

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78236; File No. SR-BatsBZX-2016-26)

July 6, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing of Proposed Rule Change to BZX Rule 14.11(d) to Add the EURO STOXX 50® Volatility Futures to the Definition of Futures Reference Asset

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 June 23, 2016, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 the Substance of the Proposed Rule Change

The Exchange filed a proposal to amend Rule 14.11(d) in order to add the EURO STOXX 50® Volatility (VSTOXX®) Futures (“VSTOXX Futures”) to the definition of Futures Reference Asset.

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 purpose of and basis for the proposed rule change and discussed any comments it received on the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Commission has approved the listing of debt securities known as Linked Securities³ and, in particular, Futures-Linked Securities, which are Linked Securities with a payment at maturity based on the performance of a Futures Reference Asset,⁴ including listing pursuant to Rule 19b-4(e) under Rule 14.11(d)(2).⁵ Rule 19b-4(e)⁶ under the Act provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) shall not be deemed a proposed rule change, pursuant to section (c)(1) of Rule 19b-4,⁷ if the Commission has approved, pursuant to Section 19(b) of the Act,⁸ the SRO’s trading rules, procedures, and

³ As defined in Rule 14.11(d), “Linked Securities” includes Multifactor Index-Linked Securities, Equity Index-Linked Securities, Commodity-Linked Securities, Fixed Income Index-Linked Securities, and Futures-Linked Securities.

⁴ As defined in Rule 14.11(d), “Futures Reference Asset” includes “an index of (a) futures on Treasury Securities, GSE Securities, supranational debt and debt of a foreign country or a subdivision thereof, or options or other derivatives on any of the foregoing; or (b) interest rate futures or options or derivatives on the foregoing in this subparagraph (b); or (c) CBOE Volatility Index (VIX) Futures.”

⁵ See Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018) (Order Approving Proposed Rule Change to Adopt Rules for the Qualification, Listing and Delisting of Companies on the Exchange) (the “Approval Order”). The Approval Order approved the rules permitting the listing of both Tier I and Tier II securities on the Exchange and the requirements associated therewith, which includes, among others, the listing and trading of Linked Securities, trading hours and halts, and listing fees originally applicable to Linked Securities.

⁶ 17 CFR 240.19b-4(e).

⁷ 17 CFR 240.19b-4(c)(1).

⁸ 15 U.S.C. 78s(b).

listing standards for the product class and the SRO has a surveillance program for the product class.⁹

The Exchange proposes to amend Rule 14.11(d) in order to add VSTOXX Futures to the definition of Futures Reference Asset, which would allow the Exchange to list Futures-Linked Securities linked to VSTOXX Futures through generic listing standards pursuant to Rule 19b-4(e) under BZX Rule 14.11(d)(2)(K)(iv).

Rule 14.11(d)(2)(K)(iv)(a) requires that a Futures-Linked Security meet one of the following standards: (1) that the Futures Reference Asset to which the security is linked shall have been reviewed and approved for the trading of Futures-Linked Securities or options or other derivatives by the Commission under Section 19(b)(2) of the Act and rules thereunder and the conditions set forth in the Commission's approval order, including with respect to comprehensive surveillance sharing agreements, continue to be satisfied; or (2) the pricing information for components of a Futures Reference Asset must be derived from a market which is a member or affiliate of a member of the Intermarket Surveillance Group ("ISG") or a market with which the Exchange has a comprehensive surveillance sharing agreement ("CSSA").¹⁰ A Futures Reference Asset may include components not representing more than 10% of the dollar weight of such Futures Reference Asset for which the pricing information is derived from markets that do not meet requirement (2); provided, however, that no single component subject to this exceptions [sic] exceeds 7% of the dollar weight of the Futures Reference Asset. As proposed, adding VSTOXX Futures to the definition of Futures Reference Asset would satisfy

⁹ See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998).

¹⁰ ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. See <https://www.isgportal.org/home.html>.

the first criterion described above and the second criterion would be satisfied by virtue of Eurex Deutschland's membership in ISG, as further described below.

