed, combined, per day, and is calculated on a monthly basis. *Id.*

¹⁴ "OCV" means the total equity and ETF options volume that clears in the Customer range at the Options Clearing Corporation ("OCC") 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. *Id.*

¹⁵ "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). *Id.*

¹⁶ "BAM Agency Order" is an order represented as agent by a Member on behalf of another party and submitted to BAM for potential price improvement pursuant to Rule 21.19. *Id.*

\$0.16 fee per share under eight Market Maker Volume Tiers set forth in footnote 2. Under Tier 8, qualifying Members are charged a reduced fee per share of \$0.02 on orders yielding fee codes PM¹⁷ and NM¹⁸. Currently, to qualify for this tier a Member must: (i) have an ADV in Customer orders greater than or equal to 0.05% of average OCV; (ii) have an ADV in Customer or Market Maker orders greater than or equal to 0.35% of average OCV; and (iii) have an ADV in BAM Agency Orders greater than or equal to 1 contract. The Exchange now proposes to modify the third prong of this tier to require that a Member have an ADV in BAM Agency Orders greater than or equal to 10,000 contracts.

Implementation Date

The Exchange proposes to implement this amendment to its fee schedule on March 1, 2017.¹⁹

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.²⁰ Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,²¹ in that it provides for the equitable allocation of reasonable dues, fees and other charges among

¹⁷ Fee code PM is appended to Market Maker orders in Penny Pilot securities. Orders that yield fee code PM pay a standard fee of \$0.19 per contract. Id.

¹⁸ Fee code NM is appended to Customer orders in Non-Penny Pilot securities. Orders that yield fee code NM pay a standard fee of \$0.19 per contract. Id.

¹⁹ The Exchange notes that the date of its fee schedule was previously amended to state March 1, 2017 in SR-BatsEDGX-2017-07. See Securities Exchange Act Release No. 79957 (February 3, 2017), 82 FR 10071 (February 9, 2017).

²⁰ 15 U.S.C. 78f.

²¹ 15 U.S.C. 78f(b)(4).

Members and other persons using any facility or system which the Exchange operates or controls.

The Exchange's proposal establishes definitions and pricing for QCC, thus, allowing the Exchange to launch functionality that is designed to offer market participants the ability to submit QCC Orders to the Exchange in the same way they are permitted to send QCC Orders to other options exchanges. The Exchange believes that its proposal to offer functionality related to QCC Orders without charge is reasonable and fair and equitable because this pricing structure will incentivize the use of QCC, which is new functionality that has not previously been offered by the Exchange. The Exchange further believes that this pricing structure is non-discriminatory, as it applies equally to all Members and all components of QCC Orders submitted to the Exchange, regardless of the capacity (i.e., Customer or Non-Customer) of the order. Over time, as QCC grows, the Exchange anticipates that it would adopt a pricing structure that would ultimately generate revenue for the Exchange, however, again, the Exchange believes that it is reasonable to launch this new functionality without charge in order to incentivize its use.

In addition, the Exchange believes that the proposed modification to the tiered pricing structure is reasonable, fair and equitable, and non-discriminatory. Volume-based rebates such as that proposed herein have been widely adopted by exchanges, including the Exchange, 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: (i) the value to an exchange's market quality; (ii) associated higher levels of market activity, such as higher levels of liquidity provisions and/or growth patterns; and (iii) introduction of higher volumes of orders into the price and volume discovery processes. The modification proposed herein is intended to incentivize Members to send additional BAM Agency Orders to the Exchange in an effort to qualify for the enhanced

rebate or reduced fee made available by the tiers, in turn contributing to the growth of BAM on the Exchange. Thus, the Exchange believes that the proposed tier, as modified, is a reasonable, fair and equitable, and not an unfairly discriminatory allocation of fees and rebates, because it will provide Members with an incentive to reach certain thresholds on the Exchange by contributing a meaningful amount of BAM Agency Orders.

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

The Exchange does not believe that the proposed rule change to adopt fees and definitions related to QCC Orders will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposed functionality is open to all market participants. Further, the proposed rule will allow the Exchange launch the QCC functionality, which in turn will allow the Exchange to compete with other options exchanges that currently offer QCC Orders. Thus, the proposal alleviates the burden on competition that would arise if such exchanges were permitted to continue offering such functionality and the Exchange was not. For these reasons, the Exchange does not believe that the proposed fee schedule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

The Exchange does not believe that any of the proposed change to the Exchange's tiered pricing structure burden competition, but instead, that it enhances competition as it is intended to increase the competitiveness of EDGX by modifying pricing incentives in order to attract order flow and incentivize participants to increase their participation on the Exchange, particularly in the context of BAM, which is relatively new functionality offered by 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 Act²² and paragraph (f) of Rule 19b-4 thereunder.²³ 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BatsEDGX-2017-14 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.

²² 15 U.S.C. 78s(b)(3)(A).

²³ 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-BatsEDGX-2017-14. 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, 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 Number SR-BatsEDGX-2017-14, 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.²⁴

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Assistant Secretary

²⁴ 17 CFR 200.30-3(a)(12).