

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79070; File No. SR-BatsBZX-2016-66)

October 7, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use of Bats BZX 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 30, 2016, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 the Substance of the Proposed Rule Change

The Exchange filed a proposal to amend the fee schedule applicable to Members<sup>3</sup> and non-members of the Exchange pursuant to BZX Rules 15.1(a) and (c).

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

---

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

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

<sup>3</sup> 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).

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 modify its fee schedule applicable to the Exchange’s options platform (“BZX Options”) to: (i) modify the Professional Penny Pilot Add Volume Tiers under footnote 9; (ii) remove fee codes PA and NA from footnote 4, NBBO Setter Tiers; (iii) modify the criteria for Tier 5 under footnote 1, Customer Penny Pilot Add; (iv) modify the criteria for the Tier 1 under footnote 3, Non-Customer Penny Pilot Take Volume; and (v) modify the criteria for Tier 1 under footnote 13, Non-Customer Non-Penny Pilot Take Volume.

Professional Penny Pilot Add Volume Tiers

The Exchange is proposing to add two new tiers under footnote 9, Professional Penny Pilot Add Volume Tiers,<sup>4</sup> Tier 3 and Tier 4. Currently, Professional<sup>5</sup> orders that add liquidity in Penny Pilot Securities<sup>6</sup> receive a standard rebate of \$0.25 per contract. In addition, Members who qualify for Tier 1 and Tier 2 under footnote 9, Professional Penny Pilot Add Volume Tier, receive for such orders a rebate of \$0.40 and \$0.43, respectively. Under the proposed new Tier

---

<sup>4</sup> In addition to the proposed substantive changes to footnote 9, the Exchange proposes to make the title of the footnote plural, as it currently reads “Professional Penny Pilot Add Volume Tier” even though there is more than one tier.

<sup>5</sup> As set forth in the Exchange’s fee schedule, the term “Professional” applies to any transaction identified by a Member as such pursuant to Exchange Rule 16.1.

<sup>6</sup> “Penny Pilot Securities” are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

3, a Member that has a combined ADAV<sup>7</sup> in Customer<sup>8</sup> and Professional orders equal to or greater than 0.30% of average TCV<sup>9</sup> would receive a \$0.46 rebate per contract for each Professional order that adds liquidity in Penny Pilot Securities. Under the proposed new Tier 4, a Member that has a combined ADAV in Customer and Professional orders equal to or greater than 0.50% of average TCV would receive a \$0.48 rebate per contract for each Professional order that adds liquidity in Penny Pilot Securities.

The Exchange is also proposing to modify the criteria necessary to qualify for the Professional Penny Pilot Add Volume Tier 1 and to increase the rebate provided under both Professional Penny Pilot Add Volume Tier 1 and Tier 2 under footnote 9. Currently under Tier 1, a Member must have an ADV<sup>10</sup> equal to or greater than 0.25% of average TCV in order to receive a rebate of \$0.40. The Exchange now proposes an increased rebate of \$0.42 pursuant to Tier 1 when a Member has an ADAV in Customer and Professional Orders equal to or greater than 0.10% of average TCV. Thus, in addition to increasing the rebate this change will align the structure of the criteria of Tier 1 with the structure of existing Tier 2 as well as new proposed Tiers 3 and 4 described above.

---

<sup>7</sup> As set forth in the Exchange's fee schedule, "ADAV" means average daily volume calculated as the number of contracts added per day.

<sup>8</sup> As set forth in the Exchange's fee schedule, the term "Customer" applies to any transaction identified by a Member for clearing in the Customer range at the Options Clearing Corporation ("OCC"), excluding any transaction for a Broker Dealer or a "Professional" as defined in Exchange Rule 16.1.

<sup>9</sup> As set forth in the Exchange's fee schedule, "TCV" means total consolidated volume calculated as the volume reported by all exchanges to the consolidated transaction reporting plan for the month for which the fees apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

<sup>10</sup> As set forth in the Exchange's fee schedule, "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day.

Under Tier 2 the Exchange presently provides a rebate of \$0.43 for Members who have a combined ADAV in Customer and Professional orders equal to or greater than 0.20% of average TCV. The Exchange is proposing to increase the rebate under Tier 2 to \$0.44. In addition, in order to ensure consistent terminology throughout footnote 9, the Exchange proposes to modify the description of Tier 2 to eliminate the reference to “combined” such that the Tier will apply when a Member has an ADAV in Customer and Professional orders equal to or greater than 0.20% of average TCV. The Exchange believes the use of the word “combined” in this case is unnecessary and inconsistent with other portions of the fee schedule.<sup>11</sup> The Exchange also notes that changes are required to the Standard Rates table of the fee schedule in connection with the changes to footnote 9 to reflect these changes.

