

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74692; File No. SR-BATS-2015-28)

April 9, 2015

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use 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 April 1, 2015, 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 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 BATS Rules 15.1(a) and (c). Changes to the fee schedule pursuant to this proposal are effective upon filing.

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 modify the "Options Pricing" section of its fee schedule, effective immediately, in order to modify pricing charged by the Exchange's options platform ("BATS Options") including: (i) adjusting the standard rebate associated with Market Maker<sup>6</sup> orders that add liquidity in Penny Pilot Securities;<sup>7</sup> (ii) to add a new tier to the Market Maker Penny Pilot Add Volume Tier; (iii) adjusting the standard fees paid for Professional,<sup>8</sup> Firm<sup>9</sup> and Market Maker orders that remove liquidity in Penny Pilot Securities and do not qualify for any reduced fees; and (iv) to make certain changes to the Professional, Firm and Market Maker

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<sup>6</sup> "Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC.

<sup>7</sup> "Penny Pilot Securities" are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

<sup>8</sup> "Professional" applies to any transaction identified by a Member as such pursuant to Exchange Rule 16.1.

<sup>9</sup> "Firm" applies to any transaction identified by a Member for clearing in the Firm range at the OCC.

Penny Pilot Take Volume Tiers, as further described below. The Exchange is also proposing to make certain corresponding changes to the fee schedule.

#### Market Maker Orders That Add Liquidity in Penny Pilot Securities

The Exchange proposes to reduce the standard rebate for Market Maker orders that add liquidity in Penny Pilot Securities. Currently, the Exchange provides a rebate of \$0.40 per contract as a standard rebate for Market Maker orders that add liquidity in Penny Pilot Securities under fee code PM. The Exchange is proposing to reduce the standard rebate for Market Maker orders that add liquidity in Penny Pilot Securities from \$0.40 per contract to \$0.35 per contract in conjunction with the addition of adding a new tier to the Market Maker Penny Pilot Add Volume Tier, as further described below. The Exchange notes that this standard rebate is still higher than the standard rebate of \$0.20 per contract offered by the options platform operated by NASDAQ Stock Market LLC (“NOM”). The Exchange also notes that Members will still be eligible to receive the current rebates of \$0.42 and \$0.40 by meeting the existing Market Maker Penny Pilot Add Volume Tier and the new Market Maker Penny Pilot Add Volume Tier 1 proposed below, respectively.

#### Market Maker Penny Pilot Add Volume Tier

The Exchange is also proposing to add a new tier to the Market Maker Penny Pilot Add Volume Tier under footnote 6 of the fee schedule. Currently, the only enhanced rebate available under footnote 6 provides a \$0.42 rebate per contract to a Member that has an ADAV<sup>10</sup> equal to or greater than 1.00% of average TCV<sup>11</sup> and an ADV<sup>12</sup> equal to or greater than 2.00% of average

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<sup>10</sup> “ADAV” means average daily added volume calculated as the number of contracts added 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

TCV. The Exchange is proposing to add an additional tier to the Market Maker Penny Pilot Add Volume Tier such that a Member receives a \$0.40 rebate per contract in Market Maker orders that add liquidity in Penny Pilot Securities where the Member has an ADV equal to or greater than 0.30% of average TCV.

Professional, Firm and Market Maker Orders That Remove Liquidity in Penny Pilot Securities

The Exchange proposes to increase the standard fee for Professional, Firm and Market Maker orders that remove liquidity in Penny Pilot Securities. Currently, the Exchange charges \$0.48 per contract as a standard fee for Professional, Firm and Market Maker orders that remove liquidity in Penny Pilot Securities under fee code PP. The Exchange is proposing to increase the standard fees for Professional, Firm and Market Maker orders that remove liquidity in Penny Pilot Securities from \$0.48 per contract to \$0.49 per contract in conjunction with the addition of two new tiers and the amendment of the pricing for another tier in the Professional, Firm and Market Maker Penny Pilot Take Volume Tiers, as further described below. The Exchange notes that this standard fee is still lower than the standard fee of \$0.50 charged by the options platform operated by NYSE Arca, Inc. (“Arca”). The Exchange also notes that Members will still be eligible to receive the current fees of \$0.48, \$0.47, and \$0.45 or the new \$0.43 charge per contract by meeting applicable Professional, Firm and Market Maker Penny Pilot Take Volume Tiers.

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apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

<sup>12</sup> “ADV” means average daily volume calculated as the number of contracts added or removed, combined, per day.

