

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73930; File No. SR-BATS-2014-072)

December 23, 2014

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees of BATS Exchange, Inc.

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 December 17, 2014, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission (“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 the Substance of the Proposed Rule Change

The Exchange filed a proposal to amend Interpretation and Policy .03 to Rule 11.8 entitled “Competitive Liquidity Provider Program for Exchange Traded Products,” in order to reduce the annual basic CLP Fee<sup>3</sup> for CLP Securities<sup>4</sup> and to allow for the allocation of the daily CLP Rebate<sup>5</sup> to a third ETP CLP<sup>6</sup> in certain CLP Securities.

The text of the proposed rule change is available at the Exchange’s website at <http://www.batstrading.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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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> CLP Fee is defined in Interpretation and Policy .03(a) to BATS Rule 11.8.

<sup>4</sup> CLP Security is defined in Interpretation and Policy .03(b)(3) to BATS Rule 11.8.

<sup>5</sup> CLP Rebate is defined in Interpretation and Policy .03(a) to BATS Rule 11.8.

<sup>6</sup> ETP CLP is defined in Interpretation and Policy .03(b)(1) to BATS Rule 11.8.

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

On August 30, 2011, the Exchange received approval of rules applicable to the qualification, listing and delisting of securities of issuers on the Exchange.<sup>7</sup> More recently, the Exchange received approval to operate a pilot program that is designed to incentivize certain Market Makers<sup>8</sup> registered with the Exchange as CLPs to enhance liquidity on the Exchange in certain ETPs<sup>9</sup> listed on the Exchange and thereby qualify to receive part of a daily rebate (the “CLP Program”) under Interpretation and Policy .03 to Rule 11.8.<sup>10</sup>

Currently, under the CLP Program, a Sponsor<sup>11</sup> may pay an annual basic fee of \$10,000 (a “Basic CLP Fee”) and a supplemental fee, which, combined with the Basic Fee shall not exceed \$100,000 (a “Supplemental CLP Fee,” or, when combined with the Basic CLP Fee, the

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<sup>7</sup> See Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018).

<sup>8</sup> As defined in BATS Rules, the term “Market Maker” means a Member that acts as a market maker pursuant to Chapter XI of BATS Rules.

<sup>9</sup> ETP is defined in Interpretation and Policy .03(b)(4) to Rule 11.8.

<sup>10</sup> See Securities Exchange Act Release No. 72692 (July 28, 2014), 79 FR 44908 (August 1, 2014) (SR-BATS-2014-022).

<sup>11</sup> Sponsor is defined in Interpretation and Policy .03(b)(5) to Rule 11.8.

“CLP Fees”), in order for the CLP Company,<sup>12</sup> on behalf of a CLP Security, to participate in the CLP Program. Such CLP Fees are credited to the BATS General Fund. The Exchange then pays the CLP Rebate out of the BATS General Fund in order to incentivize CLPs in the CLP Security to quote aggressively in the CLP Security by providing a CLP Rebate to one or more CLPs that make a quality market in the CLP Security pursuant to the Program.<sup>13</sup>

The Exchange currently allocates the daily CLP Rebates to Eligible ETP CLPs<sup>14</sup> as follows: (i) the ETP CLPs with the highest and second highest number of Bid SET Credits<sup>15</sup> will receive 60% and 40%, respectively, of half of the daily CLP Rebate for the CLP Security; and (ii) the ETP CLPs with the highest and second highest number of Offer SET Credits<sup>16</sup> will receive 60% and 40%, respectively, of half of the daily CLP Rebate for the CLP Security. Where there is only one Eligible ETP CLP for the bid or offer portion of the CLP Rebate, 100% of that half of the rebate will be provided to such ETP CLP.

The Exchange is proposing to make two changes to the CLP Program in this filing. First, the Exchange is proposing to amend Interpretation and Policy .03(d)(2)(A) in order to reduce the Basic CLP Fee from \$10,000 to \$5,000. The Exchange is proposing to lower the Basic CLP Fee to \$5,000 in order to allow ETP issuers to participate in the CLP Program for the same price that

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<sup>12</sup> CLP Company is defined in Interpretation and Policy .03(b)(2) to Rule 11.8.

<sup>13</sup> The standards for a quality market include, for example, posting at least five round lots in a CLP Security at the NBB or NBO at the time of a SET in order to have a Winning Bid SET or Winning Offer SET, respectively, as well as requiring that a CLP is quoting at least a round lot at a price at or within 1.2% of the CLP’s bid (offer) at the time of the SET in order to have a Winning Bid (Offer) Set. The two CLPs that have the most Winning Bid SETs and the two Eligible CLPs with the most Winning Offer SETs in a given CLP Security will split the CLP Credit on a pro-rata basis. See Interpretation and Policy .03(i) to Rule 11.8.

<sup>14</sup> Eligible ETP CLP is defined in Interpretation and Policy .03(i)(1)(A) to Rule 11.8.

<sup>15</sup> Bid SET Credits is defined in Interpretation and Policy .03(i)(1) to Rule 11.8.

