

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85846; File No. SR-CboeBZX-2019-038)

May 13, 2019

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Fee Schedule

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 April 30, 2019, Cboe 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 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

Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend its Fee Schedule. The text of the proposed rule change is attached [sic] as Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/), at the Exchange’s Office of the Secretary, 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 aspects of such statements.

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

1. Purpose

The Exchange proposes to make a number of amendments to its fee schedule for its equity options platform (“BZX Options”), effective May 1, 2019.

NBBO Setter Tier

The Exchange currently offers five NBBO Setter Tiers under Footnote 4 of the fee schedule which provide an additional rebate between \$0.01 and \$0.05 per contract for orders that establish a new National Best Bid or Offer (“NBBO”) and which are appended with fee code PM and PN. The Exchange proposes to amend the required criteria under NBBO Setter Tier 3.

NBBO Setter Tier 3 currently provides Members an additional rebate of \$0.03 per contract where the Member (i) has an ADAV³ in Non-Customer orders greater than or equal to 0.80% of average OCV⁴; and (ii) has an ADAV in Firm/Market Maker/Away MM orders that establish a new NBBO greater than or equal to 0.05% of average OCV. The Exchange proposes to amend the first prong to reduce the ADAV Non-Customer requirement to 0.75% of average OCV (instead of 0.80%). The proposed change intends to ease Tier 3’s current criteria which the

³ “ADAV” means average daily added volume calculated as the number of contracts added per day. See Exchange Fee Schedule.

⁴ “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. See Exchange Fee Schedule.

Exchange hopes will encourage those Members who could not achieve the tier previously to increase their order flow as a means to receive the tier's enhanced.

QIP Tiers

The Exchange currently offers two QIP Tiers under footnote 5, which provide an additional rebate ranging from \$0.02 to \$0.04 per contract for qualifying Market Maker⁵ orders that add liquidity in: (i) Penny Pilot Securities that yield fee code PM and; (ii) Non-Penny Pilot Securities that yield fee code NM. The additional rebate per contract is for an order that adds liquidity to BZX Options in options classes in which a Member is a Market Maker registered pursuant to Exchange Rule 22.2. The Exchange no longer wishes to maintain these tiers, in part due to the increased opportunities for rebates for Market Maker orders, discussed more fully below. The Exchange therefore proposes to eliminate both tiers from the fee schedule.

Market Maker Penny Add Tiers

The Exchange currently offers three Market Maker Penny Pilot Add Volume Tiers ("MM Penny Add Tiers") under footnote 6, which provide an enhanced rebate between \$0.33 and \$0.42 per contract for qualifying Market Maker orders which add liquidity in Penny Pilot securities⁶ and yield fee code PM. The Exchange now proposes to (i) modify the required criteria under MM Penny Add Tiers 1 and 2, (ii) adopt six new MM Penny Add Tiers and (iii) amend the rebate and required criteria for current MM Penny Add Tier 3 (to be renumbered to Tier 9). The Exchange believes the additional MM Penny Add Tiers will provide Members additional opportunities and alternative means to receive enhanced rebates for meeting the corresponding

⁵ A Market Maker must be registered with BZX Options in an average of 20% or more of the associated options series in a class in order to qualify for QIP rebates for that class.

⁶ "Penny Pilot Securities" are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

proposed criteria. The Exchange believes the proposed tiers, along with the existing tiers, also provide an incremental incentive for Members to strive for the highest tier levels, which provide increasingly higher enhanced rebates.

First the Exchange proposes to modify the existing criteria under MM Penny Add Tiers 1 and 2. Currently, MM Penny Add Tier 1 provides that a Member will receive an enhanced rebate of \$0.33 per contract where the Member has an ADAV in Market Maker orders greater or equal to 0.05% of average OCV. The Exchange proposes to increase the ADAV requirement to 0.10% of average OCV (instead of 0.05%). Under MM Penny Add Tier 2, Members receive an enhanced rebate of \$0.40 per contract where a Member has an ADAV in Market Maker orders greater than or equal to 0.15% of average OCV. The Exchange proposes to similarly increase the ADAV requirement under MM Penny Add Tier 2 to 0.20% of overage OCV (instead of 0.15%). The proposed increases are designed to encourage entry of additional options orders to the Exchange.

