

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-77329; File No. SR-EDGX-2016-16)

March 9, 2016

Self-Regulatory Organizations; Bats EDGX Exchange, Inc. f/k/a EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees as they Apply to the Equity Options Platform.

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 March 1, 2016, Bats EDGX Exchange, Inc. f/k/a EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change 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 amend the fee schedule applicable to Members<sup>5</sup> and non-members of the Exchange pursuant to EDGX Rules 15.1(a) and (c).

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

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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> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>4</sup> 17 CFR 240.19b-4(f)(2).

<sup>5</sup> The term “Member” is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

[www.batstrading.com](http://www.batstrading.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

The Exchange proposes to amend its fee schedule for its equity options platform ("EDGX Options") to add three new tiers to its existing tiered pricing structure and also to adopt a new, incremental rebate per contract for orders that set or join the national best bid or offer ("NBBO"), as further described below. The Exchange proposes to make conforming changes to the Standard Rates and Fee Codes and Associated Fees Table in connection with these changes.

Changes to Tiered Pricing

The Exchange currently offers two pricing tiers under footnotes 1 and 2 of the fee schedule, Customer Volume Tiers and Market Maker Volume Tiers, respectively. Under the tiers, Members that achieve certain volume criteria may qualify for reduced fees or enhanced rebates for Customer<sup>6</sup> and Market Maker<sup>7</sup> orders. The Exchange proposes to add an additional

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<sup>6</sup> The term "Customer" applies to any transaction identified by a Member for clearing in the Customer range at the Options Clearing Corporation ("OCC"), excluding any transaction for a Broker Dealer or a "Professional" as defined in Exchange Rule 16.1.

Customer Volume Tier and two additional Market Maker Volume Tiers, as described below.

Additional Customer Volume Tier. Fee code PC and NC are currently appended to all Customer orders in Penny Pilot Securities<sup>8</sup> and Non-Penny Pilot Securities,<sup>9</sup> respectively and result in a standard rebate of \$0.01 per contract. The Customer Volume Tiers in footnote 1 consist of four separate tiers, each providing an enhanced rebate to a Member's Customer orders that yield fee codes PC or NC upon satisfying monthly volume criteria required by the respective tier. The Exchange's current lowest Customer Volume Tier, current Tier 1, provides a rebate of \$0.10 per contract where the Member has an ADV<sup>10</sup> in Customer orders equal to or greater than 0.20% of average TCV.<sup>11</sup> To encourage the entry of additional Customer orders to EDGX Options, the Exchange proposes to adopt a new Tier 1 with lower qualifying criteria. Specifically, under new Tier 1, the Exchange proposes to provide a rebate of \$0.05 per contract where the Member has an ADV in Customer orders equal to or greater than 0.10% of average TCV.

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<sup>7</sup> The term "Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37).

<sup>8</sup> The term "Penny Pilot Security" applies to those issues that are quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

<sup>9</sup> The term "Non-Penny Pilot Security" applies to those issues that are not Penny Pilot Securities quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

<sup>10</sup> "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day.

<sup>11</sup> "TCV" means total consolidated volume calculated as the volume reported by all exchanges to the consolidated transaction reporting plan 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.

In connection with this change, the Exchange proposes to re-number existing Tiers 1 through 4 as Tiers 2 through 5 and to update the Standard Rates table of the fee schedule to reflect the new potential rebate of \$0.05 per contract for fee codes PC and NC.

Additional Market Maker Volume Tiers. Fee codes PM and NM are currently appended to Market Maker orders in Penny Pilot Securities and Non-Penny Pilot Securities, respectively and result in a standard fee of \$0.19 per contract. The Market Maker Volume Tiers in footnote 2 consist of four separate tiers, each providing a reduced fee or a rebate to a Member's Market Maker orders that yield fee codes PM or NM upon satisfying monthly volume criteria required by the respective tier.

The Exchange's current lowest Market Maker Volume Tier, current Tier 1, provides a reduced fee of \$0.16 per contract where the Member has an ADV in Market Maker orders equal to or greater than 0.05%. The next Market Maker Volume Tier, current Tier 2, provides a reduced fee of \$0.07 per contract where the Member has an ADV in Market Maker orders equal to or greater than 0.30%. The Exchange proposes two new tiers with qualifying criteria that fall in between these two tiers. Specifically, proposed new Tier 2 would provide a reduced fee of \$0.13 per contract where the Member has an ADV in Market Maker orders equal to or greater than 0.10% and proposed new Tier 3 would provide a reduced fee of \$0.10 per contract where the Member has an ADV in Market Maker orders equal to or greater than 0.20%.

In connection with this change, the Exchange proposes to re-number existing Tiers 2 through 4 as Tiers 4 through 6 and to update the Standard Rates table of the fee schedule to reflect the new potential reduced fees of \$0.13 and \$0.10 per contract for fee codes PM and NM.