Further, any Futures-Linked Securities linked to VSTOXX Futures would also be required to meet both the initial and continued listing standards under Rule 14.11(d)(2)(K)(iv)(b) and (c) or be subject to delisting or removal proceedings, which include: (i) that the value of the Futures Reference Asset be calculated and widely disseminated by one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session; (ii) for Futures-Linked Securities that are periodically redeemable, the Intraday Indicative Value of the securities must be calculated and widely disseminated by the Exchange or one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session; (iii) the aggregate market value or the principal amount of the Futures-Linked Securities must be at least \$400,000; (iv) the value of the VSTOXX Futures must be calculated and available; and (v) any other event occurs or condition exists which in the opinion of the Exchange makes further dealings on the Exchange inadvisable. Any Futures-Linked Securities linked to VSTOXX Futures would also be required to meet the listing standards applicable to all Linked Securities under 14.11(d)(2). Finally, all Linked Securities listed pursuant to Rule 14.11(d) are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange and, as such, are subject to the full panoply of Exchange Rules and procedures that currently govern the trading of securities on the Exchange.

The Exchange believes that the proposed standards would continue to ensure transparency surrounding the listing process for Linked Securities. Additionally, the Exchange believes that the existing standards for listing and trading Futures-Linked Securities are reasonably designed to promote a fair and orderly market for such Futures-Linked Securities and

the addition of VSTOXX Futures to Futures Reference Assets does not affect this. The proposed addition of VSTOXX Futures to those instruments included in Futures Reference Assets would also work in conjunction with the existing initial and continued listing criteria related to surveillance procedures and trading guidelines.

The Exchange believes that its surveillance procedures are adequate to continue to properly monitor the trading of the Futures-Linked Securities linked to VSTOXX Futures in all trading sessions and to deter and detect violations of Exchange rules. Specifically, the Exchange intends to utilize its existing surveillance procedures applicable to derivative products, which includes Linked Securities, to monitor trading in the Futures-Linked Securities. The issuer of a series of Linked Securities is and will continue to be required to comply with Rule 10A-3 under the Act for the initial and continued listing of Linked Securities, as provided under Rule 14.11(d)(2)(F). The Exchange notes that the proposed change is not intended to amend any other component or requirement of Rule 14.11(d).

VSTOXX

The information in this filing relating to the VSTOXX was taken from the website of STOXX Limited (“STOXX”). The VSTOXX was originally developed by STOXX in 2005 and is based on EURO STOXX 50 Index real-time option prices that are listed on the Eurex Deutschland (“Eurex”) and are designed to reflect the market expectations of near-term up to long-term volatility by measuring the square root of the implied variances across all options of a given time to expiration. The EURO STOXX 50 Index, Europe’s leading Blue-chip index for the Eurozone, provides a blue-chip representation of super sector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

The model for VSTOXX aims at making pure volatility tradable – i.e. it should be possible to replicate the indices with an options portfolio which does not react to price fluctuations, but to changes in volatility only. The VSTOXX does not measure implied volatilities of at-the-money EURO STOXX 50 Index options, but the implied variance across all options of a given time to expiry. A portfolio of EURO STOXX 50 Index options with different exercise price and weighting meets this goal: the implied volatilities of all eligible options with a given time to expiry are considered. The VSTOXX is calculated using a series of sub-indices that are based on put and call options on the EURO STOXX in eight expiry months with a maximum time to expiry of two years in order to bracket a 30-day calendar period. The VSTOXX is calculated using linear interpolation of the sub-indices whose times to expiration closely surround the targeted fixed time to expiry. If there are no such surrounding sub-indices, the VSTOXX is calculated by extrapolation of two sub-indices with closest time to expiry. Because the calculation relies on two sub-indices, VSTOXX is independent of a specific time to expiry, which helps to eliminate effects that typically result in strong volatility fluctuations close to expiry.