Next, in connection with its proposal to adopt new MM Penny Add Tiers, the Exchange proposes to add language in its Definitions section defining “ADRV”. Specifically, ADRV shall mean average daily removed volume calculated as the number of shares removed per day.⁷ As discussed below, certain MM Penny Add Tiers will include an ADRV requirement as well. The

⁷ Like ADAV (which means average daily volume calculated as the number of contracts added to the Exchange) and ADV (which means average daily volume calculated as the number of contracts added or removed, combined, per day). ADRV will be calculated on a monthly basis. Additionally, as with ADAV and ADV, the Exchange will exclude from its calculation of ADRV shares added, removed, or routed on any day that the Exchange’s system experiences a disruption that lasts for more than 60 minutes during Regular Trading Hours, on any day with a scheduled early market close, and on the last Friday in June. A member will be able to aggregate ADRV, ADAV and ADV) with other Members that control, are controlled by, or are under common control with such Member.

Exchange notes that other exchanges maintain incentive tiers for orders that add liquidity that utilize criteria requiring Members to reach an ADRV threshold.⁸

The Exchange proposes to add new MM Penny Add Tier 3, which would provide an enhanced rebate of \$0.40 per contract where a Member (i) has an ADAV in Market Maker orders greater than or equal to 0.15% OCV and (ii) Member has an ADRV in Market Maker orders greater than or equal to 0.15% OCV.

The Exchange also proposes to adopt new MM Penny Add Tier 4, which would provide an enhanced rebate of \$0.40 per contract where a Member (i) has an ADAV in Market Maker orders greater than or equal to 0.10% OCV and (ii) has on BZX Equities an ADV greater than or equal to 0.60% of average TCV⁹. The Exchange proposes to create an add cross-asset tier which is designed to incentivize members to achieve certain levels of participation on both the Exchange's options and equities platform ("BZX Options"). The Exchange notes that others Exchanges offer tiers with cross-asset criteria requirements.¹⁰

The Exchange also proposes to adopt new MM Penny Add Tier 5, which would provide an enhanced rebate of \$0.41 per contract where a Member has an ADAV in Market Maker orders greater than or equal to 0.30% OCV.

The Exchange proposes to add new MM Penny Add Tier 6, which would provide an enhanced rebate of \$0.41 per contract where a Member (i) has an ADAV in Market Maker orders

⁸ See e.g., Cboe EDGA U.S. Equities Exchange Fee Schedule, Footnote 1.

⁹ "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. See Cboe BZX U.S. Equities Exchange Fee Schedule, Definitions.

¹⁰ See e.g., Cboe BZX U.S. Equities Exchange Fee Schedule, Footnote 1 and Cboe EDGX Options Exchange Fee Schedule, Footnote 4.

greater than or equal to 0.25% OCV and (ii) Member has an ADRV in Market Maker orders greater than or equal to 0.25% OCV.

The Exchange proposes to add new MM Penny Add Tier 7, which would provide an enhanced rebate of \$0.42 per contract where a Member has an ADAV in Market Maker orders greater than or equal to 0.50% OCV.

The Exchange proposes to add new MM Penny Add Tier 8, which would provide an enhanced rebate of \$0.42 per contract where a Member (i) has an ADAV in Market Maker orders greater than or equal to 0.35% OCV and (ii) Member has an ADRV in Market Maker orders greater than or equal to 0.35% OCV.

Currently, under MM Penny Add Tier 3, a Member may receive an enhanced rebate of \$0.42 where they have an ADAV in Market Maker orders greater than or equal to 1.30% of average OCV and (ii) an ADV¹¹ of greater than or equal to 2.60% of average OCV. The Exchange first proposes to renumber Tier 3, to Tier 9 in light of the new proposed tiers (that offer lower rebates and have less stringent criteria). The Exchange also proposes increase the rebate provided under Tier 9 from \$0.42 per contract to \$0.46 per contract. The Exchange lastly proposes to ease Tier 9's current criteria to encourage entry of additional orders to the Exchange. Particularly, the Exchange proposes to reduce the required ADAV in Market Maker orders to 0.75% of OCV (instead of 1.30%). The Exchange also proposes to eliminate the second prong of the required criteria.

¹¹ “ADV” means average daily volume calculated as the number of contracts added or removed, combined, per day. See Exchange Fee Schedule.

