

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-89067; File No. SR-CboeBZX-2020-047)

June 15, 2020

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

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 June 2, 2020, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 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

Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend the fee schedule. The text of the proposed rule change is provided in Exhibit 5.

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/](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.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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 amend its fee schedule applicable to its equities trading platform (“BZX Equities”) to modify non-displayed add volume Tiers 2, 3, and 4 of the Add Volume Tiers, add a new supplemental incentive program to the Add Volume Tiers, modify Step-Up Tier 2, and add Step-Up Tier 5.<sup>3</sup>

The Exchange first 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 or incentives to be insufficient. More specifically, the Exchange is only one of several equity venues to which market participants may direct their order flow, and it represents a small percentage of the overall market. The Exchange in particular operates a “Maker-Taker” model whereby it pays credits to members that provide liquidity and assesses fees to those that remove liquidity. The Exchange’s fee schedule sets forth the standard rebates and rates applied per share for orders that provide and remove liquidity, respectively.

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<sup>3</sup> The Exchange initially filed the proposed fee changes on June 1, 2020 (SR-CboeBZX-2020-045). On June 2, 2020, the Exchange withdrew that filing and submitted a subsequent filing (SR-CboeBZX-2020-047).

Particularly, for orders priced at or above \$1.00, the Exchange provides a standard rebate of \$0.0025 per share for orders that add liquidity and assesses a fee of \$0.0030 per share for orders that remove liquidity. In response to the competitive environment, the Exchange also offers tiered pricing which provides Members opportunities to qualify for higher rebates or reduced fees where certain volume criteria and thresholds are met. Tiered pricing provides an incremental incentive for Members to strive for higher tier levels, which provides increasingly higher benefits or discounts for satisfying increasingly more stringent criteria.

#### Non-Displayed Add Volume Tiers

One of the tiered pricing models referenced above is set forth in Footnote 1 of the fee schedule (Add Volume Tiers), which provides Members an opportunity to qualify for an enhanced rebate on their orders that add liquidity on the Exchange and meet certain criteria. For example, one set of criteria is applied to non-displayed orders that meet certain add volume thresholds on the Exchange. Under the current non-displayed add volume tiers, a Member receives a rebate ranging from \$0.0018 (Tier 1) up to \$0.0029 (Tier 4) per share for qualifying orders which yield fee codes HB,<sup>4</sup> HI,<sup>5</sup> HV,<sup>6</sup> or HY<sup>7</sup> if the corresponding required criteria per tier is met.<sup>8</sup> Non-displayed add volume Tiers 1 through 4 each require that Members reach

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<sup>4</sup> Fee code HB is appended to non-displayed orders which add liquidity to Tape B and is provided a rebate of \$0.00150.

<sup>5</sup> Fee code HI is appended to non-displayed orders that receive price improvement and adds liquidity and is free.

<sup>6</sup> Fee code HV is appended to non-displayed orders which add liquidity to Tape A and is provided a rebate of \$0.00150.

<sup>7</sup> Fee code HY is appended to non-displayed orders which add liquidity to Tape C and is provided a rebate of \$0.00150.

<sup>8</sup> See Cboe BZX U.S. Equities Fee Schedule, Footnote 1, Add Volume Tiers.

certain ADV<sup>9</sup> thresholds as compared to the TCV<sup>10</sup> of non-displayed orders that yield fee codes HB, HI, HV or HY. The Exchange notes that the non-displayed add volume tiers are designed to encourage Members that provide non-displayed liquidity on the Exchange to meet certain order flow criteria, which would benefit all Members by providing greater execution opportunities on the Exchange.

The Exchange now proposes to modify non-displayed add volume Tiers 2 through 4 to update and ease the ADV threshold. Currently, the non-displayed add volume Tier 1 [sic] provides a rebate of \$0.0020 to a Member that adds an ADV of greater than or equal to 0.15% of the TCV as non-displayed orders that yield fee codes HB, HI, HV or HY. The Exchange proposes to modify the required criteria to provide that the Member must add an ADV of equal to or greater than 0.10% of the TCV as non-displayed orders that yield fee codes HB, HI, HV or HY. The non-displayed add volume Tier 3 currently provides a rebate of \$0.0025 to a Member that adds an ADV of greater than or equal to 0.25% of the TCV as non-displayed orders that yield fee codes HB, HI, HV or HY. The Exchange proposes to modify the required criteria to provide that the Member must add an ADV of equal to or greater than 0.15% of the TCV as non-displayed orders that yield fee codes HB, HI, HV or HY. Lastly, the non-displayed add volume Tier 4 currently provides a rebate of \$0.0029 to a Member that adds an ADV of greater than or equal to 0.38% of the TCV as non-displayed orders that yield fee codes HB, HI, HV or HY. The Exchange proposes to modify the required criteria to provide that the Member must add an ADV

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<sup>9</sup> “ADV” means average daily volume calculated as the number of shares added or removed, combined, per day, and is calculated on a monthly basis.

