

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94237; File No. SR-CboeEDGX-2022-005)

February 14, 2022

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

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 February 1, 2022, Cboe 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 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 EDGX Exchange, Inc. (the “Exchange” or “EDGX” or “EDGX Equities”) proposes to amend its 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/options/regulation/rule_filings/edgx/), at the Exchange’s Office of the Secretary, 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 (“EDGX Equities”) as follows: 1) adopt new fee code ZO which will be applicable to retail orders that add liquidity in the pre and post market; 2) update Remove Volume Tier 2, the Retail Volume Tiers, and Retail Membership Program Volume Tiers to add references to proposed fee code ZO; 3) modify the rebate applicable to Add/Remove Volume Tiers 1 and 2; 4) modify the criteria of Growth Tier 4; and 5) modify the criteria of the Remove Volume Tier 1. The Exchange proposes to implement these changes effective February 1, 2022.

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 16 registered equities exchanges, as well as a number of alternative trading systems and other off-exchange venues that do not have similar self-regulatory responsibilities under the Exchange Act, to which market participants may direct their order flow. Based on publicly available information,³ no single registered equities exchange has more than 17% of the market share. Thus, in such a low-concentrated and highly competitive market, no single equities exchange possesses significant pricing power in the execution of order flow. The Exchange in particular operates a “Maker-Taker” model whereby it pays rebates to members that add liquidity

³ See Cboe Global Markets, U.S. Equities Market Volume Summary, Month-to-Date (January 24, 2022), available at https://markets.cboe.com/us/equities/market_statistics/.

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. Currently, for orders in securities priced at or above \$1.00, the Exchange provides a standard rebate of \$0.00160 per share for orders that add liquidity and assesses a fee of \$0.0030 per share for orders that remove liquidity. For orders in securities priced below \$1.00, the Exchange provides a standard rebate of \$0.00009 per share for orders that add liquidity and assesses a fee of 0.30% of total dollar value for orders that remove liquidity. Additionally, 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.

Proposed New Fee Code

The Exchange proposes to adopt a new fee code in the Fee Code and Associated Fees table of the Fee Schedule. Currently, all retail orders that add liquidity yield fee code "ZA" and receive a rebate of \$0.0032 per share in securities priced at or above \$1.00 and a rebate of \$0.00003 per share in securities priced below \$1.00. The Exchange now proposes to adopt fee code "ZO", which will be appended to retail orders that add liquidity, but in the pre and post market. The Exchange proposes to continue to assess the same fees and rebates as are currently assessed today for retail orders that add liquidity (i.e., orders yielding fee code ZO would receive a rebate of \$0.0032 per share in securities priced at or above \$1.00 and a rebate of \$0.00003 per share in securities priced below \$1.00). The Exchange also proposes to apply incentive tiers and programs that currently apply to orders yielding ZA to orders that will now yield ZO and

therefore append footnotes 2 and 3 to ZO in the Fee Code and Associated Fees table.

Particularly, the Exchange proposes to modify the description and criteria of the Retail Volume Tiers (provided under footnote 2 of the Fee Schedule) and Retail Equities Membership Program Volume Tiers (provided under footnote 3 of the Fee Schedule), so that orders yielding both fee codes ZA and ZO are eligible for the respective tiers and the Retail Order ADV criteria under each tier includes orders yielding ZO in addition to ZA. Similarly, the Exchange proposes to amend the second prong of Remove Volume Tier 2 to provide the Retail Order ADV criteria will also include orders yielding ZO in addition to ZA. Accordingly, retail orders that add liquidity in the pre or post market will continue to be eligible for the same incentive programs (and continue to be counted towards Retail Order ADV thresholds) as they are today, albeit under a separate fee code (i.e., ZO instead of ZA).

Modifications to Add/Remove Volume Tiers

The Add Volume Tiers set forth in footnote 1 of the Fee Schedule (Add/Remove Volume Tiers) provides Members an opportunity for qualifying orders (i.e., orders yielding fee code B,⁴ V,⁵ Y,⁶ 3⁷ or 4⁸) to receive an enhanced rebate on their orders on orders that add liquidity and meet certain volume criteria. Specifically, Add Volume Tier 1 provides a rebate of \$0.0023 per

⁴ Orders yielding Fee Code “B” are orders adding liquidity to EDGX (Tape B).

