

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87092; File No. SR-CboeBZX-2019-082)

September 24, 2019

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fees Applicable to Physical Connectivity

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 September 10, 2019, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 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 a rule change to waive the fees for a single 1 gigabyte physical port in its secondary data center for Members that are registered as an LMM on the Exchange for the first twelve months following the Member establishing physical connectivity to the secondary data center.

The text of the proposed rule change is also available on the Exchange’s website (http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 aspects 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 implement proposed changes to its fee schedule relating to physical connectivity fees in its secondary data center, effective September 10, 2019. Specifically, the Exchange is proposing to waive the fees for a single 1 gigabyte physical port that is connected solely to the secondary data center for the Exchange's cash equities trading platform ("BZX Equities") for Members that are registered as an LMM on the Exchange for the first twelve months following the Member establishing physical connectivity to the secondary data center.³

By way of background, a physical port is utilized by a Member or non-Member to connect to the Exchange at the data centers where the Exchange's servers are located. The Exchange currently maintains a presence in two third-party data centers: (i) the primary data center where the Exchange's business is primarily conducted on a daily basis, and (ii) a

³ The Exchange notes that the waiver applies only to the BZX Equities secondary data center and to the extent that a Member otherwise subject to the waiver uses such physical connectivity to connect to the Exchange's equity options platform ("BZX Options") or any of the Exchange's affiliates, such Member will be subject to the applicable physical connectivity fees.

secondary data center, which is predominantly maintained for business continuity purposes. The Exchange currently assesses fees of \$2,000 per physical port for a 1 gigabyte circuit for Members and non-Members to connect to its secondary data center on a monthly basis.⁴

Pursuant to Regulation Systems Compliance and Integrity,⁵ Exchange Rule 2.4(b)(2) requires all active Lead Market Makers (“LMMs”),⁶ to connect to the Exchange’s secondary data center and to participate in functional and performance testing on an annual basis⁷ and, as such, in order to become an LMM on the Exchange, a Member would be required to pay all fees associated with connecting to the secondary data center.

LMMs play an important role in the Exchange’s listing program by providing significant liquidity and enhanced market quality in BZX-listed securities. There is significant competition among listing venues to attract, retain, and incentivize liquidity provision by LMMs.⁸ Increasing the number of LMMs on the Exchange and enhancing the competition among LMMs is

⁴ See Securities Exchange Act Release No. 83442 (June 14, 2018), 83 FR 28675 (June 20, 2018) (notice of filing and immediate effectiveness of proposed rule change related to physical port fees for BZX).

⁵ See Securities Exchange Act Release No. 73639 (November 19, 2014), 79 FR 72252 (December 5, 2014) (“SCI Adopting Release”).

⁶ As defined in Rule 11.8(e)(1)(B), the term “LMM” means a Market Maker registered with the Exchange for a particular LMM Security that has committed to maintain Minimum Performance Standards in the LMM Security.

⁷ See Securities Exchange Act Release No. 76162 (October 15, 2015), 80 FR 63849 (October 21, 2015) (SR-BATS-2015-06) (notice of filing and immediate effectiveness of a proposed rule change to adopt Rule 2.4, Mandatory Participation in Testing of Backup Systems).

⁸ The Exchange recently implemented a new LMM incentive program that provides payments to LMMs where they meet certain market quality metrics (the “LMM Program”) rather than offering enhanced rebates on a transaction-by-transaction basis, as LMMs have traditionally been compensated, which it believes will help to incentivize Members to become LMMs on the Exchange and to foster competition among LMMs to become an LMM in all products listed on the Exchange, regardless of trading volume. See Securities Exchange Act Release No. 86213 (June 27, 2019), 84 FR 31951 (July 3, 2019).

particularly important because it further increases the pressure on LMMs to meet the market quality metrics applicable under the LMM Program and enhance market quality in all BZX-listed securities.⁹ More LMMs registered on the Exchange will result in more competition to become an LMM in new and existing products, including where an assigned LMM fails to meet the market quality metrics, all of which the Exchange believes will act to enhance market quality in BZX-listed securities and improve issuer and investor experience.

The Exchange is proposing to waive the fees for a Member that is a registered LMM shall have physical connectivity fees waived for a single 1 gigabyte physical port that is connected solely to the BZX Equities secondary data center for the first twelve months following the Member establishing such physical connectivity.¹⁰ There are a number of costs, both related and unrelated to the Exchange, associated with becoming an LMM and the Exchange believes that this proposal to reduce the overall burden to become an LMM will help the Exchange compete to attract LMMs. The Exchange believes that the ability to attract new LMMs will benefit of its listing business, its issuers, and investors in BZX-listed securities.

Implementation Date

The Exchange proposes to implement these amendments to its fee schedule on September 10, 2019.

⁹ As provided in Rule 11.8(e)(2)(C), where an LMM does not meet the market quality metrics for three out of four months, they are subject to losing their registration as an LMM in the applicable security.

