

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74938; File No. SR-BATS-2015-35)

May 12, 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 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 1, 2015, BATS Exchange, Inc. (the “Exchange” or “BATS”) 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 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 Act³ and Rule 19b-4(f)(2) thereunder,⁴ 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 Members⁵ 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ 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, 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 its fee schedule in order to: (1) amend the rebate associated with fee code BY; (2) eliminate the NBBO Setter and Joiner Tiers; (3) establish a Single MPID Investor Tier; and (4) simplify pricing related to Physical Connection Fees.

Fee Code BY

The Exchange currently provides a rebate of \$0.0016 per share for Members' orders that yield fee code BY, which routes to BYX and removes liquidity using Destination Specific, TRIM, TRIM2, TRIM3, or SLIM routing strategies. The Exchange proposes to amend its Fee Schedule to decrease the rebate for orders that yield fee code BY to \$0.0015 per share. The proposed change represents a pass through of the rate BATS Trading, Inc. ("BATS Trading"), the Exchange's affiliated routing broker-dealer, is provided for routing orders to BYX that remove liquidity. The proposed change is in response to BYX's May 2015 fee change where

BYX decreased its rebate from \$0.0016 per share to \$0.0015 per share.⁶ When BATS Trading routes to and removes liquidity from BYX, it will now receive a standard rebate of \$0.0015 per share. BATS Trading will pass through the rebate provided by BYX to the Exchange and the Exchange, in turn, will pass through this rate to its Members.

NBBO Setter and Joiner Tiers

The Exchange currently offers an additional rebate per share for certain orders that establish a new NBBO or that join the NBBO when the Exchange is not already at the NBBO. Such additional rebates range from \$0.0001 per share to \$0.0005 per share. The Exchange is proposing to eliminate these additional rebates because the rebates have not achieved the desired effect, despite being designed to incentivize Members to add liquidity that sets or joins the Exchange to the NBBO. As such, the Exchange is proposing to eliminate the text in footnote four related to the NBBO Setter and Joiner Tiers.

Single MPID Investor Tier

The Exchange proposes to add new text to footnote four to establish a new Investor Tier under which a Member can qualify for a rebate of \$0.0031 per share on an MPID by MPID basis if they meet the following criteria: (i) the MPID's ADAV⁷ as a percentage of TCV⁸ is equal to or greater than 0.35%; and (ii) the MPID's ADAV as a percentage of ADV⁹ is equal to or greater

⁶ See BYX Exchange Fee Schedule Changes Effective May 1, 2015 [available at http://cdn.batstrading.com/resources/fee_schedule/2015/BATS-BYX-Exchange-BZX-Exchange-EDGA-Exchange-and-EDGX-Exchange-Fee-Schedule-Changes-Effective-May-1-2015.pdf](http://cdn.batstrading.com/resources/fee_schedule/2015/BATS-BYX-Exchange-BZX-Exchange-EDGA-Exchange-and-EDGX-Exchange-Fee-Schedule-Changes-Effective-May-1-2015.pdf).

⁷ "ADAV" means average daily volume calculated as the number of shares added per day.

⁸ "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.

⁹ "ADV" means average daily volume calculated as the number of shares added or removed, combined, per day.

than 90%. The Exchange notes that this proposal is substantively identical to the “Investor Tier” rebate offered on EDGX Exchange, Inc. (“EDGX”).¹⁰

Physical Connection Fees

The Exchange currently maintains a presence in two third-party data centers: (i) the primary data center where the Exchange’s business is primarily conducted on a daily basis, and (ii) a secondary data center, which is predominantly maintained for business continuity purposes. The Exchange currently assesses fees to Members and non-Members of \$1,000 for any 1G physical port connection at either data center and of \$2,500 for any 10G physical port connection at either data center. The Exchange also provides market participants with the ability to access the Exchange’s network through another data center entry point, or Point of Presence (“PoP”), at a data center other than the Exchange’s primary or secondary data center.¹¹ The Exchange currently charges \$2,000 for any 1G physical port to connect to the Exchange in any data center where the Exchange maintains a PoP other than the Exchange’s primary or secondary data center and \$5,000 per month for each single physical 10G port provided by the Exchange to any Member or non-member in any data center where the Exchange maintains a PoP other than the Exchange’s primary or secondary data center.

The Exchange proposes to simplify its pricing structure by imposing a uniform rate for physical ports regardless of the data center in which the port connection is made. Specifically, the Exchange proposes to charge \$1,000 per month for all 1G physical port connections and \$2,500 per month for all 10G physical ports in any location where the Exchange offers the ability

¹⁰ See EDGX Exchange, Inc. Fee Schedule available at http://www.batstrading.com/support/fee_schedule/edgx/.

¹¹ See Securities Exchange Act Release No. 70199 (August 14, 2013), 78 FR 51250 (August 20, 2013) (SR-BATS-2013-036) (Order Approving a Proposed Rule Change to Introduce a Connectivity Option Through Points of Presence).

to connect to Exchange systems, including the secondary data center and any PoP location. In conjunction with the proposed change, the Exchange also proposes minor changes to re-format the chart that sets forth physical connection fees and also proposes to re-locate such chart and the accompanying text such that physical connection fees directly follow logical port fees.