STOXX will compute the index on a real-time basis throughout each trading day, from 8:50 a.m. until 5:30 p.m. Central European Time (“CET”) (3:50 a.m. until 12:30 p.m. Eastern Time (“ET”)). VSTOXX levels will be calculated by STOXX and disseminated by major market data vendors such as Bloomberg and Thomson Reuters.

VSTOXX Futures

Additional information regarding the VSTOXX Futures can be found on the Eurex website. Eurex¹¹ began listing and trading VSTOXX Futures in June 2009 under the ticker symbol FVS. VSTOXX Futures are cash settled and trade between the hours of 7:30 a.m. and 10:30 p.m. CET (2:30 a.m. and 5:30 p.m. ET). The VSTOXX Futures contract value is 100 Euros per index point of the underlying and it is traded to two decimal places with a minimum price change of 0.05 points (equivalent to a value of 5 Euros). The daily settlement price is determined during the closing auction of the respective futures contract. The last trading day and final settlement day is 30 calendar days prior to the third Friday of the expiration month of the underlying options, which is usually the Wednesday prior to the second to last Friday of the respective maturity month.

The monthly volume and open interest, in USD, as of the last day of each month in 2015 for the VSTOXX Futures was as follows:

	Monthly Volume	Open Interest
Jan-15	1,916,437,601	486,772,067
Feb-15	1,126,070,071	409,419,303
Mar-15	1,318,852,657	414,012,733
Apr-15	1,484,997,987	451,249,212
May-15	1,236,975,400	426,194,591
Jun-15	1,952,524,278	588,991,482
Jul-15	1,658,790,585	575,821,234
Aug-15	1,269,161,197	469,785,978
Sep-15	2,059,860,768	684,640,331
Oct-15	1,354,413,865	600,708,025
Nov-15	1,239,076,845	397,025,249
Dec-15	15,350,681,77	276,743,850

¹¹ The Exchange notes that Eurex is a member of the ISG and, as such, the Exchange may obtain information regarding trading in the underlying VSTOXX futures contracts. For a list of the current members and affiliate members of ISG, see www.isgportal.com.

Both in the numbers shown above and throughout the history of VSTOXX Futures, the monthly trading volume and open interest in VSTOXX Futures has, subject to natural fluctuation in the market, continued to grow. The Exchange notes that the monthly trading volume in the VSTOXX Futures is very similar to the trading volume of the CBOE Volatility Index® (VIX®) Futures prior to NYSE Arca, Inc. adding the VIX Futures to the definition of futures reference asset in its comparable rule,¹² which, as noted above, the Exchange also added to its rules related to Futures-Linked Securities. Much like the Futures-Linked Securities linked to the VIX Futures, Futures-Linked Securities linked to the VSTOXX Futures will provide investors with the ability to better diversify and hedge their portfolios using an exchange listed security without having to trade directly in the underlying futures contracts.

As such, the Exchange believes that the proposed amendment to add VSTOXX Futures as an underlying Futures Reference asset will facilitate the listing and trading of an additional Futures-Linked Security that will enhance competition among market participants, to the benefit of investors and the marketplace.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act¹³ in general and Section 6(b)(5) of the Act¹⁴ in particular in that it is designed to promote just and equitable principles of trade, 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.

¹² See Securities Exchange Act Release No. 58968 (November 17, 2008), 73 FR 71082 (November 24, 2008) (NYSEArca-2008-111).

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(5).

The proposed rule change is designed to promote just and equitable principles of trade, to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest in that it will facilitate the listing and trading of additional types of Futures-Linked Securities that will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures relating to trading in Futures-Linked Securities and may obtain information regarding both the Futures-Linked Securities and VSTOXX Futures via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, as noted above, investors will have ready access to information on an intraday basis regarding: (i) the value of the Futures Reference Asset, which will be calculated and widely disseminated by one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session; (ii) for Futures-Linked Securities that are periodically redeemable, the Intraday Indicative Value of the securities, which must be calculated and widely disseminated by the Exchange or one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session; and (iii) information regarding market price and trading of Futures-Linked Securities will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services, and quotation and last sale information for the securities will be available on the facilities of the CTA.

