

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78630; File No. SR-BatsEDGX-2016-46)

August 22, 2016

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 21.8, Order Display and Book Processing

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 August 17, 2016, Bats EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 Act³ and Rule 19b-4(f)(6)(iii) thereunder,⁴ 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.

Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to authorize the Exchange’s equity options platform (“EDGX Options”) to amend Rule 21.8 (Order Display and Book Processing).

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

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 is proposing to amend Rule 21.8 (Order Display and Book Processing), which sets forth the priority and order allocation rules applicable to EDGX Options. Rule 21.8 also describes the general priority rules for EDGX Options, including that quotes and orders are prioritized by price and then on a pro-rata basis according to size as well as various priority overlays applicable to the pro-rata allocation method. Specifically, Rule 21.8(g) (Primary Market Maker Participation Entitlements) allows for an exception to the pro-rata basis in cases of small size orders,⁵ where Primary Market Makers are allocated the full order amount if they have priority quotes at the NBBO. When the Exchange originally proposed rules for EDGX Options, the Exchange proposed to extend the small size order exception to Directed Market Makers as well. This aspect of the Exchange's Rules was eliminated prior to approval of rules for EDGX Options.⁶ However, there is one remaining reference to Directed Market Makers in Rule 21.8(g)(2), which describes the Exchange's monitoring of the small size order exception.

⁵ Small size orders are defined as five or fewer contracts. See Exchange Rule 21.8(g)(2).

⁶ See Securities Exchange Act Release No. 75650 (August 7, 2015), 80 FR 48600 (August 13, 2015) (SR-EDGX-2015-18) (Notice of Filing of Amendment Nos. 1 and 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1, 2, and 3 Thereto, To Establish Rules Governing the Trading of Options on the EDGX Options Market).

Because the small size order exception is limited to Primary Makers, the Exchange proposes to eliminate reference to Directed Market Makers in Rule 21.8(g)(2). This amendment will align the Exchange with other option exchanges,⁷ and will ensure internal consistency of the Exchange's rulebook, which has been previously amended to delete the proposed rule granting Directed Market Makers participation entitlements to trade against small size orders.⁸

2. Statutory Basis

The Exchange believes that its proposal 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(b) of the Act.⁹ Specifically, the proposal is consistent with Section 6(b)(5) of the Act¹⁰ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

The amended rule will remove reference to Directed Market Makers in the context of the small size order exception. Thus, this amendment will align the Exchange with other options exchanges,¹¹ and will ensure internal consistency of the Exchange's rulebook, which has been previously amended to delete the proposed rule granting Directed Market Makers participation

⁷ See, e.g., BX Options, Chapter VI, Section 10(1)(C)(2), "Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at or better than the NBBO."

⁸ See supra note 6.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ See supra note 7.

entitlements to trade against small size orders.

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

The Exchange believes that its proposal 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(b) of the Act.¹² Specifically, the proposal is consistent with Section 6(b)(5) of the Act¹³ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

The amended rule will remove reference to Directed Market Makers in the context of the small size order exception. Thus, this amendment will align the Exchange with other options exchanges,¹⁴ and will ensure internal consistency of the Exchange's rulebook, which has been previously amended to delete the proposed rule granting Directed Market Makers participation entitlements to trade against small size orders.

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.

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

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ See supra note 7.

Because the foregoing 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 Act¹⁵ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁶

A proposed rule change filed under Rule 19b-4(f)(6)¹⁷ normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁸ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requested that the Commission waive the 30-day operative delay. The Exchange states that the rule change proposed herein is a minor change to ensure internal consistency of the Exchange's rulebook. Further, the Exchange states that the proposed change is based on an existing rule of another options exchange¹⁹ and does not raise any new policy issues.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest, as the proposed rule change is a non-substantive change and will promote internal consistency of the Exchange's rulebook and avoid potential

¹⁵ 15 U.S.C. 78s(b)(3)(a).

¹⁶ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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. The Exchange has satisfied this requirement.

¹⁷ 17 CFR 240.19b-4(f)(6).

¹⁸ 17 CFR 240.19b-4(f)(6)(iii).

¹⁹ See supra note 7.

confusion as to the application of the Exchange's rules. Therefore, the Commission designates the proposed rule change to be operative as of the date of filing.²⁰

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.

Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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 No. SR-BatsEDGX-2016-46 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-BatsEDGX-2016-46. 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

²⁰ For purposes only of waiving the operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 am and 3:00 pm. Copies of such filing will also 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-BatsEDGX-2016-46 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.²¹

Robert W. Errett
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).