

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77065; File No. SR-BATS-2016-15)

February 5, 2016

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use of BATS Exchange, Inc.

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 4, 2016, BATS Exchange, Inc. (the “Exchange” or “BATS”) 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 filed a proposal to amend the fee schedule applicable to Members³ and non-members of the Exchange pursuant to BATS Rules 15.1(a) and (c) (“Fee Schedule”). The changes to the Fee Schedule pursuant to this proposal are effective upon filing.

The text of the proposed rule change is available at the Exchange’s website at www.batstrading.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the

¹ 17 CFR 200.30-3(a)(12).

² 17 CFR 240.19b-4.

³ The term “Member” is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its Fee Schedule to: (i) adopt a new tier under footnote 1 called the Market Depth Tier; (ii) eliminate from footnote 2 Step-Up Tiers 1, 2, and 3 and rename Step-Up Tier 4 as “Step-Up Tier”; and (iii) modify the tier-based incremental credits for Members that are Lead Market Makers (“LMMs”) for their orders that provide displayed liquidity in Tape B securities described under footnote 14.

Proposed Market Maker Depth Tier

Currently, the Exchange determines the liquidity adding rebate that it will provide to Members using the Exchange’s tiered pricing structure. Under such pricing structure, a Member will receive a rebate of anywhere between \$0.0020 and \$0.0034 per share executed, depending on the volume tier for which such Member qualifies. The Exchange proposes to adopt a new tier under footnote 1 titled the “Market Depth Tier”. Under the Market Depth Tier, the Exchange is proposing to provide a rebate of \$0.0032 per share to Members that add an ADV⁴ of at least: (i) 1% of the TCV⁵; and (ii) 0.10% of the TCV as Non-Displayed Orders⁶ that yield fee codes HA⁷

⁴ As defined in the Exchange’s Fee Schedule.

⁵ Id.

⁶ See Exchange Rule 11.9(c)(11).

⁷ As set forth in the Exchange’s Fee Schedule, fee code HA is attached to Non-Displayed

or HI.⁸ As is the case with any other rebates on the Fee Schedule, to the extent that a Member qualifies for higher rebates than those provided under the proposed Market Depth Tier, the higher rebates shall apply.

Amendments to Step-Up Tiers

The Exchange also maintains additional Step-Up Tiers that provide Members with additional ways to qualify for enhanced rebates where they increase their liquidity each month over a predetermined baseline. The Exchange currently offers four Step-Up Tiers under footnote 2 of its Fee Schedule. Under Tier 1, a Member receives a rebate of \$0.0025 per share when its Step-Up Add TCV from January 2014 is equal to or greater than 0.07%. Under Tier 2, a Member receives a rebate of \$0.0029 per share when its Step-Up Add TCV from January 2014 is equal to or greater than 0.10%. Under Tier 3, a Member receives a rebate of \$0.0030 per share when its Step-Up Add TCV from January 2014 is equal to or greater than 0.15%. Lastly, under Tier 4, a Members [sic] receives a rebate of \$0.0030 per share where their Step-Up Add TCV⁹ from August 2015 is equal to or greater than 0.08%; and (2) Member's ADAV¹⁰ as a percentage of TCV is equal to or greater than 0.35%.

The Exchange proposes to amend footnote 2 to eliminate Step-Up Tiers 1, 2, and 3 and rename Step-Up Tier 4 as Step-Up Tier. The Exchange believes that Step-Up Tiers 1, 2, and 3 have successfully encouraged Members to increase their liquidity on the Exchange over a January 2014 baseline and that such tiers are no longer necessary. The Exchange notes that

Orders that add liquidity.

⁸ As set forth in the Exchange's Fee Schedule, fee code HI is attached to Non-Displayed Orders that receives price improvement and add liquidity.

⁹ Id.

¹⁰ Id.

Step-Up Tier 4, which is to be renamed Step-Up Tier, provides a contemporary baseline of August 2015 by which Members may seek to increase their liquidity and receive a rebate of \$0.0030 per share. In addition, deletion of Step-Up Tiers 1, 2, and 3 would help offset the cost incurred by offering a rebate of \$0.0032 per share under the proposed Market Depth Tier discussed above.