#### NBBO Setter Tiers

The Exchange’s NBBO Setter Program is a program intended to incentivize aggressive quoting on BZX Options by providing an additional rebate upon execution for all orders that add liquidity that set either the national best bid (“NBB”) or national best offer (“NBO”), subject to certain volume requirements. The Exchange currently operates four NBBO Setter Tiers that provide an additional rebate of either \$0.02, \$0.03 or \$0.04 per contract to orders from qualifying Members that submit orders that yield fee codes PA, PF, PM, [sic] NA, NF, NM or NN.<sup>12</sup>

The Exchange does not propose to modify the criteria necessary to qualify for the NBBO Setter Tiers or the rebates provided thereunder, however the Exchange does propose to limit the applicability of Tier 1 through Tier 4 to fee codes PF, PM, PN, NF, NM, and NN. Thus, NBBO

---

<sup>11</sup> See, e.g., footnote 2, Tier 1, which simply refers to ADAV in orders representing multiple capacities (“Away MM/Firm/BD/JBO orders”).

<sup>12</sup> The Exchange notes that it also offers a fifth NBBO Setter Tier that provides an additional rebate of \$0.05 per contract to orders from qualifying Members that submit orders that yield fee codes PF, PM and PN.

Setter Tiers rebates would no longer be provided to orders yielding fee codes PA or NA. The Exchange also proposes to eliminate references to footnote 4 for each of these fee codes on the Fee Codes and Associated Fees chart.

#### Customer Penny Pilot Add Tiers

The Exchange currently offers a total of eight tiers under footnote 1, Customer Penny Pilot Add Tiers, which provide rebates for Customer orders in Penny Pilot Securities that add liquidity to BZX Options and yield fee code PY. The Exchange proposes to update the required criteria for Customer Add Volume Tier 5 under footnote 1 as set forth below.

Presently under Tier 5, the Exchange provides a rebate of \$0.53 per contract for a Customer order where a Member: (1) has an ADAV in Customer orders equal to or greater than 0.60% of average TCV; (2) has an ADAV in Market Maker<sup>13</sup> orders equal to or greater than 0.30% of average TCV; and (3) has on the Exchange's affiliated equity securities platform ("BZX Equities") an ADAV equal to or greater than 0.30% of average TCV. The Exchange proposes to modify the second prong of these criteria to decrease the ADAV threshold in Market Maker orders from 0.30% to 0.25%.

#### Non-Customer Penny Pilot Take Volume Tiers

The Exchange currently offers a total of three tiers under footnote 3, Non-Customer Penny Pilot Take Volume Tiers, which provide discounted fees for Non-Customer orders in Penny Pilot Securities that remove liquidity from BZX Options under fee code PP. The Exchange proposes to update the required criteria for Tier 1, as set forth below.

---

<sup>13</sup> As set forth in the Exchange's fee schedule, the term "Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37).

The Exchange currently charges \$0.44 per contract for Members that qualify for Non-Customer Volume Tier 1, which requires that a Member has (1) an ADAV in Customer orders equal to or greater than 0.60% of average TCV; (2) an ADAV in Market orders equal to or greater than 0.30%; and (3) on BZX Equities an ADAV equal to or greater than 0.30% of average TCV. The Exchange proposes to modify the second prong of these criteria to decrease the ADAV threshold in Market Maker orders from 0.30% to 0.25%.

#### Non-Customer Non-Penny Pilot Take Volume Tiers

The Exchange presently offers a total of three tiers under footnote 13, Non-Customer Non-Penny Pilot Take Volume Tiers,<sup>14</sup> which offer discounted fees for Non-Customer orders in No-Penny Pilot Securities that remove liquidity from BZX Options under fee code NP. The Exchange is proposing to update the required criteria for Tier 1 under footnote 13 as described below.

Currently, the Exchange charges \$1.02 per contract for Members that qualify for Non-Customer Take Volume Tier 1, which requires that a Member has (1) an ADAV in Customer orders equal to or greater than 0.60% of average TCV; (2) an ADAV in Market Maker orders equal to or greater than 0.30% of average TCV; and (3) on BZX Equities an ADAV equal to or greater than 0.30% of average TCV. The Exchange is proposing to modify the second prong of these criteria to decrease the ADAV threshold in Market Maker orders from 0.30% to 0.25%.

#### Implementation Date

The Exchange proposes to implement these amendments to its fee schedule as of October 3, 2016.

---

<sup>14</sup> In addition to the proposed substantive changes to footnote 13, the Exchange proposes to make the title of the footnote plural, as it currently reads “Non-Customer Non-Penny Pilot Take Volume Tier” even though there is more than one tier.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>15</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>16</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and other persons using any facility or system which the Exchange operates or controls. 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 levels to be excessive.