<sup>10</sup> “TCV” means total consolidated volume calculated as the volume reported by all exchanges and trade reporting facilities to a consolidated transaction reporting plan for the month for which the fees apply.

of equal to or greater than 0.35% of the TCV as non-displayed orders that yield fee codes HB, HI, HV or HY.

The proposed changes are intended to ease the applicable tier's current criteria, which the Exchange believes will encourage Members who could not achieve the tier previously to strive to achieve the new criteria. To achieve the non-displayed add volume Tiers 2 through 4, even as modified, Members are still required to meet liquidity requirements on the Exchange, thereby contributing to a deeper and more liquid market, which benefits all market participants. The proposed changes continue to provide Members an opportunity to receive a rebate and is designed to provide Members that provide non-displayed liquidity on the Exchange a further incentive to increase that order flow, which would benefit all Members by providing greater execution opportunities on the Exchange. The Exchange notes the tiers, as modified, continue to be available to all Members.

#### Supplemental Incentive Program Tier

The Exchange proposes to adopt a new tier under Footnote 1 (Add Volume Tiers) that will apply to displayed orders that add liquidity in Tape B securities (i.e., orders that yield fee code B)<sup>11</sup> called the supplemental incentive program tier. The supplemental incentive program tier would provide an additional enhanced rebate of \$0.0001 to Members that add Tape B ADV of greater than or equal to 0.50% of the Tape B TCV. The Exchange believes the proposed new tier will encourage Members to increase their Displayed liquidity in Tape B securities on the Exchange.

#### Step-Up Tiers

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<sup>11</sup> Fee code B is appended to displayed orders which add liquidity to Tape B and is provided a rebate of \$0.00250.

Pursuant to Footnote 2 of the fee schedule, the Exchange offers four Step-Up Tiers that provide Members an opportunity to qualify for an enhanced rebate on their orders that add liquidity where they increase their relative liquidity each month over a predetermined baseline. Under the current Step-Up Tiers, a Member receives a rebate of \$0.0030 (Tier 1), \$0.0031 (Tier 2), or \$0.0032 (Tier 3 and 4) per share for qualifying orders which yield fee codes B, V,<sup>12</sup> or Y<sup>13</sup> if the corresponding required criteria per tier is met.<sup>14</sup> Step-Up Tiers 1 through 5 [sic] also each require that Members reach certain Step-Up Add TCV thresholds. As currently defined in the BZX Equities fee schedule, Step-Up Add TCV means ADAV<sup>15</sup> as a percentage of TCV in the relevant baseline month subtracted from the current ADAV as a percentage of TCV.<sup>16</sup> The Exchange notes that Step-Up Tiers are designed to encourage Members that provide displayed liquidity on the Exchange to increase their order flow, which would benefit all Members by providing greater execution opportunities on the Exchange.

The Exchange now proposes to modify Step-Up Tier 2 to add an alternative baseline month and criteria. Currently, Step-Up Tier 2 provides that a Member will receive a rebate of

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<sup>12</sup> Fee code V is appended to displayed orders which add liquidity to Tape A and is provided a rebate of \$0.00250 per share.

<sup>13</sup> Fee code Y is appended to displayed orders which add liquidity to Tape C and is provided a rebate of \$0.00250 per share.

<sup>14</sup> See Cboe BZX U.S. Equities Fee Schedule, Footnote 2, Step-Up Tiers.

<sup>15</sup> ADAV means average daily added volume calculated as the number of shares added per day, and is calculated on a monthly basis.

<sup>16</sup> The following demonstrates how Step-Up Add TCV is calculated: In December 2018, Member A had an ADAV of 12,947,242 shares and average daily TCV was 9,248,029,751, resulting in an ADAV as a percentage of TCV of 0.14%; In April 2020, Member A had an ADAV of 46,826,572 and average daily TCV was 7,093,306,325, resulting in an ADAV as a percentage of TCV of 0.66%. Member A's Step-Up Add TCV from December 2018 was therefore 0.52% which makes Member A eligible for the existing Step-Up Tier 4 rebate. (i.e., 0.66% (April 2020) – 0.14% (Dec 2018), which is greater than 0.50% as required by current Tier 4).