LMM Credit Tiers for Tape B

On April 17, 2014, the Exchange filed a proposal to adopt rules to create an LMM Program (the “Program”) on an immediately effective basis.¹¹ The Program is designed to strengthen market quality for BATS-listed Exchange Traded Products (“ETPs”)¹² by offering enhanced pricing to market makers registered with the Exchange (“Market Makers”)¹³ that are also registered as an LMM in an LMM Security¹⁴ and meet certain minimum quoting standards (“Minimum Performance Standards”).¹⁵ In October 2015, the Exchange filed a proposed rule change with the Commission to adopt such enhanced pricing for LMMs under part (A) of footnote 14 of the Fee Schedule¹⁶ and to adopt additional LMM credit tiers under part (B) of footnote 14, also on an immediately effective basis.¹⁷

¹¹ See Securities Exchange Act Release No. 72020 (April 25, 2014), 79 FR 24807 (May 1, 2014) (SR-BATS-2014-015).

¹² As defined in Rule 11.8(e)(1)(A), ETP means any security listed pursuant to Exchange Rule 14.11.

¹³ See BATS Rule 11.5.

¹⁴ As defined in Rule 11.8(e)(1)(C), LMM Security means an ETP that has an LMM.

¹⁵ As defined in Rule 11.8(e)(1)(D), Minimum Performance Standards means a set of standards applicable to an LMM that may be determined from time to time by the Exchange.

¹⁶ The Exchange does not propose to amend the enhanced pricing available to LMMs under part (A) of footnote 14 of its Fee Schedule.

¹⁷ See Securities Exchange Act Release No. 76147 (October 14, 2015), 80 FR 63621

As described above, the Exchange offers tier-based incremental credits to Members that are LMMs for their orders that provide displayed liquidity in Tape B securities pursuant to paragraph (B) of footnote 14 of the Fee Schedule. Specifically, Members that are LMMs for LMM Securities receive an additional rebate per share (an “LMM Credit”) for orders that provide displayed liquidity in Tape B securities traded on the Exchange, including non-BATS-listed securities, except that such LMM Credits are not applied to the rebates provided to LMMs pursuant to part (A) of footnote 14 of the Fee Schedule (the “LMM Rebate”). Currently, the LMM Credits and volume thresholds associated therewith are as follows: (i) an LMM Credit of \$0.0001 per share where an LMM is a Qualified LMM¹⁸ in at least 50 ETPs; (ii) an LMM Credit of \$0.0002 per share where an LMM is a Qualified LMM in at least 75 ETPs; (iii) an LMM Credit of \$0.0003 per share where an LMM is a Qualified LMM in at least 150 ETPs; and (iv) an LMM Credit of \$0.0004 per share where an LMM is a Qualified LMM in at least 250 ETPs.

The Exchange now proposes to amend the LMM Credit Tiers under part (B) of footnote 14 to reduce the minimum number of ETPs for which an LMM must be a Qualified LMM in order to qualify for each tier as follows: (i) to receive an LMM Credit of \$0.0001 per share, the number of ETPs for which the LMM is a Qualified LMM would be decreased from 50 to 25; (ii) to receive an LMM Credit of \$0.0002 per share, the number of ETPs for which the LMM is a Qualified LMM would be decreased from 75 to 50; (iii) to receive an LMM Credit of \$0.0003 per share, the number of ETPs for which the LMM is a Qualified LMM would be decreased from

(October 20, 2015) (SR-BATS-2015-89).

¹⁸ An LMM is a “Qualified LMM” in a security where it provides pricing for orders that add displayed liquidity in an LMM Security that meets the Minimum Performance Standards during the applicable billing month.

150 to 75; and (iv) to receive an LMM Credit of \$0.0004 per share, the number of ETPs for which the LMM is a Qualified LMM would be decreased from 250 to 125.

