

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81920; File No. SR-BatsEDGX-2017-39)

October 23, 2017

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 21.1, Definitions, to Modify Stop Orders and Stop Limit Orders Applicable to the Exchange's Equity Options Platform in Preparation for the C2 Options Exchange, Incorporated Technology Migration

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 October 10, 2017, 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.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to update Rule 21.1 to make modifications to the Exchange's rules and functionality applicable to the Exchange's options platform ("EDGX Options") in preparation for the technology migration of the Exchange's affiliated options exchange, C2 Options Exchange, Incorporated ("C2"), onto the same technology as the

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).

Exchange.

The text of the proposed rule change is available at the Exchange's website at 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

In 2016, the Exchange and its affiliates Bats BZX Exchange, Inc. ("BZX"), Bats BYX Exchange, Inc. ("BYX"), and Bats EDGA Exchange, Inc. ("EDGA") received approval to affect a merger (the "Merger") of the Exchange's indirect parent company, Bats Global Markets, Inc. ("BGM"), with CBOE Holdings, Inc. ("CBOE Holdings"), the direct parent of Chicago Board Options Exchange, Incorporated ("CBOE") and C2 Options Exchange, Incorporated ("C2", and together with the Exchange, BZX, BYX, EDGA, and CBOE the "CBOE Affiliated Exchanges").⁵ The CBOE Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the CBOE Affiliated Exchanges, in

⁵ See Securities Exchange Act Release No. 79585 (December 16, 2016), 81 FR 93988 (December 22, 2016) (SR-BatsBZX-2016-68; SR-BatsBYX-2016-29; SR-BatsEDGA-2016-24; SR-BatsEDGX-2016-60).

the context of a technology migration. Thus, the proposals set forth below are intended to add certain system functionality that is more similar to functionality offered by CBOE and C2 in order to ultimately provide a consistent technology offering for market participants who interact with the CBOE Affiliated Exchanges. Although the Exchange intentionally offers certain features that differ from those offered by its affiliates and will continue to do so, the Exchange believes that offering similar functionality to the extent practicable will reduce potential confusion for Users.

The Exchange adopt Stop Orders and Stop Limit Orders, to be defined in Rules 21.1(d)(11) and (d)(12), respectively. In order to adopt such rules, the Exchange also proposes to re-number current Rule 21.1(d)(10) (related to “Intermarket Sweep Orders”) as Rule 21.1(d)(9) (currently reserved), and current Rule 21.1(d)(11) (related to “Qualified Continent Cross Orders”) as Rule 21.1(d)(10).

A Stop Order would be defined in Rule 21.1(d)(11) as an order that becomes a Market Order⁶ when the stop price is elected. A Stop Order to buy would be elected when the consolidated last sale in the option occurs at or above, or the NBB is equal to or higher than, the specified stop price. A Stop Order to sell would be elected when the consolidated last sale in the option occurs at or below, or the NBO is equal to or lower than, the specified stop price.

In addition, the Exchange proposes to restrict Stop Orders, which, as described above, are

⁶ “Market Orders” are orders to buy or sell at the best price available at the time of execution. Market Orders to buy or sell an option traded on are rejected if they are received when the underlying security is subject to a “Limit State” or “Straddle State” as defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan”). Any portion of a Market Order that would execute at a price more than \$0.50 or 5 percent worse than the NBBO at the time the order initially reaches BZX Options, whichever is greater, will be cancelled. See Exchange Rule 21.1(d)(5).

converted to Market Orders when elected, from being elected when the underlying security is in a Limit State, as defined in the Limit Up-Limit Down Plan. Such an order would be held until the end of the Limit State, at which point the order would again become eligible to be elected. This aspect of the proposal is also based on the rules of CBOE⁷ and C2⁸ and is consistent with the Exchange's current handling of Market Orders, which are not accepted when the underlying security is in a Limit State.⁹ As Stop Orders become Market Orders when elected, the Exchange believes that this change is merely an extension of its existing functionality.

A Stop Limit Order would be defined in Rule 21.1(d)(12) as an order that becomes a limit order when the stop price is elected. A Stop Limit Order to buy would be elected and would become a buy limit order when the consolidated last sale in the option occurs at or above, or the NBB is equal to or higher than, the specified stop price. A Stop Limit Order to sell would be elected and would become a sell limit order when the consolidated last sale in the option occurs at or below, or the NBO is equal to or lower than, the specified stop price.

The Exchange notes that CBOE and C2 also trigger stop orders based trades and quotations.¹⁰ The Exchange further notes that it has proposed to elect Stop Orders and Stop Limit Orders based on consolidated quotations (the NBB and NBO) rather than quotations only on the Exchange.¹¹

⁷ See CBOE Rule 6.53, Interpretation and Policy .01C.

⁸ See C2 Rule 6.10, Interpretation and Policy .01C.

⁹ See Exchange Rule 21.1(d)(5).

¹⁰ See CBOE Rules 6.53(c)(iii) and (c)(iv) and C2 Rules 6.10(c)(3) and (c)(4).