¹⁰ As noted above, the waiver applies only to the BZX Equities secondary data center and to the extent that a Member otherwise subject to the waiver uses such physical connectivity to connect to BZX Options or any of the Exchange's affiliates, such Member will be subject to the applicable physical connectivity fees.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,¹¹ in general, and furthers the objectives of Section 6(b)(4),¹² in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities. The Exchange also notes that its listing business operates in a highly competitive market in which market participants, which includes both ETP issuers and LMMs, can readily transfer their listings or opt not to participate, respectively, if they deem fee levels, liquidity provision incentive programs, or any other factor at a particular venue to be insufficient or excessive. The proposed rule change reflects a competitive pricing structure designed to incentivize Members to enroll and participate as LMMs on the Exchange, which the Exchange believes will enhance market quality in ETPs listed on the Exchange. As described above, the Exchange is proposing to waive certain physical connectivity fees for Members that are registered as an LMM on the Exchange for the first twelve months following the Member establishing physical connectivity to the secondary data center, which it believes will allow it to better compete to attract market participants to register as LMMs on the Exchange.

The Proposed Fee Waiver is Reasonable

The Exchange believes that the proposal is a reasonable means to encourage Members to register as an LMM. By reducing the cost associated with the initial registration and participation as an LMM, Members will be more likely to participate in the LMM program. The Exchange believes that this will benefit the Exchange's listing program through enhanced competition

¹¹ 15 U.S.C. 78f.

¹² 15 U.S.C. 78f(b)(4).

among LMMs, which will also benefit issuers of securities listed on the Exchange, and, more broadly, investors through enhanced market quality in such securities.

The Proposed Fee Waiver is Equitable and Not Unreasonably Discriminatory

The Exchange believes that the proposal represents an equitable allocation of reasonable dues, fees, and other charges and is not unreasonably discriminatory in that it applies uniformly to all similarly situated Members. Any Member that has not established physical connectivity to the secondary data center that becomes an LMM will be eligible for such waiver. While Members that are already connected to the secondary data center will not be eligible, they have already made the decision to connect to the secondary data center and presumably such costs were included in their calculation. Further, the proposal will only result in reduced fees for Members and will not result in any changes for Members that are already connected to the secondary data center.

The Exchange also believes that the proposal represents an equitable allocation of reasonable dues, fees, and other charges and is not unreasonably discriminatory as LMMs play an important role in the Exchange's listing program by providing significant liquidity and enhanced market quality in BZX-listed securities. As noted above, there is significant competition among listing venues to attract, retain, and incentivize liquidity provision by LMMs. Increasing the number of LMMs on the Exchange and enhancing the competition among LMMs is particularly important because it further increases the pressure on LMMs to meet the market quality metrics applicable under the LMM Program and enhance market quality in all BZX-listed securities. More LMMs registered on the Exchange will result in more competition to become an LMM in new and existing products, including where an assigned LMM fails to meet the

market quality metrics, all of which the Exchange believes will act to enhance market quality in BZX-listed securities and improve issuer and investor experience.

The Exchange is proposing to waive the fees for a single 1 gigabyte physical port in its secondary data center for Members that are registered as an LMM on the Exchange for the first twelve months following the Member establishing physical connectivity to the secondary data center. There are a number of costs, both related and unrelated to the Exchange, associated with becoming an LMM and the Exchange believes that this proposal to reduce the overall burden to become an LMM will help the Exchange compete to attract LMMs. The Exchange believes that the ability to attract new LMMs will benefit of its listing business, its issuers, and investors in BZX-listed securities.

Lastly, the Exchange believes the fees remain competitive with those charged by other venues and therefore continue to be reasonable and equitably allocated to Members.¹³

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. As discussed above, the Exchange believes that fees for connectivity and particularly for LMMs are constrained by the robust competition for order flow among listing venues and there is significant competition among listing venues to attract, retain, and incentivize liquidity provision by LMMs. The Exchange believes that this proposal will enhance the Exchange's ability to compete as a listing venue by incentivizing the registration of additional LMMs on the Exchange, resulting in additional competition among LMMs to the benefit of issuers and

¹³ See e.g., NYSE Arca Equities Fees and Charges, NYSE Arca Marketplace: Other Fees and Charges, Connectivity Fees. See also, Nasdaq Phlx LLC Pricing Schedule, Section XI, Direct Connectivity to Phlx.

investors. The Exchange does not believe that the proposed changes represent a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors.

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 unsolicited 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 Act¹⁴ and paragraph (f) of Rule 19b-4¹⁵ thereunder. 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. If the Commission takes such action, the Commission will institute proceedings 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

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeBZX-2019-082 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-CboeBZX-2019-082. 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 also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-CboeBZX-2019-082, 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.¹⁶

Jill M. Peterson
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).