

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94437; File No. SR-CboeEDGX-2022-013)

March 16, 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 March 9, 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) amend fee code ZM so that it applies to applicable orders with a time-in-force of Good ‘til Extended Day (“GTX”); and 2) modify the criteria of Growth Tier 2. The Exchange proposes to implement these changes effective March 1, 2022.³

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,⁴ 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 and assesses fees to those that remove liquidity. The Exchange’s Fee Schedule sets forth the

³ The Exchange initially filed the proposed fee changes on March 1, 2022 (SR-CboeEDGX-2022-009). On March 9, 2022, the Exchange withdrew that filing and submitted this proposal.

⁴ See Cboe Global Markets, U.S. Equities Market Volume Summary, Month-to-Date (February 27, 2022), available at https://markets.cboe.com/us/equities/market_statistics/.

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.

As noted under the Fee Codes and Associated Fees section of the Fee Schedule, fee code ZM is appended to retail orders with a time-in-force of Day⁵/Regular Hours Only (“RHO”)⁶ that remove liquidity on arrival and provides a fee/rebate of free. Now the Exchange proposes to amend fee code ZM so that is appended to retail with a time-in-force of Day/RHO or GTX⁷ that remove liquidity on arrival. Currently, retail orders with a time-in-force of GTX that remove liquidity upon arrival are appended fee code ZR which are assessed a fee of \$0.00300 per share in securities at or above \$1.00 and 0.30% of dollar value to securities below \$1.00. Therefore, the proposal would decrease the fee associated with retail orders with a time-in-force of GTX that remove liquidity upon arrival by \$0.00300.

⁵ See Exchange Rule 11.6(q)(2)

⁶ See Exchange Rule 11.6(q)(6).

⁷ See Exchange Rule 11.6(q)(5).

Further, the Growth Volume Tiers Volume Tiers set forth in footnote 1 of the Fee Schedule (Add/Remove Volume Tiers) provide Members an opportunity for qualifying orders (i.e., orders yielding fee code B,⁸ V,⁹ Y,¹⁰ 3¹¹ or 4¹²) to receive an enhanced rebate and are designed to encourage growth in order flow by providing specific criteria in which Members must increase their relative liquidity each month over a predetermined baseline. Growth Tier 2, 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 \$0.0027 per share to Members that (1) add a Step-Up ADAV¹³ from June 2021 greater than or equal to 0.10% of the TCV¹⁴ 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 0.70% of TCV. The Exchange now proposes to modify the criteria in the second prong of Growth Tier 2 to require that Members (i) have a total remove ADV equal to or greater than 0.70% of TCV, or alternatively, (ii) have a total remove ADV equal to or greater than 60,000,000 shares.

⁸ Orders yielding Fee Code “B” are orders adding liquidity to EDGX (Tape B).

⁹ Orders yielding Fee Code “V” are orders adding liquidity to EDGX (Tape A).

¹⁰ Orders yielding Fee Code “Y” are orders adding liquidity to EDGX (Tape C).

¹¹ Orders yielding Fee Code “3” are orders adding liquidity to EDGX in the pre and post market (Tapes A or C).

¹² Orders yielding Fee Code “4” are orders adding liquidity to EDGX in the pre and post market (Tape B).

¹³ “Step-Up ADAV” means ADAV in the relevant baseline month subtracted from current ADAV.

¹⁴ “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.

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”),¹⁵ in general, and furthers the objectives of Section 6(b)(4),¹⁶ 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)¹⁷ 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 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.

¹⁵ 15 U.S.C. 78f.

¹⁶ 15 U.S.C. 78f(b)(4).

¹⁷ 15 U.S.C. 78f.(b)(5).

Regarding the proposed amendment to fee code ZM, 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.¹⁸ 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 amend fee code ZM is reasonable, equitable and not unfairly discriminatory. First, the Exchange notes that the current fee applied to retail orders with a time-in-force of GTX that remove liquidity upon arrival is \$0.00300 per share in securities at or above \$1.00 and 0.30% of dollar value to securities below \$1.00. Therefore, the proposal would decrease the fee associated with retail orders with a time-in-force of GTX that remove liquidity upon arrival. Second, while the proposed fee/rebate applies 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, ZM and the accompanying fee (which is free) will be automatically and uniformly applied to all Members' qualifying orders as applicable.

The Exchange believes its proposal to amend the criteria of the Growth Tier 2 is reasonable because the tier is and will continue to be available to all Members and provides Members an alternative opportunity to meet the required criteria in order to receive an enhanced rebate. The Exchange notes that relative volume-based incentives and discounts have been

¹⁸ See Securities Exchange Release No. 86375 (July 15, 2019), 84 FR 34960 (SRCboeEDGX-2019-045).

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 proposed amendment to Growth Tier 2 is designed to give Members an alternative opportunity to meet the second prong of the required criteria, and therefore the tier may be more easily achieved by Members. The Exchange believes that the existing rebates under Growth Tier 2 continues to be commensurate with the proposed criteria. That is, the rebate reasonably reflects the difficulty in achieving the corresponding criteria as amended.

The Exchange believes that the changes Growth Tier 2 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 amendment to the Growth Tier 2 represents an equitable allocation of rebates and are not unfairly discriminatory because all Members are eligible for the tiers and would have the opportunity to meet the tier's 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 qualifying for the tier. While the Exchange has no way of predicting with certainty how the proposed tier will impact Member activity, based on

trading activity on the Exchange during the prior month, the Exchange anticipates that at least one Member will be able to compete for and reach the proposed criteria in Growth Tier 2. The Exchange also notes that proposed change 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 the tier, as amended, the Member will merely not receive the corresponding enhanced rebate.

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 change will apply to Members equally in that all Members are eligible for Growth Tier 2, have a reasonable opportunity to meet the tier's criteria and will receive the enhanced rebate on their qualifying orders if such criteria is met. Further, the fee code ZM is and will continue to 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 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.¹⁹ 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,

¹⁹ Supra note 4.

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.”²⁰ 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’”²¹ 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.

²⁰ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

²¹ *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 Act²² and paragraph (f) of Rule 19b-4²³ 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-2022-013 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-CboeEDGX-2022-013. This file number should be included on the subject line if e-mail is used. To help the Commission process and

²² 15 U.S.C. 78s(b)(3)(A).

²³ 17 CFR 240.19b-4(f).

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-2022-013 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

J. Matthew DeLesDernier
Assistant Secretary

²⁴ 17 CFR 200.30-3(a)(12).