\$0.0031 per share for their qualifying orders which yield fee codes B, V, or Y where the Member has a Step-Up Add TCV from December 2018 equal to or greater than 0.20%. The Exchange proposes to offer an alternative criteria to provide that the Member will receive the rebate if it has a Step-Up Add TCV from April 2020 of equal to or greater than 0.15%. The proposed additional criteria is intended to provide alternative criteria from a more recent month for the predetermined baseline, which the Exchange believes is more representative of current volume trends for market participants. The Exchange hopes these changes will encourage those Members who could not achieve the tier previously to increase their order flow as a means to receive the tier's enhanced rebate. To achieve the Step-Up Tier 2, even as modified, Members are still required to increase the amount of liquidity that they provide on BZX, thereby contributing to a deeper and more liquid market, which benefits all market participants. The proposed change continues to provide Members an opportunity to receive a rebate and is designed to provide Members that provide displayed liquidity on the Exchange a further incentive to increase that order flow, which would benefit all Members by providing greater execution opportunities on the Exchange. The Exchange notes the tier, as modified, continues to be available to all Members.

The Exchange also proposes to adopt an additional Step-Up Tier (Step-Up Tier 5), which would provide Members an enhanced rebate of \$0.0033 per share where the Member has a Step-Up Add TCV from April 2020 of equal to or greater than 0.30%. The Exchange notes that the proposed Step-Up Tier 5 provides Members an additional way to qualify for an enhanced rebate where they increase their relative liquidity each month over a predetermined baseline, which would benefit all Members by providing greater execution opportunities on the Exchange. The Exchange notes the proposed tier will be available to all Members.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>18</sup> in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members, issuers and other persons using its facilities. The Exchange 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 or incentives to be insufficient. The proposed rule changes reflect a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange, which the Exchange believes would enhance market quality to the benefit of all Members.

In particular, the Exchange believes the proposed changes to non-displayed add volume tiers 2 through 4 are reasonable because they will ease the tier's current criteria while continuing to provide an opportunity for Members to receive an enhanced rebate. The Exchange believes the proposed change to Step-Up Tier 2 is reasonable because it provides Members an alternate criteria to achieve the tier based on more recent volume trends. The Exchange also believes the proposals to adopt the supplemental incentive program tier and Step-Up Tier 5 are reasonable because they will provide an additional opportunity for Members to receive an enhanced rebate. The Exchange notes that volume-based incentives (including relative volume-based incentives) and discounts have been widely adopted by exchanges,<sup>19</sup> including the Exchange,<sup>20</sup> and are reasonable, equitable and non-discriminatory because they are open to all members on an equal

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

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

<sup>19</sup> See e.g., NYSE Arca Equities, Fees and Charges, Step Up Tiers.

<sup>20</sup> See e.g., Cboe BZX U.S. Equities Exchange Fee Schedule, Footnote 1, Add Volume Tiers, and Footnote 2, Step-Up Tiers 1-4.



basis and provide additional benefits or discounts that are reasonably related to (i) the value to an exchange's market quality and/or (ii) associated higher levels of growth patterns. Additionally, as noted above, the Exchange operates in highly competitive market. The Exchange is only one of several equity venues to which market participants may direct their order flow, and it represents a small percentage of the overall market. It is also only one of several maker-taker exchanges. Competing equity exchanges offer similar tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume and/or growth thresholds. These competing pricing schedules, moreover, are presently comparable to those that the Exchange provides, including the pricing of comparable tiers.<sup>21</sup>

The Exchange believes that the proposal represents an equitable allocation of rebates and is not unfairly discriminatory because all Members are eligible for the proposed tiers and have a reasonable opportunity to meet the tier's criteria. Further, the proposed modifications to non-displayed add volume tiers 2 through 4 are less stringent than the current criteria, while the proposed modification to Step-Up Tier 2 provides an alternative criteria for Members to meet the tier threshold. Without having a view of Members' activity on other markets and off-exchange venues, the Exchange has no way of knowing whether this proposed rule change would definitely result in any Members qualifying for the proposed tiers. While the Exchange has no way of predicting with certainty how the proposed changes will impact Member activity, based on this month's data to date, the Exchange expects at least two Members to reasonably compete

