

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80641; File No. SR-BatsBZX-2017-28)

May 10, 2017

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

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 May 1, 2017, 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, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change 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 the Substance of the Proposed Rule Change

The Exchange filed a proposal to amend the fee schedule applicable to Members<sup>5</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.bats.com](http://www.bats.com), at the principal office of the Exchange, and at the Commission’s Public

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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)(ii).

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

<sup>5</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).

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its fee schedule applicable to its equities trading platform (“BZX Equities”) to: (i) add the definition of OCC Customer Volume or OCV, to the Definitions section of the fee schedule; (ii) modify five definitions in the fee schedule to reflect the new definition of OCV; (iii) modify the criteria under footnotes 1 and 12 required to achieve certain Cross-Asset Tiers to reflect the new definition of OCV; (iv) add two Cross-Asset Add Volume Tiers under footnote 1; and (v) and eliminate the Cross-Asset Step-Up Tiers under footnote 3.

OCC Customer Volume Definition

The Exchange proposes to add the definition of “OCC Customer Volume” or “OCV” to the Definitions section of its fee schedule. OCC Customer Volume or OCV will be defined as the total equity and Exchange Traded Fund (“ETF”) options volume that clears in the Customer<sup>6</sup>

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<sup>6</sup> “Customer” applies to any transaction identified by a Member for clearing in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a

range at the Options Clearing Corporation (“OCC”) for the month for which the fees apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption<sup>7</sup> and on any day with a scheduled early market close, using the definition of Customer as provided under the Exchange’s fee schedule for BZX Options.

In connection with this change, the Exchange proposes to modify five definitions which reference TCV<sup>8</sup> to reflect the new definition of OCV, specifically Options Add TCV, Options Customer Add TCV, Options Customer Remove TCV, Options Market Maker Add TCV, and Options Step-Up Add TCV.

- Currently “Options Add TCV” for purposes of equities pricing means ADAV<sup>9</sup> as a percentage of TCV,<sup>10</sup> using the definitions of ADAV and TCV as provided under the Exchange’s fee schedule for BZX Options. The Exchange proposes the definition be modified to, “Options Add OCV” for purposes of equities pricing means ADAV as a percentage of OCV, using the definitions of ADAV and OCV as provided under the

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<sup>7</sup> “Professional” as defined in Exchange Rule 16.1. See BZX Options’ fee schedule available at [http://www.bats.com/us/options/membership/fee\\_schedule/bzx/](http://www.bats.com/us/options/membership/fee_schedule/bzx/).

<sup>8</sup> An “Exchange System Disruption” means “any day that the Exchange’s system experiences a disruption that lasts for more than 60 minutes during Regular Trading Hours.” See the Exchange’s fee schedule available at [http://www.bats.com/us/equities/membership/fee\\_schedule/bzx/](http://www.bats.com/us/equities/membership/fee_schedule/bzx/).

<sup>9</sup> “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. Id.

<sup>10</sup> “ADAV” means average daily added volume calculated as the number of shares added per day and “ADV” means average daily volume calculated as the number of shares added or removed, combined, per day. ADAV and ADV are calculated on a monthly basis. See the Exchange’s fee schedule available at [http://www.bats.com/us/options/membership/fee\\_schedule/bzx/](http://www.bats.com/us/options/membership/fee_schedule/bzx/).

<sup>10</sup> “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. Id.

Exchange's fee schedule for BZX Options.