Further, any Futures-Linked Securities linked to VSTOXX Futures would be required to meet both the initial and continued listing standards, including certain of those named above, under Rule 14.11(d)(2)(K)(iv)(b) and (c) or be subject to delisting or removal proceedings, which include: (i) that the value of the Futures Reference Asset be calculated and widely

disseminated by one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session; (ii) for Futures-Linked Securities that are periodically redeemable, the Intraday Indicative Value of the securities must be calculated and widely disseminated by the Exchange or one or more major market data vendors on at least a 15-second basis during the Exchange's regular market session; (iii) the aggregate market value or the principal amount of the Futures-Linked Securities must be at least \$400,000; (iv) the value of the VSTOXX Futures must be calculated and available; and (v) any other event occurs or condition exists which in the opinion of the Exchange makes further dealings on the Exchange inadvisable. Any Futures-Linked Securities linked to VSTOXX Futures would also be required to meet the listing standards applicable to all Linked Securities under 14.11(d)(2). Finally, all Linked Securities listed pursuant to Rule 14.11(d) are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange and, as such, are subject to the full panoply of Exchange Rules and procedures that currently govern the trading of securities on the Exchange. Additionally, trading in the securities will be halted under the conditions specified in BZX Rule 11.18. Trading may also be halted because of market conditions, for reasons that, in the view of the Exchange, make trading in the securities inadvisable, or the circumstances set forth in BZX Rule 14.11(d)(2)(H), which sets forth circumstances under which Linked Securities may be halted.

As noted above, both in the context presented herein and throughout the history of VSTOXX Futures, the monthly trading volume and open interest in VSTOXX Futures has, subject to natural fluctuation in the market, continued to grow. The Exchange notes that the monthly trading volume in the VSTOXX Futures is very similar to the trading volume of the CBOE Volatility Index® (VIX®) Futures prior to NYSE Arca, Inc. adding the VIX Futures to

the definition of futures reference asset in its comparable rule,¹⁵ which, as noted above, the Exchange also added to its rules related to Futures-Linked Securities. Much like the Futures-Linked Securities linked to the VIX Futures, Futures-Linked Securities linked to the VSTOXX Futures will provide investors with the ability to better diversify and hedge their portfolios using an exchange listed security without having to trade directly in the underlying futures contracts. The Exchange also believes that the proposed rule change would fulfill the intended objective of Rule 19b-4(e) under the Act by allowing Futures-Linked Securities linked to the VSTOXX Futures that satisfy the listing standards in Rule 14.11(d) to be listed and traded without separate Commission approval. However, as proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Futures-Linked Securities that do not satisfy the criteria of Rule 14.11(d)(2)(K)(iv). As such, the Exchange believes that the proposed amendment to add VSTOXX Futures as an underlying Futures Reference asset will facilitate the listing and trading of an additional Futures-Linked Security that will enhance competition among market participants, to the benefit of investors and the marketplace.

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. Instead, the Exchange believes that the proposed rule change would facilitate the listing and trading of additional types of Futures-Linked Securities, which will enhance competition among market participants, to the benefit of investors and the marketplace and provide investors with the ability

¹⁵ See Securities Exchange Act Release No. 58968 (November 17, 2008), 73 FR 71082 (November 24, 2008) (NYSEArca-2008-111).

to better diversify and hedge their portfolios using an exchange listed security without having to trade directly in the underlying futures contracts. The Exchange believes that this would reduce the time frame for bringing Futures-Linked Securities linked to the VSTOXX Futures to market, thereby reducing the burdens on issuers and other market participants and promoting competition.

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

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

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will: (a) by order approve or disapprove such proposed rule change; or (b) institute proceedings to determine whether the proposed rule change should be 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-BatsBZX-2016-26 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-BatsBZX-2016-26. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also be available for inspection and copying at the principal offices 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 Number SR-BatsBZX-2016-26, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Brent J. Fields
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).