Volume-based rebates such as those currently maintained on the Exchange 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 the value to an exchange's market quality associated with higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns, and introduction of higher volumes of orders into the price and volume discovery processes.

The Exchange believes that its proposal to add two new Professional Penny Pilot Add Volume Tiers and update the required criteria and rebate amounts for Tier 1 and Tier 2 under footnote 9 is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based pricing generally. In addition, the Exchange believes the amount of the proposed rebates offered under the new Professional Penny Pilot Add Volume

---

<sup>15</sup> 15 U.S.C. 78f.

<sup>16</sup> 15 U.S.C. 78f(b)(4).

Tiers, Tier 3 and Tier 4, are equitable and reasonable because they are generally in line with the proposed rebates offered pursuant to Professional Penny Pilot Add Volume Tier 1 and Tier 2.

The Exchange believes that the proposed tiers are reasonable, fair and equitable, and non-discriminatory because they, like the Professional Penny Pilot Add Volume Tier generally, are aimed to incentivize active participation on the Exchange.

The Exchange believes that its proposal to remove fee codes PA and NA from footnote 4, NBBO Setter Tiers, is reasonable, fair and equitable and non-discriminatory, because the proposal coincides with the addition of new volume tiers and enhanced rebates for transactions that yield fee code PA. Thus, although Professional orders will no longer be able to qualify for NBBO Setter Tiers, there are additional ways to receive enhanced rebates and such rebates have also been increased. Similar to the pricing tiers discussed above, the Exchange believes this incentive is reasonably related to the value to the Exchange's market quality associated with higher levels of market activity, including liquidity provision and the introduction of higher volumes of orders into the price and volume discovery processes.

The proposed modifications to the criteria required to qualify for current Customer (Penny Pilot) Add Tier 5, Non-Customer (Penny Pilot) Take Volume Tier 1, and Non-Customer (Non-Penny Pilot) Take Volume Tier 1, are intended to incentivize additional Members to send Customer orders and/or Market Maker orders to the Exchange in an effort to qualify for the enhanced rebate or lower fee made available by the tiers. The Exchange believes that the proposal to require that the Member have an ADAV in Market Maker orders equal to or greater than 0.25% of average TCV under all three tiers is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will make it easier to qualify for enhanced rebates or reduced fees pursuant to such tiers. The increased liquidity from this



proposal also benefits all investors by deepening the BZX Options 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. Such pricing programs thereby reward a Member's growth pattern on the Exchange and such increased volume increases potential revenue to the Exchange, and will allow the Exchange to continue to provide and potentially expand the incentive programs operated by the Exchange. The Exchange believes that the proposal is reasonable, equitably allocated and non-discriminatory with respect to such Member based on the overall benefit to the Exchange resulting from the success of BZX Options. As noted above, such success allows the Exchange to continue to provide and potentially expand its existing incentive programs to the benefit of all participants on the Exchange. The proposed pricing program is also fair and equitable in that membership in BZX Options is available to all market participants which would provide them with access to the benefits on BZX Options provided by the proposed changes, as described above, even where a member of BZX Options is not necessarily eligible for the proposed increased rebates on the Exchange. Further, the proposed changes will result in Members receiving either the same or an increased rebate than they would currently receive.

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

The Exchange believes the proposed amendments to its fee schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange has designed the proposed amendments to its fee schedule in order to enhance its ability to compete with other exchanges. Also, the Exchange believes that the addition of volume-tiered rebates by the Exchange contributes to rather than burdens competition, as such changes are intended to incentivize participants to increase their participation on the Exchange. Similarly, the modifications to criteria applicable to existing

volume-tiered rebates and fees are intended to provide incentives to Members to encourage them to enter orders to the Exchange, and thus are intended to enhance competition.

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. 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 changes to the Exchange's tiered pricing structure burdens competition, but instead, enhances competition as it is intended to increase the competitiveness of the Exchange. Also, the Exchange believes that the price changes contribute to, rather than burden competition, as such changes are broadly intended to incentivize participants to increase their participation on the Exchange, which will increase the liquidity and market quality on the Exchange, which will then further enhance the Exchange's ability to compete with other exchanges.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>18</sup> At any time within 60 days of the filing of

---

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f).

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.

#### 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 Number SR-BatsBZX-2016-66 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-2016-66. 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 such 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 Number SR-BatsBZX-2016-66, 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>19</sup>

Robert W. Errett  
Deputy Secretary

---

<sup>19</sup> 17 CFR 200.30-3(a)(12).