⁵ Orders yielding Fee Code “V” are orders adding liquidity to EDGX (Tape A).

⁶ Orders yielding Fee Code “Y” are orders adding liquidity to EDGX (Tape C).

⁷ Orders yielding Fee Code “3” are orders adding liquidity to EDGX in the pre and post market (Tapes A or C).

⁸ Orders yielding Fee Code “4” are orders adding liquidity to EDGX in the pre and post market (Tape B).

share to Members that add an ADV⁹ greater than or equal to 0.20% of the TCV.¹⁰ Similarly, Add Volume Tier 2 provides a rebate of \$0.0025 per share to Members that add an ADV greater than or equal to 0.30% of the TCV. The Exchange notes that the Add Volume Tiers are designed to encourage Members that provide liquidity adding orders to the Exchange to increase their order flow, which would benefit all Members by providing greater execution opportunities on the Exchange.

Now the Exchange proposes to reduce the rebates provided under Add Volume Tiers 1 and 2 to \$0.0020 per share and \$0.0023 per share, respectively. While the Exchange is proposing no change to the criteria of the Add Volume Tiers 1 and 2, the Exchange believes that the tier will continue to incentivize increased order flow to the Exchange, which may contribute to a deeper, more liquid market to the benefit of all market participants by creating a more robust and well-balanced market ecosystem. The Add Volume Tiers 1 and 2, as modified, continue to be available to all Members and provide Members an opportunity to receive an enhanced rebate, albeit a reduced rebate. The proposed rebates are in line with similar rebates for liquidity adding programs in place on other exchanges.¹¹

The Growth Volume Tiers are also set forth under footnote 1 of the Fee Schedule (Add/Remove Volume Tiers) and are designed to encourage growth in order flow by providing

⁹ “ADAV” means average daily added volume calculated as the number of shares added per day and “ADV” means average daily volume calculated as the number of shares added to, removed from, or routed by, the Exchange, or any combination or subset thereof, per day. ADAV and ADV is calculated on a monthly basis

¹⁰ “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.

¹¹ E.g., the BZX Equities Add Volume Tiers provide rebates ranging from \$0.0020 per share up to \$0.0031 per share. See BZX Equities Fee Schedule, footnote 1.

specific criteria in which Members must increase their relative liquidity each month over a predetermined baseline. Growth Tier 4, for example, provides an opportunity for qualifying orders (i.e., orders yielding fee code B, V, Y, 3 or 4) to receive an enhanced rebate of \$0.0034 per share to Members that (1) add a Step-Up ADAV¹² from October 2021 greater than or equal to 0.10% of the TCV or Members that add a Step-Up ADAV from October 2021 equal to or greater than 10 million shares; and (2) Members that have a total remove ADV equal to or greater than 0.60% of TCV or Members that have a total remove ADV greater than or equal to 60 million shares. The Exchange now proposes to amend the criteria of Growth Tier 4 to provide the rebate to (1) an MPID that adds a Step-Up ADAV from October 2021 equal to or greater than 10% of the TCV or an MPID adds a Step-Up ADAV from October 2021 equal to or greater than 15 million shares (instead of 10 million shares); and (2) an MPID that adds an ADV equal to or greater than 0.30% of TCV or an MPID that adds an ADV equal to or greater than 30 million shares (instead of 60 million shares).

Lastly, the Remove Volume Tiers are also set forth under footnote 1 of the Fee Schedule (Add/Remove Volume Tiers) and provide Members an opportunity for qualifying orders (i.e., orders yielding fee codes BB,¹³ N¹⁴ and W¹⁵) to receive a reduced fee on their orders that remove liquidity and meet certain volume criteria. Specifically, the Remove Volume Tier 1 provides a reduced fee of \$0.00275 in securities at or above \$1.00 and 0.28% of the total dollar value in securities priced below \$1.00 to (1) Members that add a Step-Up ADAV from June 2021 equal

¹² “Step-Up ADAV” means ADAV in the relevant baseline month subtracted from current ADAV.