### NBBO Setter/Joiner Tier

The Exchange also proposes to adopt enhanced rebates to incentivize aggressive quoting by Market Makers on EDGX Options. Specifically, the Exchange proposes to adopt a NBBO Setter/Joiner Tier that would provide an additional rebate of \$0.02 per contract for any Market Maker order that adds liquidity and establishes a new NBBO or that joins the NBBO when EDGX Options is not already at the NBBO (the “NBBO Setter/Joiner Rebate”).<sup>12</sup> The Exchange notes that while the specific details related to the proposed NBBO Setter/Joiner Rebate differ, the proposal to offer an enhanced rebate for orders that set the NBBO is consistent with a pricing incentive currently offered by the equity options platform operated by Bats BZX Exchange, Inc. (“BZX Options”).<sup>13</sup> The Exchange also notes that the cash equities platform operated by Bats BZX Exchange, Inc. (“BZX Equities”) has previously offered an enhanced rebate for orders that join the NBBO.<sup>14</sup>

In connection with this change the Exchange proposes to append footnote 3 to fee codes NM and PM.

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities

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<sup>12</sup> An order that is entered at a price that sets the NBBO or causes EDGX Options to join the NBBO according to then current OPRA data will be determined to have set or joined the NBBO for purposes of the NBBO Setter/Joiner Rebate without regard to whether a more aggressive order is entered prior to the original order being executed.

<sup>13</sup> See the BZX Options’ fee schedule available at [http://www.batsoptions.com/support/fee\\_schedule/bzx/](http://www.batsoptions.com/support/fee_schedule/bzx/).

<sup>14</sup> See, e.g., Securities Exchange Act Release No. 70664 (October 11, 2013), 78 FR 62804, 62805 (October 22, 2013) (SR-BATS-2013-054) (proposing various modifications to fees including adoption of the “NBBO Joiner” incentive).

exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>15</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>16</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and other persons using any facility or system which the Exchange operates or controls.

The Exchange believes its proposed fees and rebates are reasonable, fair and equitable, and non-discriminatory. The Exchange operates in a highly competitive market in which market participants may readily send order flow to many competing venues if they deem fees at the Exchange to be excessive. As a new options exchange, the proposed fee structure remains intended to attract order flow to the Exchange by offering market participants a competitive yet simple pricing structure. At the same time, the Exchange believes it is reasonable to incrementally adopt incentives intended to help to contribute to the growth of the Exchange.

#### Additional Customer Volume Tier and Market Maker Volume Tiers

Volume-based rebates such as those currently maintained on the Exchange have been widely adopted by options exchanges and are equitable because they are open to all Members on an equal basis and provide additional benefits or discounts that are reasonably related to the value to an exchange's market quality associated with higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns, and introduction of higher volumes of orders into the price and volume discovery processes. The proposed additional Customer Volume Tier and Market Maker Volume Tiers are intended to incentivize Members to send

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<sup>15</sup> 15 U.S.C. 78f.

<sup>16</sup> 15 U.S.C. 78f(b)(4).

additional orders to the Exchange in an effort to qualify for the enhanced rebate available by the respective tier.

The Exchange believes that the proposed tiers are reasonable, fair and equitable, and non-discriminatory, for the reasons set forth with respect to volume-based pricing generally and because such change will incentivize participants to further contribute to market quality. The proposed tiers will provide additional ways for market participants to qualify for enhanced rebates or reduced fees. The Exchange also believes that the proposed tiered pricing structure is consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from such pricing structures.

#### NBBO Setter/Joiner Tier

The Exchange also believes it is equitable, reasonable and not unfairly discriminatory to provide an enhanced rebate to Market Maker orders that either set the NBBO or join the NBBO when EDGX Options is not already at the NBBO. Similar to the pricing tiers discussed above, this incentive is reasonably related to the value to the Exchange's market quality associated with higher levels of market activity, including liquidity provision and the introduction of higher volumes of orders into the price and volume discovery processes. In particular, the enhanced rebate will encourage Market Maker orders at the NBBO, and is therefore directly focused on encouraging aggressively priced liquidity provision on EDGX Options. The proposed differentiation between Market Makers and other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants. Market Makers, unlike other market participants, have obligations to the market

and regulatory requirements,<sup>17</sup> which normally do not apply to other market participants. A Market Maker has the obligation to make continuous markets, engage in course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with such course of dealings. On the other hand, other market participants do not have such obligations on the Exchange. For the same reasons, the Exchange believes it is reasonable to provide an additional incentive to Market Makers in the form of the proposed NBBO Setter/Joiner Rebate.

(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 change represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Rather, the proposal is a competitive proposal that is seeking to further the growth of the Exchange. The Exchange has structured the proposed fees and rebates to attract certain additional volume in Market Maker and Customer orders, however, the Exchange believes that its pricing for all capacities is competitive with that offered by other options exchanges. Additionally, 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. The Exchange does not believe that the proposed tiered pricing structure or NBBO Setter/Joiner Tier burden competition, but instead, that these

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<sup>17</sup> See Exchange Rule 22.5, Obligations of Market Makers.



incentives enhance competition as they are intended to increase the competitiveness of the Exchange by incentivizing certain participants to increase their participation on the Exchange.

(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 Act<sup>18</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>19</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-EDGX-2016-16 on the subject line.

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>19</sup> 17 CFR 240.19b-4(f).

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- EDGX-2016-16. 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 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 Number SR-EDGX-2016-16 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>20</sup>

Robert W. Errett  
Deputy Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).