

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80919; File No. SR-BatsBZX-2017-41)

June 14, 2017

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use on Bats BZX Exchange, Inc.'s Options Platform

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 June 1, 2017, 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 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 Substance of the Proposed Rule Change

The Exchange filed a proposal to amend its fees and rebates applicable to Members<sup>5</sup> and non-Members of the Exchange pursuant to BZX Rule 15.1(a) and (c). The text of the proposed rule change is attached as Exhibit 5.

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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).

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 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 for its equity options platform ("BZX Options") to: (i) increase the standard fee provided by fee code PC; (ii) decrease the standard rebate provided by fee code PN; (iii) modify the conditions and rebates of the Firm,<sup>6</sup> Broker Dealer<sup>7</sup> and Joint Back Office<sup>8</sup> Non-Penny Pilot<sup>9</sup> Add Volume Tiers 1 and 2 under footnote 8;

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<sup>6</sup> "Firm" applies to any transaction identified by a Member for clearing in the Firm range at the OCC, excluding any Joint Back Office transaction. 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>7</sup> "Broker Dealer" applies to any order for the account of a broker dealer, including a foreign broker dealer, that clears in the Customer range at the Options Clearing Corporation ("OCC"). Id.

<sup>8</sup> "Joint Back Office" applies to any transaction identified by a Member for clearing in the Firm range at the OCC that is identified with an origin code as Joint Back Office. A Joint Back Office participant is a Member that maintains a Joint Back Office arrangement with a clearing broker-dealer. Id.

<sup>9</sup> "Penny Pilot Securities" are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01. Id.

and (iv) eliminate the (A) Firm, Broker Dealer and Joint Back Office, Penny Pilot Add Volume Tier 2 under footnote 2; (B) Away Market Maker<sup>10</sup> Penny Pilot Add Volume Tiers 1 and 3 under footnote 10; and (C) Customer<sup>11</sup> Penny Pilot Take Volume Tier under footnote 14.

#### Fee Code PC

Currently, fee code PC charges a standard fee of \$0.49 per contract for Customer orders that remove liquidity on the Exchange in Penny-Pilot securities.<sup>12</sup> The Exchange proposes to increase this fee to \$0.50 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect new rate.

#### Fee Code PN

Currently, fee code PN provides a standard rebate of \$0.30 per contract for Away Market Maker orders that add liquidity on the Exchange in Penny-Pilot securities. The Exchange proposes to reduce this rebate to \$0.26 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect new rate.

#### Firm, Broker Dealer and Joint Back Office Non-Penny Add Volume Tiers

The Exchange currently offers three Firm, Broker Dealer and Joint Back Office Non-Penny Add Volume Tiers under footnote 8, which provide an enhanced rebate ranging from \$0.45 to \$0.82 per contract for qualifying orders that add liquidity in Non Penny Pilot Securities

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<sup>10</sup> "Away Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is not registered with the Exchange as a Market Maker, but is registered as a market maker on another options exchange. Id.

<sup>11</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 "Professional" as defined in Exchange Rule 16.1. 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>12</sup> "Penny Pilot Securities" are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01. Id.

and yields fee code NF.<sup>13</sup> The Exchange now proposes to modify Tier 1 and Tier 2's required criteria and rebate.

Currently under Tier 1, Member's orders that yield fee code NF will receive an enhanced rebate of \$0.45 per contract where they have an ADV<sup>14</sup> greater than or equal to 0.20% of average OCV.<sup>15</sup> First, the Exchange proposes to reduce the rebate provided under Tier 1 from \$0.45 per contract to \$0.33 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect the new rate. Second, the Exchange proposes to increase the tier's ADV requirement from 0.20% to 1.00%. Going forward, Member's orders that yield fee code NF will receive an enhanced rebate of \$0.33 per contract where they have an ADV greater than or equal to 1.00% of average OCV.

