

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78964; File No. SR-BatsBZX-2016-59)

September 28, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Update BZX Rules 21.1, 21.7 and 21.9 to Align the Exchange's Rules and Functionality Applicable to the Exchange's Options Platform, BZX Options, with the Exchange's Affiliated Options Platform, EDGX Options, which is Operated by Bats EDGX Exchange, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 19, 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 Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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 update Rules 21.1, 21.7 and 21.9 to align the Exchange's rules and functionality applicable to the Exchange's options platform ("BZX Options") with the Exchange's affiliated options platform ("EDGX Options"), which is operated by Bats EDGX Exchange, Inc. ("EDGX"). The Exchange has designated this proposal as a non-

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

<sup>2</sup> 17 CFR 240.19b-4.

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

controversial filing and requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) under the Act.<sup>5</sup> If such waiver is granted by the Commission, the Exchange shall implement this rule proposal immediately.

The text of the proposed rule change is available at the Exchange's website at [www.batstrading.com](http://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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to make two changes to the Exchange's rules and functionality applicable to the BZX Options as described below. The changes are being proposed in order to allow the Exchange to conform certain functionality between BZX Options and EDGX Options.

First, the Exchange proposes to eliminate "WAIT" orders, which are orders that that when entered into the System,<sup>6</sup> the order is held for one second without processing for potential display and/or execution. After one second, an order designated as "WAIT" is processed for

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<sup>5</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>6</sup> Exchange Rule 16.1(a)(59) defines "System" as "the automated trading system used by BZX Options for the trading of options contracts."

potential display and/or execution in accordance with all order entry instructions as determined by the entering party. WAIT orders were originally adopted by the Exchange based on similar functionality available on other options exchanges and were intended to enhance compliance with the order exposure requirement set forth in Rule 22.12 (Order Exposure Requirements). Rule 22.12 prohibits Options Members<sup>7</sup> from executing as principal on BZX Options orders they represent as agent unless (i) agency orders are first exposed on BZX Options for at least one (1) second or (ii) the Options Member has been bidding or offering on BZX Options for at least one (1) second prior to receiving an agency order that is executable against such bid or offer (the “Order Exposure Rule”).

Although the Order Exposure Rule still applies on BZX Options and the Exchange is not proposing any changes to such rule in connection with this proposal, Options Members have other means to comply with the Rule, including programming their own systems to comply, and very rarely use orders with a time-in-force of WAIT. Further, such orders are not offered by EDGX Options. Accordingly, the Exchange proposes to stop offering WAIT orders on BZX Options and to eliminate reference to such orders from Rule 21.1 (Definitions). In connection with this change, the Exchange proposes to remove reference to WAIT orders from the Exchange’s rule regarding the opening procedures on the Exchange, Rule 21.7 (Market Opening Procedures).

Second, the Exchange proposes to modify the “Aggressive” Re-Route instruction contained in Exchange Rule 21.9 (Order Routing) to align the operation of such functionality with that offered by EDGX Options. Under the current Aggressive Re-Route instruction on

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<sup>7</sup> An Options Member is defined as “a firm, or organization that is registered with the Exchange pursuant to Chapter XVII of these Rules for purposes of participating in options trading on BZX Options as an ‘Options Order Entry Firm’ or ‘Options Market Maker.’” See Exchange Rule 16.1(a)(38).

BZX Options, set forth in Rule 21.9(a)(3)(A), to the extent the unfilled balance of a routable order has been posted to the BZX Options Book pursuant to paragraph (a)(2), should the order subsequently be *locked or crossed* by another accessible options exchange, the System shall route the order to the locking or crossing options exchange if the User<sup>8</sup> has selected the Aggressive Re-Route instruction. In contrast, on EDGX Options, the Aggressive Re-Route instruction routes an order posted to EDGX Options only if such order is subsequently *crossed* by another accessible options exchange. The Exchange proposes to modify the Aggressive Re-Route instruction to mirror the behavior offered on EDGX Options such that an order posted to BZX Options that has been flagged with the Aggressive Re-Route instruction will only be routed away to the extent such order is subsequently crossed by another accessible options exchange.

Although the Exchange intentionally offers certain features that differ from those offered by EDGX Options and will continue to do so, the Exchange believes that offering similar functionality on both EDGX Options and BZX Options to the extent practicable will reduce potential confusion for Users.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>10</sup> 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.

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<sup>8</sup> A User is defined as “any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access).” See Exchange Rule 16.1(a)(63).

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

Consistent rules and functionality between the Exchange and EDGX will reduce complexity and help avoid potential confusion by the Users of the Exchange that are also participants on EDGX. The Exchange again notes that WAIT orders are very rarely used by Users of BZX Options and that such orders are not offered by EDGX Options. Like WAIT orders, the Aggressive Re-Route instruction is very rarely used. The Exchange also notes that the proposed changes to the Aggressive Re-Route instruction are based on EDGX rules and will result in consistent functionality between BZX Options and EDGX Options.

Also, with respect to the current implementation of Aggressive and Super Aggressive functionality, the Exchange notes that this implementation is due to a change previously made to the functionality that was primarily made by the Exchange in order to keep functionality consistent on BZX Options with the Exchange's equity securities platform ("BZX Equities").<sup>11</sup> Although as implemented on BZX Equities both Aggressive and Super Aggressive Re-Route functionality re-routes if an order is locked or crossed, there are other differences between the two features make the Super Aggressive option more aggressive. These differences, however, are not applicable to BZX Options and therefore Aggressive and Super Aggressive are redundant options. The proposed change will again make the Aggressive feature less aggressive than Super Aggressive, such that an order marked for Aggressive Re-Route will re-route an order only such order is crossed. A User who wishes to achieve the current Aggressive functionality to have the Exchange re-route an order if it is locked or crossed can instead select the Super Aggressive instruction.

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<sup>11</sup> See Securities Exchange Act Release No. 76623 (December 11, 2015), 80 FR 78800 (December 17, 2015) (SR-BATS-2015-112) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rules 11.13(b)(4)(A) and 21.9(a)(3)(A), Amending Aggressive Re-Route Instruction).

The Exchange believes the proposed amendment will reduce complexity and increase the understanding of the Exchange's operations for all Users of the Exchange. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system. The proposed rule changes do not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX Options already.

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 purposes of the Act. The Exchange notes that the proposal will further promote consistency between the Exchange and EDGX, thereby reducing complexity and avoiding potential confusion by Users of the Exchange that are also participants on EDGX. The Exchange does not believe that either of the proposed changes will have any direct impact on competition. Thus, the Exchange does not believe that the proposal creates any significant impact on competition.

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 written comments from members or other interested parties.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the

Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>14</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>15</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange states that waiver of the 30-day operative delay would allow the Exchange to immediately provide functionality that is consistent with functionality provided by EDGX, thereby reducing complexity and avoiding potential confusion. The Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>16</sup>

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

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

<sup>15</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>16</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-BatsBZX-2016-59 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-BatsBZX-2016-59. 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 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; 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-BatsBZX-2016-59, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Robert W. Errett  
Deputy Secretary

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