For example, a Member that is a Qualified LMM in 100 ETPs is currently eligible to receive an LMM Credit of \$0.0002 per share in Tape B securities for which it is not a Qualified LMM, in addition to the rebate it would normally receive in accordance with the Exchange's Fee Schedule ("Normal Rebate"). As proposed, however, the Member would instead receive an LMM Credit of \$0.0003 per share in Tape B securities for which it is not a Qualified LMM in addition to the Normal Rebate.¹⁹

Implementation Date

The Exchange proposes to implement these amendments to its Fee Schedule immediately.²⁰

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,²¹ in general, and furthers the objectives of Section 6(b)(4),²² 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 it

¹⁹ Where the LMM Credit plus the Normal Rebate is greater than the LMM Rebate, the Member will receive this higher rebate instead of the LMM Rebate, which is consistent with the treatment of all other fees and rebates, as provided in the General Note that states "to the extent a Member qualifies for higher rebates and/or lower fees than those provided by a tier for which such Member qualifies, the higher rebates and/or lower fees shall apply."

²⁰ The Exchange initially filed the proposed fee change on January 28, 2016 (SR-BATS-2016-11). On February 4, 2016, the Exchange withdrew SR-BATS-2016-11 and submitted this filing.

²¹ 15 U.S.C. 78f.

²² 15 U.S.C. 78f(b)(4).

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. The proposed rule change reflects a competitive pricing structure designed to incent market participants to direct their order flow to the Exchange. The Exchange believes that the proposed tier is equitable and non-discriminatory in it would apply uniformly to all Members. The Exchange believes the rates remain competitive with those charged by other venues and, therefore, reasonable and equitably allocated to Members.

Volume-based rebates such as that proposed herein have been widely adopted by equities and options exchanges and are equitable because they are open to all Members on an equal basis and provide additional benefits or discounts that are reasonably related to: (i) the value to an exchange's market quality; (ii) associated higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns; and (iii) introduction of higher volumes of orders into the price and volume discovery processes. The Exchange believes that the proposed tier is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because they will provide Members with an additional incentive to reach certain thresholds on the Exchange.

In particular, the Exchange believes the addition of the Market Depth Tier is a reasonable means to encourage Members to increase their liquidity on the Exchange. The Exchange further believes that the proposed Market Depth Tier represents an equitable allocation of reasonable dues, fees, and other charges because the thresholds necessary to achieve the tier encourages Members to add displayed liquidity to the BATS Book²³ each month, as only the displayed liquidity in this tier is awarded the rebate of \$0.0032 per share. This tier also recognizes the

²³ See Exchange Rule 1.5(e).

contribution that non-displayed liquidity provides to the marketplace, including: (i) adding needed depth to the Exchange market; (ii) providing price support/depth of liquidity; and (iii) increasing diversity of liquidity to the Exchange. The increased liquidity benefits all investors by deepening the Exchange's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection.

Proposed Market Maker Depth Tier

The Exchange also notes that the criteria and rebate under the Market Depth Tier is equitable and reasonable as compared to other tiers offered by the Exchange. For example, under footnote 1 a Member may receive a rebate of \$0.0030 per share under Tier 4 where their: (i) ADAV as a percentage of TCV [sic] equal to or greater than .50%; or (ii) ADV as a percentage of TCV is equal to or greater than 1.00%. Like the proposed Market Depth Tier, Members must add as a percentage of TCV of [sic] 1.00%. However, in order to receive the higher rebate of \$0.0032 per share, the Member must also add an ADV of at least 0.10% of the TCV as Non-Displayed Orders that yield fee codes HA or HI. Therefore, the Exchange believes the proposed Market Depth Tier is consistent with Section 6(b)(4)²⁴ of the Act as the more stringent criteria correlates with the tier's higher rebate.

Amendments to Step-Up Tiers

The Exchange believes that its proposal to amend footnote 2 to delete Step-Up Tiers 1, 2, and 3 and rename Step-Up Tier 4 as Step-Up Tier is reasonable, fair, and equitable for several of the reasons stated above. Specifically, the Exchange believes that Step-Up Tiers 1, 2, and 3 have successfully encouraged Members to increase their liquidity on the Exchange over a January

²⁴ 15 U.S.C. 78f(b)(4).