Currently under Tier 2, Member's orders that yield fee code NF will receive an enhanced rebate of \$0.60 per contract where they have an ADV greater than or equal to 0.35% of average OCV. First, the Exchange proposes to reduce the rebate provided under Tier 1 from \$0.60 per contract to \$0.53 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect the new rate. Second, the Exchange proposes to amend the Tier's criteria by increasing the tier's current ADV requirement from 0.35% to 3.00% and to add a second

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<sup>13</sup> Fee code NF is appended to Firm, Broker Dealer and Joint Back Office orders in Non-Penny Pilot Securities that add liquidity. Orders that yield fee code NF are provided a rebate of \$0.30 per contract. Id.

<sup>14</sup> "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day. Id.

<sup>15</sup> "OCV" means the total equity and ETF options volume that clears in the Customer 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 and on any day with a scheduled early market close. Id.

criteria under which the Member must also have an ADAV<sup>16</sup> in Market Maker<sup>17</sup> orders greater than or equal to 2.75% of average OCV. Going forward, Member's orders that yield fee code NF will receive an enhanced rebate of \$0.53 per contract where they have an: (i) ADV greater than or equal to 3.00% of average OCV; (ii) and ADAV in Market Maker orders greater than or equal to 2.75% of average OCV.

#### Firm, Broker Dealer and Joint Back Office, Penny Pilot Add Volume Tiers

The Exchange currently offers two Firm, Broker Dealer and Joint Back Office, Penny Pilot Add Volume Tiers under footnote 2, which provide an additional rebate of \$0.43 or \$0.46 per contract for qualifying Firm, Broker Dealer and Joint Back Office orders that add liquidity in Penny Pilot Securities that yield fee code PF.<sup>18</sup> The Exchange now proposes to delete Tier 2 under footnote 2. Under Tier 2, a Member's orders that yield fee code PF would have received an enhanced rebate of \$0.43 per contract where they have an: (i) an ADV greater than or equal to 0.50% of average OCV; and an (ii) ADAV in Away Market Maker, Firm, Broker Dealer and Joint Back Office orders greater than or equal to 0.40% of average OCV. The Exchange also proposes update the Standard Rates table accordingly to reflect deletion of the rate.

#### Away Market Maker Penny Pilot Add Volume Tiers

The Exchange currently offers three Away Market Maker Penny Pilot Add Volume Tiers

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<sup>16</sup> "ADAV" means average daily added volume calculated as the number of contracts added and "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day. 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>17</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.*

<sup>18</sup> Fee code PF is appended to Firm, Broker Dealer and Joint Back Office orders in Penny Pilot Securities that add liquidity. Orders that yield fee code PF are provided a rebate of \$0.25 per contract. *Id.*

under footnote 10, which provide an enhanced rebate ranging from \$0.40 to \$0.45 per contract for qualifying Away Market Maker orders that add liquidity in Penny Pilot Securities that yield fee code PN.<sup>19</sup> The Exchange now proposes to delete current Tiers 1 and 3 under footnote 10 and to update the Standard Rates table accordingly to reflect deletion of the rate. Under the current Tier 1, a Member's orders that yield fee code PN would have received an enhanced rebate of \$0.40 per contract where they have an an [sic] ADV greater than or equal 0.40% of average OCV. . [sic] Under the current Tier 3, a Member's orders that yield fee code PN would have received an enhanced rebate of \$0.43 per contract where they have an: (i) an ADV greater than or equal 0.50% of average OCV; and an (ii) ADAV in Away Market Maker, Firm, Broker Dealer and Joint Back Office orders greater than or equal to 0.40% of average OCV.