- Currently "Options Customer Add TCV" for purposes of equities pricing means ADAV resulting from Customer orders as a percentage of TCV, using the definitions of ADAV, Customer and TCV as provided under the Exchange's fee schedule for BZX Options.  
The Exchange proposes the definition be modified to, "Options Customer Add OCV" for purposes of equities pricing means ADAV resulting from Customer orders as a percentage of OCV, using the definitions of ADAV, Customer and OCV as provided under the Exchange's fee schedule for BZX Options.
- Currently "Options Customer Remove TCV" for purposes of equities pricing means ADV resulting from Customer orders that remove liquidity as a percentage of TCV, using the definitions of ADV, Customer and TCV as provided under the Exchange's fee schedule for BZX Options. The Exchange proposes the definition be modified to, "Options Customer Remove OCV" for purposes of equities pricing means ADV resulting from Customer orders that remove liquidity as a percentage of OCV, using the definitions of ADV, Customer and OCV as provided under the Exchange's fee schedule for BZX Options.
- Currently "Options Market Maker Add TCV" for purposes of equities pricing means ADAV resulting from Market Maker<sup>11</sup> orders as a percentage of TCV, using the definitions of ADAV, Market Maker and TCV as provided under the Exchange's fee schedule for BZX Options. The Exchange proposes the definition be modified to, "Options Market Maker Add OCV" for purposes of equities pricing means ADAV

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<sup>11</sup> "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). Id.

resulting from Market Maker orders as a percentage of OCV, using the definitions of ADAV, Market Maker and OCV as provided under the Exchange's fee schedule for BZX Options.

- Currently "Options Step-Up Add TCV" for purposes of equities pricing means ADAV as a percentage of TCV in January 2014 subtracted from current ADAV as a percentage of TCV, using the definitions of ADAV and TCV as provided under the Exchange's fee schedule for BZX Options. The Exchange proposes the definition be modified to, "Options Step-Up Add OCV" for purposes of equities pricing means ADAV as a percentage of OCV in January 2014 subtracted from current ADAV as a percentage of OCV, using the definitions of ADAV and OCV as provided under the Exchange's fee schedule for BZX Options.

#### Update Cross-Asset Tier Criteria from TCV to OCV

By definition OCV is a smaller amount of volume than TCV, and thus, the Exchange proposes to slightly increase the volume percentages required to meet the criteria of the Cross-Asset volume tiers that utilize the definition of OCV. Doing so will keep each tier's criteria relatively unchanged from its current requirements.

Footnote 1, the Add Volume Tiers. The Exchange currently offers eleven tiers under footnote 1, the Add Volume Tiers, upon a Member achieving each tier's required criteria; these tiers offer enhance rebates for orders that yield fee codes B,<sup>12</sup> V,<sup>13</sup> Y<sup>14</sup> or HA.<sup>15</sup> Footnote 1 of

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<sup>12</sup> Fee code B is appended to displayed orders that add liquidity to BZX (Tape B) and is provided a standard rebate of \$0.0025 per share. See the Exchange's fee schedule available at [http://www.bats.com/us/equities/membership/fee\\_schedule/bzx/](http://www.bats.com/us/equities/membership/fee_schedule/bzx/).

<sup>13</sup> Fee code V is appended to displayed orders that add liquidity to BZX (Tape A) and is provided a standard rebate of \$0.0020 per share. Id.

<sup>14</sup> Fee code Y is appended to displayed orders that add liquidity to BZX (Tape C) and is provided a standard rebate of \$0.0020 per share. Id.

the fee schedule includes two Cross-Asset Add Volume Tiers that the Exchange proposes to amend to include the new definition of OCV as discussed above. Additionally, the Exchange proposes the addition of two new tiers, Cross-Asset Add Volume Tier 3 and Cross-Asset Add Volume Tier 4. These proposed changes are described in greater detail below.

- Currently, under Cross-Asset Add Volume Tier 1, Members may receive an enhanced rebate of \$0.0028 where they have: (1) an ADAV as a percentage of TCV greater than or equal to 0.15%; and (2) an Options Customer Add TCV greater than or equal to 0.10%. As amended, Members must have: (1) an ADAV as a percentage of TCV greater than or equal to 0.15%; and (2) an Options Customer Add OCV greater than or equal to 0.15%. The Exchange does not propose to alter the rebate associated with this tier.
- Currently, under Cross-Asset Add Volume Tier 2, Members may receive an enhanced rebate of \$0.0030 where they have: (1) on BZX Options an ADAV in Customer orders greater than or equal to 0.60% of average TCV; (2) on BZX Options an ADAV in Market Maker orders greater than or equal to 0.25% of average TCV; and (3) an ADAV greater than or equal to 0.30% of average TCV. As amended, Members must have: (1) an Options Customer Add OCV greater than or equal to 0.80%; (2) an Options Market Maker Add OCV greater than or equal to 0.35%; and (3) an ADAV greater than or equal to 0.30% of average TCV. The Exchange does not propose to alter the rebate associated with this tier.
- As proposed, under the new Cross-Asset Add Volume Tier 3 Members may receive an enhanced rebate of \$0.0028 where they have on BZX Options an ADAV greater than or equal to 2.00% of average OCV.