### Professional, Firm and Market Maker Penny Pilot Take Volume Tiers

The Exchange is also proposing to increase the fees for the Non-Customer Take Volume Tier 1 and to add two new tiers to the Professional, Firm and Market Maker Penny Pilot Take Volume Tiers under footnote 3 of the fee schedule. Currently, the fee schedule contains three tiers that provide reduced fees available under footnote 3, under which a Member would pay either \$0.47 or \$0.45. The Exchange is not proposing to amend the required criteria for any of these three tiers, but rather to increase the fee for orders that meet the required criteria for Non-Customer Take Volume Tier 1 (applicable where a Member has an ADV equal to or greater than 1.00% of average TCV) from \$0.47 per contract to \$0.48 per contract. The Exchange is also proposing to add new Non-Customer Take Volume Tier 2 and Tier 4. Under proposed Non-Customer Take Volume Tier 2, a Member that has an ADV equal to or greater than 1.25% of average TCV will pay a reduced fee of \$0.47. Under proposed Non-Customer Take Volume Tier 4, a Member that has an ADAV in Customer orders that is equal to or greater than 2.00% of average TCV would pay a reduced fee of \$0.43 per contract.

### Corresponding Changes

In conjunction with the changes proposed above, the Exchange is also proposing to make certain corresponding changes to update the Standard Rates chart of the fee schedule and related to the numbering of existing tiers. Specifically, the Exchange proposes to update the Standard Rates chart to reflect the potential rebate of \$0.35 for a Market Maker order that adds liquidity as well as the new high remove rate of \$0.49 and low remove rate of \$0.43, each now possible for non-Customer orders. The Exchange is also proposing to change Non-Customer Take Volume Tier 2 to Non-Customer Take Volume Tier 3 and to make the Market Maker Add Volume Tier the Market Maker Add Volume Tier 2. Finally, the Exchange is also proposing to pluralize the

title of the Market Maker Penny Pilot Add Volume Tier to be the Market Maker Penny Pilot Add Volume Tiers.

Effectiveness Date

As noted above, the Exchange proposes to implement the amendments to its fee schedule effective immediately.

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 exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>13</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>14</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 notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels to be excessive.

Volume-based rebates and fees such as the ones currently maintained on BATS Options have been widely adopted by equities and 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

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<sup>13</sup> 15 U.S.C. 78f.

<sup>14</sup> 15 U.S.C. 78f(b)(4).

Exchange believes the proposed reduction of the standard rebate for Market Maker orders in Penny Pilot Securities that add liquidity is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will provide Members with a greater incentive to increase their participation on BATS Options in order to receive a higher rebate by meeting a higher Market Maker Add Volume Tier, including the proposed new Market Maker Add Volume Tier 1. Proposed Market Maker Add Volume Tier 1 would provide a rebate of \$0.40 per contract, the same as the current standard rebate for Market Maker orders that add liquidity in Penny Pilot Securities, and Members are eligible for such rebates where the Member has an ADV equal to or greater than 0.30% of average TCW. As such, the Exchange believes that decreasing the standard rebate will act to incentivize Members to increase their trading activity on the Exchange in order to qualify for proposed Market Maker Add Volume Tier 1 or Tier 2 and receive a rebate of \$0.40 or \$0.42 per contract, respectively, which are the same rebates currently available to Members today for such orders. Such increased participation on BATS Options, particularly in Market Maker orders, will result in higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes, which will benefit all participants on BATS Options. Further, as noted above, the proposed standard rebate is still significantly higher than the standard rebate offered by NOM of \$0.20 per contract.

Similarly, the Exchange believes that the addition of new Market Maker Add Volume Tier 1 is reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will act to incentivize Members to meet minimum standards of Market Maker trading activity on BATS Options in order to receive an additional \$0.05 rebate per contract (\$0.40 per contract versus the proposed standard rebate of \$0.35 per contract). The proposed

new tier will allow Members to continue to receive the same rebate that they currently receive for Market Maker orders that add liquidity in Penny Pilot Securities, which the Exchange believes will incentivize Members to increase or maintain their ADV as a percentage of TCV of at least 0.30%. Such increased participation on the BATS Options, particularly in Market Maker orders, will result in higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes, which will benefit all participants on BATS Options.