¹³ Orders yielding Fee Code “BB” are orders removing liquidity to EDGX (Tape (B)).

¹⁴ Orders yielding Fee Code “N” are orders removing liquidity to EDGX (Tape (C)).

¹⁵ Orders yielding Fee Code “W” are orders removing liquidity to EDGX (Tape (A)).

to or greater than 0.10% of the TCV or Members that add a Step-Up ADAV from June 2021 equal to or greater than 8 million shares; and (2) Members that have a total remove ADV equal to or greater than 0.60% of the TCV. Now the Exchange proposes to modify the criteria to adopt an alternative criteria to satisfy prong two. Specifically, the Exchange proposes to provide the reduced rebate to (1) Members that add a Step-Up ADAV from June 2021 equal to or greater than 0.10% of the TCV or Members that add a Step-Up ADAV from June 2021 equal to or greater than 8 million shares; and (2) Members that have a total remove ADV equal to or greater than 0.60% of the TCV, or, Members that have a total remove ADV equal to or greater than 60 million shares. The Exchange proposes no change to the current reduced fee applicable to the Remove Volume Tier 1.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Securities and Exchange Act of 1933 (the “Act”),¹⁶ in general, and furthers the objectives of Section 6(b)(4),¹⁷ in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and issuers and other persons using its facilities. The Exchange also believes that the proposed rule change is consistent with the objectives of Section 6(b)(5)¹⁸ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in

¹⁶ 15 U.S.C. 78f.

¹⁷ 15 U.S.C. 78f(b)(4).

¹⁸ 15 U.S.C. 78f.(b)(5).

securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and, particularly, is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. As described above, 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.

Regarding the proposed new fee code ZO appended to retail orders adding liquidity in the pre and post market, the Exchange notes that the competition for retail order flow is particularly intense, especially as it relates to exchange versus off-exchange venues, as prominent retail brokerages tend to route a majority of their limit orders to off-exchange venues.¹⁹ Accordingly, competitive forces compel the Exchange to use exchange transaction fees and credits, particularly as they relate to competing for retail order flow, because market participants can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable.

The Exchange believes that its proposed change to adopt fee code ZO is reasonable, equitable and not unfairly discriminatory. First, the Exchange notes that the proposed standard rebates under fee code ZO are the same as those currently applied to such orders under fee code ZA, which fee code as discussed currently also applies to retail orders that add liquidity, albeit

¹⁹ See Securities Exchange Release No. 86375 (July 15, 2019), 84 FR 34960 (SRCboeEDGX-2019-045).

during regular market hours. Further, the proposed standard rebates are consistent with, and competitive with, rebates for retail order flow on other equities exchanges, which provide pricing incentives to retail orders in the form of lower fees and/or higher rebates.²⁰ Second, while the proposed rebates apply only to retail orders, the Exchange does not believe this application is discriminatory as the Exchange offers similar rebates or reduced fees to non-retail order flow. The Exchange notes that, like all other fee codes, ZO and the accompanying rebates will be automatically and uniformly applied to all Members' qualifying orders as applicable. The Exchange also believes it's reasonable, equitable and not unfairly discriminatory to apply volume incentive tiers that currently apply to orders yielding ZA to ZO and to clarify that Retail Order ADV will include orders yielding either ZA or ZO as such changes apply to all members and such tiers already apply to all retail orders that add liquidity, including those that execute in the pre or post market (i.e., there will be no substantive impact to orders yielding ZO with respect to their inclusion in these programs).

The Exchange believes its proposal to reduce the rebates applicable to Add Volume Tiers 1 and 2 is reasonable because each tier continues to be available to all Members and provides Members an opportunity to receive an enhanced rebate, albeit a reduced enhanced rebate. Similarly, the Exchange believes its proposal to amend the criteria of the Growth Tier 4 is reasonable because the tier will be available to all MPIDs and provides MPIDs an opportunity to receive an enhanced rebate. The Exchange also believes its proposal to amend the criteria of the Remove Volume Tier 1 is reasonable because it will provide an additional opportunity for

²⁰ See e.g., BZX Equities Fee Schedule, Fee Code ZA, which provides a rebate of \$0.0032 per share to retail orders adding liquidity.