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<sup>15</sup> Fee code HA is appended to non-displayed orders that add liquidity and is provided a rebate of \$0.0017 per share. Id.

- As proposed, under the new Cross-Asset Add Volume Tier 4 Members may receive an enhanced rebate of \$0.0029 where they have: (1) an ADAV greater than or equal to 0.15% of the TCV; and (2) an Options Market Maker Add OCV greater than or equal to 2.75%.

Footnote 12, the Cross-Asset Tape B Tier. The Exchange offers one tier under footnote 12, the Cross-Asset Tape B Tier, upon a Member achieving the tier's required criteria, this tier offers an enhance rebate of \$0.0031 for orders that yield fee code B. The Exchange proposes to amend the tier's criteria to include the new definition of OCV as discussed above. Currently, under the Cross-Asset Tape B Tier, Members may receive an enhanced rebate where they have: (1) a Tape B Step-Up Add TCV<sup>16</sup> from February 2015 greater than or equal to 0.06%; and (2) an Options Market Maker Add TCV greater than or equal to 0.75%. As amended, Members may receive an enhanced rebate where they have: (1) a Tape B Step-Up Add TCV from February 2015 greater than or equal to 0.06%; and (2) an Options Market Maker Add OCV greater than or equal to 1.00%.

#### Eliminate Cross-Asset Step-Up Tiers

The Exchange currently offers three Cross-Asset Step-Up Tiers pursuant to footnote 3 under which a Member is provided an enhanced rebate ranging from \$0.0027 to \$0.0029 per share and one Cross-Asset Step-Up Tier under which a Member pays a reduced fee of \$0.00295 per share. The Exchange now proposes to delete these tiers as they were not incentivizing order flow as originally designed. Accordingly, the Exchange proposes to remove all text from footnote 3, reserving it for future use, and to remove footnote 3 from each of the fee codes in the

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<sup>16</sup> “Tape B Step-Up Add TCV” means ADAV in Tape B securities as a percentage of TCV in the relevant baseline month subtracted from current ADAV in Tape B securities as a percentage of TCV. Id.

Fee Codes and Associated Fees table to which it currently applies, namely, fee codes B, BB, N, V, W, and Y. The Exchange notes that Members that previously qualified for enhanced rebates under the Cross-Asset Step-Up Tiers of footnote 3 may achieve the same range of enhanced rebates by satisfying what the Exchange believes to be similar criteria as the existing and proposed Cross-Asset Add Volume Tiers discussed above, or the existing Step-Up Tier under footnote 2 of the fee schedule.

#### Implementation Date

The Exchange proposes to implement these amendments to its fee schedule effective May 1, 2017.

#### 2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with the objectives of Section 6 of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>18</sup> 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 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

The Exchange believes adopting a definition of OCV and utilizing OCV in lieu of TCV for its Cross-Asset Tiers and its associated definitions is reasonable, fair and equitable, and non-discriminatory because the Exchange also proposed to modify the tier's related criteria in order

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<sup>17</sup> 15 U.S.C. 78f.

<sup>18</sup> 15 U.S.C. 78f(b)(4).

to maintain substantially identical requirements to qualify for the tier. The Exchange notes that its affiliate, Bats EDGX Exchange, Inc. (“EDGX”), also uses OCV in lieu of TCV for cross-asset pricing.<sup>19</sup> Competitors of the Exchange also use similar calculations and the proposed qualifications do not represent a significant departure from such pricing structures.<sup>20</sup> The Exchange believes that the proposed qualifications are reasonable, fair and equitable, and non-discriminatory, and will provide additional transparency to Members regarding the calculations used to determine volume levels for purposes of the proposed tiered pricing model.