#### Customer Penny Pilot Take Volume Tier

The Exchange proposes to delete the tier described under footnote 14 of the fee schedule. The Exchange offers a single Customer Penny Pilot Take Volume Tier under footnote 14, by which a Member's orders that yield fee code PC<sup>20</sup> would have received a reduced fee of \$0.48 per contract where that Member had an: (i) ADAV in Customer orders greater than or equal to 0.50% of average OCV; and (ii) on the Exchange's equities trading platform ("BZX Equities") an ADAV of 0.50% of average TCV.<sup>21</sup> The Exchange also proposes to update the Standard

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<sup>19</sup> Fee code PN is appended to Away Market Market orders in Penny Pilot Securities that add liquidity. Orders that yield fee code PN are provided a rebate of \$0.30 per contract. Id.

<sup>20</sup> Fee code PC is appended to Customer orders in Penny Pilot Securities that remove liquidity. Orders that yield fee code PC are charged a fee of \$0.49 per contract. Id.

<sup>21</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. 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/).

Rates table accordingly to reflect deletion of the rate.

### Implementation Date

The Exchange proposes to implement the above changes to its fee schedule on June 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>22</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>23</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.

### Fee Codes PC and PN

The Exchange believes that its proposals to increase the fee charged by fee code PC and decrease the rebate provided by fee code PN are fair and equitable and reasonable because the proposed rates remain consistent with pricing previously offered by the Exchange as well as its competitors and does not represent a significant departure from the Exchange's general pricing structure. Specifically, the proposed rebate for fee code PN is higher than the rebate provided by the Nasdaq Stock Market LLC ("Nasdaq") to non-Nasdaq Market Markers that add liquidity in

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<sup>22</sup> 15 U.S.C. 78f.

<sup>23</sup> 15 U.S.C. 78f(b)(4).

Penny Pilot Securities on the Nasdaq Options Market (“NOM”).<sup>24</sup> In addition, the proposed rate for fee code PC equals the rate NOM charges for Customer orders that remove liquidity in Penny Pilot Securities.<sup>25</sup> Lastly, the proposed changes to fee codes PC and PN are not unfairly discriminatory because they will apply equally to all Members.

#### Tier Modifications

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 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 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. In particular, the proposed changes to footnote 8 are intended to further incentivize Members to send increased order flow to the Exchange in an effort to qualify for the enhanced rebates made available by the tiers,

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<sup>24</sup> See Section 2(1) of the NOM fee schedule [available at <http://www.nasdaqtrader.com/Micro.aspx?id=OptionsPricing>](http://www.nasdaqtrader.com/Micro.aspx?id=OptionsPricing) (providing a standard rebate of \$0.10 per contract to non-NOM market makers that add liquidity).

<sup>25</sup> Id.

which in turn, contributes to the growth of the Exchange. The Exchange also believes the rebate associate with each tier is reasonable as they continue to reflect the difficulty in achieving the corresponding tier. These incentives remain 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 changes to the tiered pricing structure are not unfairly discriminatory because they will apply equally to all Members.

Lastly, the Exchange believes that eliminating Tier 2 under footnote 2, Tiers 1 and 3 under footnote 10, and the Cross Asset Tier under footnote 14 is reasonable, fair, and equitable because these tiers were not providing the desired results of incentivizing Members to increase their participation on the Exchange. As such, the Exchange also believes that the proposed elimination of these tiers would be non-discriminatory in that they currently apply equally to all Members and, upon elimination, would no longer be available to any Members. Further, their elimination could allow the Exchange to explore other pricing mechanisms such as those described herein, in which it may enhance market quality for all Members.

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

The Exchange believes the proposed amendment 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. The Exchange does not believe that the proposed changes represent 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 changes will impair the ability of Members or competing venues to maintain their competitive standing in

the financial markets. The Exchange does not believe that the proposed changes to the Exchange's standard fees, rebates and tiered pricing structure burdens competition, but instead, enhances competition as it is intended to increase the competitiveness of the Exchange.

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>26</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>27</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.

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-2017-41 on the subject line.

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>27</sup> 17 CFR 240.19b-4(f).

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BatsBZX-2017-41. 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 Number SR-BatsBZX-2017-41 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>28</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).