Members to reach the tier, will continue to be available to all Members, and will provide Members an opportunity to receive a reduced fee.

The Exchange notes that relative volume-based incentives and discounts have been widely adopted by exchanges, including the Exchange, and are reasonable, equitable, and non-discriminatory because they are open to all Members on an equal basis and provide additional discounts that are reasonably related to (i) the value to an exchange's market quality and (ii) associated with higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns. The Exchange also believes that the proposed and existing rebates and fees, as applicable, under Add Volume Tiers 1 and 2, Growth Tier 4, and Remove Volume Tier 1 continue to be commensurate with the existing and proposed criteria. That is, the rebates reasonably reflect the difficulty in achieving the corresponding criteria as amended.

The Exchange believes that the changes to the Add Volume Tiers 1 and 2, Growth Tier 4, and Remove Volume Tier 1, will benefit all market participants by incentivizing continuous liquidity and, thus, deeper more liquid markets as well as increased execution opportunities. Particularly, the proposal is designed to incentivize liquidity, which further contributes to a deeper, more liquid market and provide even more execution opportunities for active market participants at improved prices. This overall increase in activity deepens the Exchange's liquidity pool, offers additional cost savings, supports the quality of price discovery, promotes market transparency and improves market quality, for all investors.

The Exchange also believes that the proposed amendments to the Add Volume Tiers 1 and 2, Growth Tier 4, and Remove Volume Tier 1 represent an equitable allocation of rebates and are not unfairly discriminatory because all Members or MPIDs are eligible for the tiers and would have the opportunity to meet the tiers' criteria and would receive the proposed rebate if

such criteria is met. Without having a view of 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 or MPIDs qualifying for the proposed tiers. While the Exchange has no way of predicting with certainty how the proposed tier will impact Member activity, the Exchange anticipates that at least one MPID will be able to compete for and reach the proposed criteria in Growth Tier 4 and Remove Volume Tier 1. The Exchange also notes that proposed tiers will not adversely impact any Member's ability to qualify for other reduced fee or enhanced rebate tiers. Should a Member not meet the proposed criteria under any of the proposed tiers, the Member will merely not receive that corresponding enhanced rebate or reduced fee.

As noted above, the Exchange operates in a highly competitive market. The Exchange is only one of 16 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 rates and tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume thresholds.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition 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 order flow to a public exchange, thereby promoting market depth, execution incentives and enhanced execution opportunities, as well as price discovery and transparency for all Members. As a result, the Exchange believes that the proposed changes further 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.”

The Exchange believes the proposed rule changes do not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed tier changes will apply to Members or MPIDs equally in that all Members or MPIDs are eligible for each of the tiers, have a reasonable opportunity to meet the tiers’ criteria and will receive the enhanced rebate or reduced fee on their qualifying orders if such criteria is met. Further, the proposed Fee Code will similarly be available to all Members equally. The Exchange does not believe the proposed changes burdens competition, but rather, enhances competition as it is intended to increase the competitiveness of EDGX by amending an existing pricing incentive and adopting a pricing incentive in order to attract order flow and incentivize participants to increase their participation on the Exchange, providing for additional execution opportunities for market participants and improved price transparency. Greater overall order flow, trading opportunities, and pricing transparency benefits all market participants on the Exchange by enhancing market quality and continuing to encourage Members to send orders, thereby contributing towards a robust and well-balanced market ecosystem.

Next, the Exchange believes the proposed rule change does 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 other equities exchanges, off-exchange venues, and 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 17% of the market

share.²¹ Therefore, no exchange possesses significant pricing power in the execution of order 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.”²² 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’ ...”²³ 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.

²¹ Supra note 3.

²² See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

²³ *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)).

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.

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 Act²⁴ and paragraph (f) of Rule 19b-4²⁵ 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. Please include File Number SR-CboeEDGX-2022-005 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.

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-CboeEDGX-2022-005. 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 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-CboeEDGX-2022-005 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.²⁶

J. Matthew DeLesDernier
Assistant Secretary

²⁶ 17 CFR 200.30-3(a)(12).