The Exchange believes that the proposed modifications to the tiered pricing structure are reasonable, fair and equitable, and non-discriminatory. The Exchange operates in a highly competitive market in which market participants may readily send order flow to many competing venues if they deem fees at the Exchange to be excessive or incentives provided to be insufficient. The proposed fee structure remains intended to attract order flow to the Exchange by offering market participants a competitive pricing structure. The Exchange believes it is reasonable to offer and incrementally modify incentives intended to help to contribute to the growth of the Exchange. Volume-based pricing such as that proposed herein have been widely adopted by exchanges, including the Exchange, 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

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<sup>19</sup> See the EDGX fee schedule available at [http://www.bats.com/us/equities/membership/fee\\_schedule/edgx/](http://www.bats.com/us/equities/membership/fee_schedule/edgx/).

<sup>20</sup> NYSE Amex Options Customer volume tiers require a specific “Customer Electronic ADV as a % of Industry Customer Equity and ETF Options ADV”. [https://www.nyse.com/publicdocs/nyse/markets/amexoptions/NYSE\\_Amex\\_Options\\_Fee\\_Schedule.pdf](https://www.nyse.com/publicdocs/nyse/markets/amexoptions/NYSE_Amex_Options_Fee_Schedule.pdf). Nasdaq NOM Options Customer volume tiers require a specific percentage of “total industry customer equity and ETF option average daily volume (“ADV”) contracts per day in a month.” <http://www.nasdaqtrader.com/Micro.aspx?id=optionsPricing>.

activity, such as higher levels of liquidity provisions and/or growth patterns; and (iii) introduction of higher volumes of orders into the price and volume discovery processes. The proposed modifications proposed herein are also intended to incentivize additional Members to send orders to the Exchange in an effort to qualify for the enhanced rebate or reduced fee made available by the tiers, in turn contributing to the growth of the Exchange. Thus, the Exchange believes that the proposed modifications to the tiered pricing structure is a reasonable, fair and equitable, and not an unfairly discriminatory allocation of fees and rebates, because it will provide Members with an incentive to reach certain thresholds on the Exchange by contributing a meaningful amount of order flow to the Exchange. The Exchange believes the proposed change to each tier's criteria is consistent with the Act.

The Exchange believes that the proposed modifications to eliminate the Cross-Asset Step Up Tiers under footnote 3 is reasonable, fair, and equitable because the current tiers were not providing the desired result of incentivizing Members to increase their participation in BZX Equities and in BZX Options. Therefore, eliminating this tier will have a negligible effect on order flow and market behavior. The Exchange believes the proposed change is not unfairly discriminatory because it will apply equally to all participants. Further, as described above, the Exchange notes that Members that previously qualified for enhanced rebates under the Cross-Asset Step-Up Tier may achieve the same range of enhanced rebates by satisfying what the Exchange believes to be similar criteria as the existing and proposed Cross-Asset Add Volume Tiers discussed above, or the existing Step-Up Tier under footnote 2 of the fee schedule.

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 not necessary or appropriate in furtherance of the purposes of the Act. The

Exchange does not believe that any of the proposed change to the Exchange's tiered pricing structure burden competition, but instead, that they enhance competition as they are intended to increase the competitiveness of the Exchange by modifying pricing incentives in order to attract order flow and incentivize participants to increase their participation on the Exchange. 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, and to eliminate a rebate that has not achieved its desired result. The Exchange does not believe the proposed amendments would burden intramarket competition as they would be available to all Members uniformly.

B. 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 Act<sup>21</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>22</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 otherwise in furtherance of the purposes of the Act.

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<sup>21</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>22</sup> 17 CFR 240.19b-4(f).

#### **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-2017-28 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-2017-28. 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 No. SR-BatsBZX-2017-28, 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>23</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>23</sup> 17 CFR 200.30-3(a)(12).