The Exchange believes the proposed increase of the standard fees for Professional, Firm and Market Maker orders that remove liquidity in Penny Pilot Securities (from \$0.48 per contract to \$0.49 per contract) is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will provide Members with a greater incentive to increase their participation on BATS Options in order to be eligible for lower fees by meeting a higher Professional, Firm and Market Maker Penny Pilot Take Volume Tier. Included in the Professional, Firm and Market Maker Penny Pilot Take Volume Tiers are the proposed new Non-Customer Take Volume Tiers 2 and 4, the second of which would actually provide a lower fee (\$0.43 per contract) for Members than currently is available for non-Customer orders and will further encourage increased participation on the BATS Options. Such increased participation on BATS Options will result in higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes, which will benefit all participants on BATS Options. Further, as noted above, the proposed standard fee is still lower than the standard fee offered by Arca of \$0.50 per contract.

Similarly, the Exchange believes that the proposed increase in fees for Non-Customer Take Volume Tier 1 from \$0.47 to \$0.48 per contract and the proposed new Non-Customer Take



Volume Tier 2 is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will provide Members with a greater incentive to increase their participation on BATS Options in order to be eligible for lower fees by meeting a higher Professional, Firm and Market Maker Penny Pilot Take Volume Tier. These proposed changes, when viewed in conjunction with one another, will incentivize Members to: (i) have an ADV equal to or greater than 1.00% of average TCV in order to receive the lower fees associated with Non-Customer Take Volume Tier 1; and (ii) further increase their ADV to reach 1.25% of average TCV in order to meet proposed Non-Customer Take Volume Tier 2 and receive a fee of \$0.47 per contract. While the price change for Non-Customer Take Volume Tier 1 does result in an increased fee for Members that qualify for the tier, the Exchange believes that the benefit to all participants on BATS Options from incentivizing increased participation on BATS Options outweighs the additional cost for those Members that qualify for Tier 1. Further, the requirements to meet proposed Tier 2 are only an additional 0.25% ADV as a percentage of average TCV, which would provide Members with fees identical to those that they would pay today under Tier 1. As such, the Exchange believes that the proposed change to Non-Customer Take Volume Tier 1 and the proposed new Non-Customer Take Volume Tier 2 is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will provide Members with a greater incentive to increase their participation on BATS Options which will result in higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes, which will benefit all participants on BATS Options.

The Exchange also believes that the proposed new Non-Customer Take Volume Tier 4 is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates

because it will provide Members with a greater incentive to increase their participation on BATS Options in both Customer and non-Customer orders. Under proposed Tier 4, Members that have an ADAV in Customer orders equal to or greater than 2.00% of average TCV will be eligible for \$0.43 per contract fees for Non-Customer orders that remove liquidity in Penny Pilot Securities. The Exchange further emphasizes that the proposed change is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it allows the Exchange to further incentivize Customer orders that add liquidity beyond the \$0.50 per contract rebate that such orders receive. The Exchange believes that such additional incentives for Customer orders combined with the incentive for non-Customer orders that remove liquidity will lead Members to increase participation in both Customer and non-Customer orders. Incentivizing Members to increase participation in both added Customer liquidity and non-Customer orders that remove liquidity will result in higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes, which will benefit all participants on BATS Options to a greater extent than most tier changes because it will incentivize increased participation in multiple order capacities simultaneously. As stated above, such increased participation benefits all participants on BATS Options, even those that are not receiving the lower fees from achieving Tier 4.

The Exchange reiterates that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels to be excessive.

Finally, the Exchange believes that the non-substantive changes discussed above would contribute to the protection of investors and the public interest by helping to avoid confusion with respect the Exchange fee schedule.

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. With respect to the proposed new rebates for Market Maker orders that add liquidity in Penny Pilot Securities, including the proposed new Market Maker Add Volume Tier 1, the Exchange does not believe that any such changes burden competition, but instead, that they enhance competition, as they are intended to increase the competitiveness of and draw additional volume to BATS Options. Similarly, with respect to the proposed new fees for Professional, Firm and Market Maker Orders that remove liquidity in Penny Pilot Securities, include the proposed new tiers and adjusted rebates in the Professional, Firm and Market Maker Penny Pilot Take Volume Tiers, the Exchange does not believe that any such changes burden competition, but instead, that they enhance competition, as they are intended to increase the competitiveness of and draw additional volume to BATS Options. As stated above, the Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if the deem fee structures to be unreasonable or excessive.

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>15</sup> and paragraph (f)(2) of Rule 19b-4 thereunder.<sup>16</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. 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](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2015-28 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-BATS-2015-28. 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

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

<sup>16</sup> 17 CFR 240.19b-4(f)(2).

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-BATS-2015-28 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>17</sup>

Brent J. Fields  
Secretary

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