

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80475; File No. SR-BX-2017-020)

April 17, 2017

Self-Regulatory Organizations; NASDAQ BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Exchange's Transaction Fees at Rule 7018

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4 thereunder,² notice is hereby given that on April 11, 2017, NASDAQ BX, Inc. ("BX" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchange's transaction fees at Rule 7018 to limit the availability of credits provided for removing non-displayed liquidity.

The text of the proposed rule change is available on the Exchange's Website at <http://nasdaqbx.cchwallstreet.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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to limit the credits provided for removing liquidity on BX under Rule 7018(a).³ The Exchange operates on the “taker-maker” model, whereby it pays rebates to members that take liquidity and charges fees to members that provide liquidity. Under Rule 7018(a), the Exchange assesses fees for adding liquidity, and provides credits for removing liquidity, applied to the use of the Order⁴ execution and routing services of the NASDAQ OMX BX Equities System by members for all securities priced at \$1 or more per share that it trades. Currently, the Exchange will provide a credit under Rule 7018(a) to a member that removes liquidity when its Order is priced-improved by the System. Specifically, an Order (excluding Orders with Midpoint pegging⁵ and excluding Orders that receive price improvement and execute against an Order with Midpoint pegging) that accesses liquidity may receive a credit of \$0.0006, \$0.0015 or \$0.0016 per share executed. Such Orders include Orders that receive price improvement, other than those that execute against an Order with Midpoint pegging.

³ The Exchange initially filed the proposed rule change on April 3, 2017 (SR-BX-2017-019). On April 11, 2017, the Exchange withdrew that filing and submitted this filing.

⁴ As defined by Rule 4702(a).

⁵ Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO. Midpoint pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer (the “Midpoint”). An Order with Midpoint Pegging is not displayed. See Rule 4703(d).

The Exchange excludes liquidity removing Orders that execute against resting Orders with Midpoint pegging from receiving a credit because the member received the benefit of receiving price improvement from executing against an Order that is priced better than the NBBO. Moreover, the member receiving the price improvement did not undertake any additional risk to receive the benefit, but was rather a beneficiary of the midpoint liquidity. For similar reasons, the Exchange is proposing to expand the applicability of the zero credit tier to include a liquidity removing Order that is price improved by other resting orders with Non-display prices. Thus, in addition to Orders with Midpoint Pegging, other Orders that may have a non-display price are: Price to Comply Orders,⁶ Non-Displayed Orders,⁷ Post-Only Orders,⁸ and Orders with a Reserve Size⁹ attribute.

As an example, if the NBBO is \$10 x \$10.02, with Market A showing a bid of 100 shares at \$10, Market B showing an offer of 100 shares at \$10.02 and the Exchange displaying a best bid of \$9.99 and offer of \$10.03, a member that enters an Order with a Non-display attribute to buy 100 shares at \$10.01 would not have a marketable Order and would post to the Exchange book as a Non-displayed Order at \$10.01. If a second member enters an Order to sell 100 shares at \$10, the Order would execute against the Non-displayed Order to buy at \$10.01 resting on the Exchange Book. Such an execution would represent price improvement to the second member without taking on any additional risk or market-improving behavior. Accordingly, the Exchange does not believe that it is necessary also to pay a rebate to encourage the submission of such Orders. Rather, the execution of such Orders will be free of charge.

⁶ See Rule 4702(b)(1).

⁷ See Rule 4702(b)(3).

⁸ See Rule 4702(b)(4).

⁹ See Rule 4703(h).

Last, the Exchange is proposing to make conforming changes to two credits under Rule 7018(a) that currently exclude orders that receive price improvement and execute against an order with Midpoint pegging from the eligibility criteria of the credit. Specifically, under the \$0.0016 and \$0.0015 per executed share credits of Rule 7018(a) the Exchange is proposing to replace references to orders that receive price improvement and execute against an order with Midpoint pegging to make it clear that orders with a Non-Displayed price are excluded from the rule. Thus, the exclusion under these two credits will continue to remain consistent with the proposed amended zero credit tier.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹¹ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that offering Orders that remove liquidity and receive price improvement at no cost is reasonable because the execution of such Orders is free of charge. Generally, the Exchange offers reduced transaction fees and credits in return for market-improving behavior. The Exchange determined to not provide a credit to members for Orders that remove liquidity when the Order receives price improvement by executing against a Midpoint Order, since the member removing liquidity is benefitting from the price improvement. Likewise, the Exchange is expanding the existing credit tier to include all Orders with a Non-Displayed price that provide price improvement.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4) and (5).

The Exchange believes that offering Orders that remove liquidity and receive price improvement at no cost is consistent with an equitable allocation of fees and is not unfairly discriminatory because such Orders invariably receive price improvement of at least \$0.005 per share, and therefore do not need an additional rebate of \$0.0006 to \$0.0016 to encourage their submission to the Exchange. Moreover, the Exchange believes that the change is not unfairly discriminatory because the price improvement provided to these Orders provides a rational basis for treating them differently from other Orders that access liquidity at the Exchange.

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. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their Order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed changes to the charges assessed and credits available to members for execution of securities in securities of all three Tapes do not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from other exchanges and from off-exchange venues. The proposed expansion of the zero credit tier is not a burden on competition because the Exchange has limited

resources to apply as credits and such resources must be applied in a manner that the Exchange believes will best improve market quality thereon. The Exchange believes that providing credits to members that are already receiving price improvement is not the most efficient allocation of such limited resources, since such Orders do not need to be incentivized. As a consequence, the Exchange believes that offering such executions at no cost will not place a burden on competition, but rather will allow the Exchange to apply its limited resources to other areas wherein it can promote market-improving behavior by its participants. Thus, the proposed changes have the potential to make the Exchange a more attractive trading venue, and consequently may promote competition among markets. In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing Order execution venues to maintain their competitive standing in the financial markets.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

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)(ii) of the Act.¹²

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action,

¹² 15 U.S.C. 78s(b)(3)(A)(ii).

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-BX-2017-020 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-BX-2017-020. 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-BX-2017-020 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.¹³

Brent J. Fields
Secretary

¹³ 17 CFR 200.30-3(a)(12).