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<sup>21</sup> See e.g., NYSE Arca Equities, Fees and Charges, Step Up Tiers which offers rebates between \$0.0022 - \$0.0034 per share if the corresponding required criteria per tier is met. NYSE Arca Equities' Step Up Tiers similarly require Members to increase their relative liquidity each month over a predetermined baseline.

for and satisfy each of the proposed modified non-displayed add volume tiers 2 through 4<sup>22</sup> and expects at least two Members to reasonably and compete for and satisfy proposed Step-Up Tiers 2 and 5.<sup>23</sup> Additionally, the Exchange expects three Members to reasonably compete for and satisfy the proposed supplemental incentive program tier. The Exchange also notes that the proposal will not adversely impact any Member's pricing or their ability to qualify for other rebate tiers. Rather, should a Member not meet the proposed criteria, the Member will merely not receive an enhanced rebate. Furthermore, the proposed rebate would apply to all Members that meet the applicable required criteria.

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

The Exchange does not believe that the proposed rule changes will not [sic] impose any burden on intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, as discussed above, the Exchange believes that the proposed changes would encourage the submission of additional liquidity to a public exchange, thereby promoting market depth, price discovery and transparency and enhancing order execution opportunities for all Members. As a result, the Exchange believes that the proposed change furthers the Commission's goal in adopting Regulation NMS of fostering competition among orders, which promotes "more efficient pricing of individual stocks for all types of orders, large and small."<sup>24</sup>

The Exchange believes the proposed rule change does not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the

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<sup>22</sup> Based on this month's data to date, one Member has achieved the non-displayed add volume tier 2, while no Member has achieved non-displayed add volume tiers 3 and 4.

<sup>23</sup> Based on this month's data to date, no Member has achieved the Step-Up Tier 2.

<sup>24</sup> Securities Exchange Act Release No. 51808, 70 FR 37495, 37498-99 (June 29, 2005) (S7-10-04) (Final Rule).

Act. Particularly, the proposed changes apply to all Members equally in that all Members are eligible for the proposed tiers and will all receive the applicable proposed rebate if such criteria is met. Additionally, the proposed change is designed to attract additional order flow to the Exchange. The Exchange believes that the proposed changes to non-displayed add volume tiers 2 through 4 would incentivize market participants to direct non-displayed order flow to the Exchange as the proposed criteria is less stringent than the current criteria. The Exchange also believes the proposed change to Step Up Tier 2 would encourage market participants to direct liquidity adding volume to the Exchange as it provides alternative criteria, in addition to the existing criteria, that would allow Members to achieve the tier threshold. Lastly, the Exchange believes the proposals to adopt Step-Up Tier 5 and the supplemental incentive program tier will incentivize Members to grow their volume on the Exchange and add volume in Tape B securities, respectively. Greater liquidity benefits all market participants on the Exchange by providing more trading opportunities and encourages Members to send orders, thereby contributing to robust levels of liquidity, which benefits all market participants.

Next, the Exchange believes the proposed rule changes do not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As previously discussed, the Exchange operates in a highly competitive market. Members have numerous alternative venues that they may participate on and direct their order flow, including 13 other equities exchanges and off-exchange venues, including 32 alternative trading systems. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single equities exchange has more than 20% of the market share.<sup>25</sup> Therefore, no exchange possesses significant pricing power in the execution of order

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<sup>25</sup> See Cboe Global Markets U.S. Equities Market Volume Summary (May 28, 2020),

flow. Indeed, participants can readily choose to send their orders to other exchange and off-exchange venues if they deem fee levels at those other venues to be more favorable. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”<sup>26</sup> The fact that this market is competitive has also long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’ ....”<sup>27</sup> Accordingly, the Exchange does not believe its proposed fee change imposes any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange neither solicited nor received comments on the proposed rule change.

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available at [http://markets.cboe.com/us/equities/market\\_share/](http://markets.cboe.com/us/equities/market_share/).

<sup>26</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

<sup>27</sup> *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

### 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>28</sup> and paragraph (f) of Rule 19b-4<sup>29</sup> 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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CboeBZX-2020-047 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-2020-047. 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

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>29</sup> 17 CFR 240.19b-4(f).

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. 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-2020-047, 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>30</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>30</sup> 17 CFR 200.30-3(a)(12).