Market Maker Non-Penny Add Tiers

The Exchange currently offers two Market Maker Non-Penny Pilot Add Volume Tiers (“MM Non-Penny Add Tiers”) under footnote 6, which provide an enhanced rebate of \$0.43 and \$0.52 per contract for qualifying Market Maker orders which add liquidity in Non-Penny Pilot securities¹² and yield fee code NM. The Exchange proposes to increase the enhanced rebates in the MM Non-Penny Add Tiers. Specifically, the exchange proposes to (i) increase the rebate under MM Non-Penny Add Tier 1 from \$0.43 per contract to \$0.45 per contract and (ii) increase the rebate under MM Non-Penny Add Tier 3 from \$0.52 per contract to \$0.54 per contract.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the Section 6 of the Act,¹³ in general, and Section 6(b)(4),¹⁴ 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 believes the proposed modifications to the NBBO Setter Tier 3 and MM Penny Add Tier 3 (renumbered to Tier 9) decreasing the ADAV as a percentage of OCV criteria that a Member must meet, along with eliminating the second prong of MM Penny Add Tier 3, is a reasonable means to further incentive Members to send a higher level of orders to the Exchange. Particularly, the Exchange believes that decreasing the tiers’ criteria, although modestly, will encourage those Members who could not achieve the tiers previously to increase their order flow as a means to receive the tiers’ additional rebate and enhanced rebate,

¹² “Penny Pilot Securities” are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(4).

respectively. The Exchange similarly believes increasing the rebate under MM Penny Add Tier 3 (renumbered to Tier 9) is reasonable because Members would receive a higher rebate for satisfying the required criteria and it is a means to further incentivize Members to send a higher level of orders to the Exchange. Furthermore, the Exchange believes that the proposed changes to both tiers are non-discriminatory because they apply, and are available, to all Members.

The Exchange believes eliminating the QIP Tiers is reasonable because the Exchange is not required to maintain these tiers and Members still have a number of other opportunities and a variety of ways to receive enhanced rebates, including the existing and new MM Penny and Non-Penny Add Tiers, as discussed throughout this filing. The Exchange believes the proposal to eliminate these tiers is also equitable and not unfairly discriminatory because it applies to all Members.

The Exchange believes the proposed changes to the criteria under MM Penny Add Tiers 1 and 2 are reasonable because the proposed changes are modest and are designed to encourage entry of additional options orders to the Exchange. Increased liquidity benefits all investors by deepening the Exchange's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. Additionally, the Exchange believes the proposed criteria is commensurate with the rebates under the Tiers. The Exchange believes the proposed changes are equitable and not unfairly discriminatory because they apply equally to all Members.

The Exchange believes the proposal to adopt new MM Penny Add Tiers is reasonable because it provides Members additional opportunities and alternatives to receive enhanced rebates. The Exchange believes the proposed changes also provide an incremental incentive for Members to strive for the highest tier level, which provides increasingly higher rebates. The

Exchange additionally notes that volume-based incentives and discounts have been widely adopted by exchanges and are equitable and non-discriminatory 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 of an exchange's market quality; (ii) associated with higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns; and (iii) introduction of higher volumes of orders into the price and volume discovery processes. The proposed required criteria of the Volume Tiers are intended to incentivize Members to send additional orders to the Exchange in an effort to qualify for the enhanced rebate made available by the respective tiers. The Exchange also notes that increased volume on the Exchange provides greater trading opportunities for all market participants. The Exchange also believes the proposed required criteria under the proposed tiers are commensurate with the proposed corresponding rebates. The Exchange believes the proposed tiers are also equitable and not unfairly discriminatory because they apply to all Members.

The Exchange lastly believes increasing the rebates under the MM Non-Penny Tiers are reasonable because Members would receive a higher rebate for satisfying the required criteria. The Exchange believes increased rebates will further incentivize Members to send a higher level of orders to the Exchange. The Exchange believes the proposed rebates are also equitable and not unfairly discriminatory because they apply to all Members that satisfy the respective tiers.

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

The Exchange believes the proposed amendments 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 rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of

the Act because the proposed changes for each separate type of market participant will be assessed equally to all such market participants. While different fees are assessed to different market participants in some circumstances, these different market participants have different obligations and different circumstances as discussed above. For example, Market Makers have quoting obligations that other market participants do not have. Further, 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. 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 change will impair the ability of Members or competing 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

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 Act¹⁵ and paragraph (f) of Rule 19b-4¹⁶ thereunder. 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. If the

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f).

Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change 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-CboeBZX-2019-038 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-CboeBZX-2019-038. 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. 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-CboeBZX-2019-038 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.¹⁷

Eduardo A. Aleman
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).