<sup>16</sup> Offer SET Credits is defined in Interpretation and Policy .03(i)(1) to Rule 11.8.

they are able to participate in the lead market maker program on NYSE Arca, Inc. (“Arca”).<sup>17</sup>

Second, the Exchange is proposing to amend Interpretation and Policy .03(m)(1) in order to adjust the allocation of the daily CLP Rebate where the CLP Fees are equal to or greater than \$40,000. Specifically, the Exchange is proposing to allocate the daily CLP Rebates to Eligible ETP CLPs as follows: for CLP Securities in which the CLP Fees are equal to or greater than \$40,000, the ETP CLPs with the highest, second highest, and third highest number of Bid (Offer) SET Credits will receive 50%, 30%, and 20%, respectively, of half of the daily CLP Rebate for the CLP Security; where there are only two Eligible ETP CLPs, the ETP CLPs with the highest and second highest number of Bid (Offer) SET Credits will receive 60% and 40%, respectively, of half of the daily CLP Rebate for the CLP Security. The Exchange is not proposing to change the current allocation for CLP Securities where the CLP Fees are less than \$40,000. The Exchange is also not proposing to amend the existing allocation where a single ETP CLP will receive 100% of the bid or offer portion of the CLP Rebate where that ETP CLP is the only Eligible ETP CLP. The Exchange notes that no ETPs listed on the Exchange have CLP Fees equal to or greater than \$40,000.

The Exchange is also proposing to make a corresponding non-substantive change to Interpretation and Policy .03(m)(1) to Rule 11.8 in order to move the current “\*\*\*” which refers readers to the definition of Size Event Tests to the first reference to Size Event Tests, which is included in the new language regarding the allocation of CLP Rebates in CLP Securities in which the CLP Fees are equal to or greater than \$40,000.

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<sup>17</sup> See Securities Exchange Act Release No. 61330 (January 12 2010), 75 FR 2896 (January 19, 2010) (SR-NYSEArca-2009-106). Listing fees for ETPs eligible to participate in the lead market maker program start at \$5,000 annually.

## 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.<sup>18</sup> In particular, the proposal is consistent with Section 6(b)(4) and 6(b)(5) of the Act,<sup>19</sup> because it would provide for the equitable allocation of reasonable dues, fees, and other charges among Members and issuers and other persons using any facility or system which the Exchange operates or controls, and it is designed to promote just and equitable principles of trade, 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 goal of the CLP Program is to incentivize Members to make high-quality, liquid markets, which supports the primary goal of the Act to promote the development of a resilient and efficient national market system. Along with furthering these goals, reducing the Basic CLP Fee to \$5,000 is reasonable, equitable, and not unfairly discriminatory because it will be applied equally to all issuers of ETPs and will lower the financial burden for such ETPs to participate in and reap the benefits of the CLP Program. As noted above, \$5,000 is also the minimum listing fee for ETPs listed on Arca to participate in the Arca lead market maker program. By aligning the pricing for the CLP Program with that of Arca, the Exchange believes that it will provide a better trading environment for investors and ETPs, and generally encourage greater competition between listing venues by allowing the Exchange to provide a program designed to enhance liquidity and market quality for the same price as a comparable program on Arca.

The Exchange also believes that allocating CLP Rebates among three ETP CLPs instead

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<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(4) and (5).

of two where the CLP Fees are equal to or greater than \$40,000 will enhance quote competition, improve liquidity on the Exchange, support the quality of price discovery, promote market transparency, and increase competition for listings and trade executions, while reducing spreads and transaction costs in such securities. Maintaining and increasing liquidity in Exchange-listed securities will help raise investors' confidence in the fairness of the market and their transactions. Applying such allocation only to CLP Securities with CLP Fees greater than \$40,000 is reasonable, equitable, and not unfairly discriminatory because the Exchange has determined, in consultation with issuers and Market Makers, that \$40,000 is an appropriate level at which adding a third ETP CLP and reducing the percentage of the daily CLP Rebates allocated to the first and second ETP CLPs by 10% each would not be excessively dilutive while still providing a meaningful incentive for the third ETP CLP. As noted above, there are currently no ETPs with CLP Fees greater than \$40,000, meaning that the proposed change would not represent a change to any ETPs currently listed on the Exchange.

Finally, the Exchange believes that the corresponding non-substantive change is reasonable as it will help to avoid confusion for those that review the Exchange's rules. The Exchange notes that this proposed change is not designed to amend any fees or rebates, nor alter the manner in which it assesses fees or calculates rebates. The Exchange believes that the proposed amendment is intended to make the Exchange's rules more clear and less confusing for potential investors and eliminate potential investor confusion, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and, in general, protecting investors and the public interest.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. To the contrary, the Exchange believes that the proposal will increase competition in both the listings market and in competition for market makers. The proposed reduction of the Basic CLP Fee will promote competition in the listings market by lowering the cost of participation in the CLP Program. Further, \$5,000 is the same annual base fee that Arca charges listed ETPs that are participating in the Arca lead market maker program. As such, lowering the Basic CLP Fee to \$5,000 will better enable the Exchange to compete as a listing venue.

The Exchange also believes that the proposed changes will enhance competition among participants by creating incentives for more market makers to compete to make better quality markets. By allowing an additional ETP CLP to receive a portion of the daily CLP Rebates where CLP Fees equal or exceed \$40,000, the Exchange believes that competition for the CLP Rebates will be enhanced, Market Makers will be further incentivized to become an ETP CLP, and the quality of quotes on the Exchange will improve. This, in turn, will attract more liquidity to the Exchange and further improve the quality of trading in CLP Securities, which will also act to bolster the Exchange's listing business.

Additionally, the Exchange believes that the proposed non-substantive change would not affect intermarket nor intramarket competition because the changes do not alter any fees or rebates on the Exchange or the criteria associated therewith.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

### 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>20</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>21</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-BATS-2014-072 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-BATS-2014-072. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f).



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 at 100 F Street, NE, Washington, DC 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such 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-BATS-2014-072, 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>22</sup>

Brent J. Fields  
Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).