¹¹ Simultaneous with this proposal, the Exchange's affiliate, BZX, is filing a proposal to elect Stop Orders and Stop Limit Orders based on consolidated quotations. As such, the Exchange's rules, as proposed, would be identical to the rules of BZX. BZX currently elects Stop Orders and Stop Limit Orders based on consolidated trades only. See BZX Rules 21.1(d)(11) and (d)(12).

Below are examples of the proposed functionality for Stop Orders and Stop Limit Orders.

Example 1A – Stop Order is Triggered (Trade)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Order to buy 500 shares with a stop price of 8.05.

- Assume the NBBO updates to 8.00 by 8.05. An execution reported by another exchange at 8.05 will trigger the stop price of the Stop Order, which will convert into a Market Order to buy.

Example 1B – Stop Order is Triggered (Quotation)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Order to buy 500 shares with a stop price of 8.05.

- Assume the NBBO updates to 8.05 by 8.10. The NBB equal to the stop price of the order will trigger the stop price of the Stop Order, which will convert into a Market Order to buy. The result would be the same if the NBB were instead higher than the stop price, such as with an NBBO of 8.10 by 8.15.

Example 2A – Stop Limit Order is Triggered (Trade)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Limit Order to buy 500 shares at 8.04 with stop limit price of 8.05.

- Assume the NBBO updates to 8.03 by 8.05. An execution reported by another exchange at 8.05 will trigger the stop price of the Stop Limit Order, which will convert into a limit order to buy at 8.04.

Example 2B – Stop Limit Order is Triggered (Quotation)

Assume the NBBO is 7.80 x 8.00. Assume that a User submits a Stop Limit Order to buy 500 shares at 8.04 with stop limit price of 8.05.

- Assume the NBBO updates to 8.05 by 8.10. The NBB equal to the stop price of the order will trigger the stop price of the Stop Limit Order, which will convert into a limit order to buy at 8.04. The result would be the same if the NBB were instead higher than the stop price, such as with an NBBO of 8.10 by 8.15.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹² in general, and furthers the objectives of Section 6(b)(5) of the Act¹³ 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. In particular, consistent rules and functionality between the Exchange and its affiliated exchanges will reduce complexity and help avoid potential confusion by the Users of the Exchange that are also participants on other CBOE Affiliated Exchanges.¹⁴

The Exchange believes the proposed amendment will reduce complexity and increase the understanding of the Exchange's operations for all Users of the Exchange. In particular, by offering Stop Orders and Stop Limit Orders, the Exchange's functionality will be more similar to that of CBOE and C2. In turn, when CBOE and C2 are migrated to the same technology as that of the Exchange, Users of the Exchange and other CBOE Affiliated Exchanges will have access to similar functionality. 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.

With respect to Stop Orders not being elected when the underlying security is in a Limit

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ The Exchange notes that its affiliate, EDGX, also intends to adopt Stop Orders and Stop Limit Orders that would function identical to Stop Orders and Stop Limit Orders on the Exchange, as amended by this proposal. In addition, as CBOE and C2 migrate to the same technology platform as the Exchange, CBOE and C2 intend to modify rules and functionality to be consistent with the Exchange and EDGX, unless the retention of differences is intended.

State, this proposal is based on the rules of CBOE and C2 and is also consistent with the Exchange's current handling of Market Orders, which are not accepted when the underlying security is in a Limit State.¹⁵ As Stop Orders become Market Orders when elected, the Exchange believes that this change is merely an extension of its existing functionality in the context of the Exchange's adoption of Stop Orders.

(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 its affiliated exchanges, and is part of a larger technology integration that will ultimately reduce complexity for Users of the Exchange that are also participants on other CBOE Affiliated Exchanges. The Exchange does not believe that 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 foregoing proposed rule change does not: (A) significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition;

¹⁵ See supra, notes 8-10.

and (C) by its terms, 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 Act¹⁶ and paragraph (f)(6) of Rule 19b-4 thereunder,¹⁷ the Exchange has designated this rule filing as non-controversial.

A proposed rule change filed under Rule 19b-4(f)(6)¹⁸ normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)¹⁹ 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 proposed rule change may become operative immediately upon filing. The Exchange notes that the proposed rule change will promote consistency between the Exchange and CBOE Affiliated Exchanges, and is part of a larger technology integration that will ultimately reduce complexity for Users of the Exchange that are also participants on other CBOE Affiliated Exchanges.

The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investor and the public interest. The Commission notes that the proposed rule change is based on rules of its affiliated exchanges, CBOE and C2, and thus does not raise any new or novel issues. Accordingly, the Commission hereby waives the 30-day operative delay

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4. 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.

¹⁸ 17 CFR 240.19b-4(f)(6).

¹⁹ 17 CFR 240.19b-4(f)(6)(iii).

and designates the proposed rule change as operative upon 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: (1) necessary or appropriate in the public interest; (2) for the protection of investors; or (3) 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 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. Please include File Number SR-BatsEDGX-2017-39 on the subject line.

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-BatsEDGX-2017-39. This file number should be included on the subject line if e-mail is used. To help the Commission process and review

²⁰ 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).

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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-BatsEDGX-2017-39 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

Eduardo A. Aleman
Assistant Secretary

²¹ 17 CFR 200.30-3(a)(12).