2014 baseline and that such tiers are no longer necessary. The Exchange notes that Step-Up Tier 4, which is to be renamed Step-Up Tier, provides a contemporary baseline of August 2015 by which Members may seek to increase their liquidity and receive a rebate of \$0.0030 per share. In addition, deletion of Step-Up Tiers 1, 2, and 3 would help offset the cost incurred by offering a rebate of \$0.0032 per share under the proposed Market Depth Tier discussed above. As such, the Exchange believes that removing the tier from its fee schedule is reasonable, fair, and equitable. The Exchange also believes that the proposed amendments are non-discriminatory because they apply uniformly to all Members.

LMM Credit Tiers for Tape B

The proposed reduction to the minimum number of ETPs for which an LMM must be a Qualified LMM in order to qualify for each tier in the LMM Credit Tiers for Tape B is intended to encourage Members to promote price discovery and market quality across all BATS-listed securities for the benefit of all market participants. The Exchange believes that reducing the thresholds for meeting such tiers provides increased incentives to Members to become LMMs in BATS-listed ETPs, to satisfy the Minimum Performance Standards in ETPs each month, and to add liquidity in Tape B securities on the Exchange, and is therefore reasonable because the Exchange believes doing so would encourage more LMMs to register to quote and trade in as many BATS-listed ETPs as possible. In particular, reducing the ETP requirements necessary to receive enhanced rebates tiered based on the number of securities for which a Member is registered as an LMM, would provide an incentive for such Members not only to register as an LMM in more liquid securities, but also to register to quote in lower volume ETPs, which are traditionally less profitable for market makers than more liquid ETPs. Moreover, the Exchange believes that the proposed change will incentivize LMMs to register as an LMM in more ETPs,

including less liquid ETPs and, thus, add more liquidity in these and other Tape B securities to the benefit of all market participants. The Exchange believes that the proposed reduction in the threshold is equitable and not unfairly discriminatory because it remains consistent with the market quality and competitiveness benefits associated with the fee program and because the magnitude of the additional rebate is not unreasonably high in comparison to the requirements associated with receiving such LMM Credit and the rebate paid with respect to other displayed liquidity-providing orders.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe its proposed amendment to its Fee Schedule would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed change represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Additionally, Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

The Exchange 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 structures to be unreasonable or excessive. The proposed changes are generally intended to enhance the rebates for liquidity added to the Exchange, which is intended to draw additional liquidity to the Exchange. The Exchange does not believe the proposed amendments would burden intramarket competition as they would apply to all Members uniformly.

The Exchange does not believe that the proposed new Market Depth Tier would burden competition, but instead, enhances competition, as it is intended to increase the competitiveness

of and draw additional volume to the Exchange. Nor does the Exchange believe eliminating Step-Up Tiers 1, 2, and 3 would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Those tiers have successfully encouraged Members to increase their liquidity on the Exchange and their elimination would help offset the cost incurred by offering a rebate of \$0.0032 per share under the proposed Market Depth Tier.

The Exchange does not believe that the proposed reduction to the minimum number of ETPs for which an LMM must be a Qualified LMM in order to qualify for each tier in the LMM Credit Tiers for Tape B will burden competition, but instead, enhances competition, as these changes are intended to increase LMM participation in Tape B Securities, to incentivize Members to register as LMMs in BATS-listed ETPs, and to encourage Members to meet the Minimum Performance Standards in such ETPs. As such, the proposal is a competitive proposal that is intended to add additional liquidity to the Exchange, which will, in turn, benefit the Exchange and all Exchange participants.

(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 Act²⁵ and paragraph (f) of Rule 19b-4 thereunder.²⁶ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change

²⁵ 15 U.S.C. 78s(b)(3)(A).

²⁶ 17 CFR 240.19b-4(f).

if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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 No. SR-BATS-2016-15 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 No. SR-BATS-2016-15. 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 am and 3:00 pm. Copies of such filing will also be available for inspection and copying at the principal

office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BATS-2016-15 and should be submitted on or before [21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Brent J. Fields
Secretary

²⁷ 17 CFR 200.30-3(a)(12).