Implementation Date

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 objectives of Section 6 of the Act,¹² in general, and furthers the objectives of Section 6(b)(4),¹³ 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 also 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 at a particular venue to be excessive. The Exchange believes that the proposed rates are equitable and non-discriminatory in that they apply uniformly to all Members.

Fee Code BY

The Exchange believes that its proposal to decrease the rebate for orders that yield fee code BY represents an equitable allocation of reasonable dues, fees, and other charges among Members and other persons using its facilities. Prior to the BYX's May 2015 fee change, BYX provided BATS Trading a rebate of \$0.0016 per share to remove liquidity, which BATS Trading passed through to the Exchange and the Exchange provided its Members. When BATS Trading

¹² 15 U.S.C. 78f.

¹³ 15 U.S.C. 78f(b)(4).

routes to BYX, it will now be provided a rebate of \$0.0015 per share. The Exchange does not levy additional fees or offer additional rebates for orders that it routes to BYX through BATS Trading. Therefore, the Exchange believes that the proposed change to fee code BY is equitable and reasonable because it accounts for the pricing changes on BYX, which enables the Exchange to provide its Members the applicable pass-through rebate. Lastly, the Exchange notes that routing through BATS Trading is voluntary and believes that the proposed change is non-discriminatory because it would apply uniformly to all Members.

NBBO Setter and Joiner Tiers

The Exchange believes that the proposed elimination of the NBBO Setter and Joiner Tiers represents an equitable allocation of reasonable dues, fees, and other charges among Members and other persons using its facilities because, as described above, the additional rebates offered under these tiers are not affecting Members' behavior in the manner originally conceived by the Exchange. While the Exchange acknowledges the benefit of Members entering orders that set or join the NBBO, the Exchange has generally determined that it is providing additional rebates for liquidity that would be added on the Exchange regardless of whether the tiers existed. By paying these rebates, the Exchange is not only offering rebates for orders that would set or join the NBBO without being incentivized to do so, but also missing out on the opportunity to offer other rebates or reduced fees that could incentivize other behavior that would enhance market quality on the Exchange, which would benefit all Members. As such, the Exchange also believes that the proposed elimination of the NBBO Setter and Joiner Tiers would be non-discriminatory in that it currently applies equally to all Members and, upon elimination, would no longer be available to any Members. Further, it will allow the Exchange to explore other ways in which it may enhance market quality for all Members.

Single MPID Investor Tier

The Exchange believes that the proposed addition of the Single MPID Investor Tier represents an equitable allocation of reasonable dues, fees, and other charges among Members and other persons using its facilities because it rewards Members with order flow characteristics that contribute meaningfully to price discovery on the Exchange. In other words, Members that post a substantial amount of liquidity and primarily post liquidity are valuable Members to the Exchange and the marketplace in terms of liquidity provision. By applying the tier on a single MPID rather than across a Member's entire trading activity, the Exchange is also allowing more Members to potentially receive the enhanced rebates for their trading activity related to liquidity provision. The Single MPID Investor Tier also encourages Members to primarily add liquidity in order to satisfy the ADAV as a percentage of ADV of at least 90%. Such increased volume increases potential revenue to the Exchange, and would allow the Exchange to spread its administrative and infrastructure costs over a greater number of shares, leading to lower per share costs. These lower per share costs would allow the Exchange to pass on the savings to Members in the form of higher rebates. The increased liquidity also 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. Volume-based rebates such as the ones proposed herein have been widely adopted in the cash equities markets, and are equitable because they are open to all Members on an equal basis and provide 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 introduction of higher volumes of orders into the price and volume discovery processes.

In addition, the rebate is also reasonable in that other exchanges likewise employ similar pricing mechanisms. For example, EDGX offers a substantively identical investor tier that provides enhanced rebates for its members that meet certain thresholds that are based on the same metrics proposed by the Exchange, which are designed to encourage price discovery and market transparency. As stated above, EDGX's investor tier is substantively identical to the Single MPID Investor Tier proposed by the Exchange except that on EDGX a member will receive a \$0.0032 per share rebate for orders that add liquidity where the member has an ADAV of at least 0.15% of TCV and an ADAV as a percentage of ADV of at least 85%. Finally, the Exchange also believes that the proposed Single MPID Investor Tier is non-discriminatory in that it would apply equally to all Members.

Physical Connection Fees

The Exchange believes that providing uniform rates for all 1G and 10G physical connections to Exchange is reasonable because such change represents a reduction in fees for any Member that connects to the Exchange at a PoP location and no change to fees for any Member located in the Exchange's primary or secondary data center. The Exchange also believes that the proposal is equitably allocated and not unreasonably discriminatory because, as proposed, market participants will be able to access the Exchange at uniform rates regardless of whether such access is at the Exchange's primary or secondary data center location or another location where the Exchange offers access.

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

The Exchange does not believe its proposed amendments to its fee schedule would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Fee Code BY

The Exchange believes that its proposal to pass through the amended rebate for orders that yield fee code BY would increase intermarket competition because it offers customers an alternative means to route to BYX for the same rebate that they would be provided if they entered orders on that trading center directly. The Exchange believes that its proposal would not burden intramarket competition because the proposed rebate would apply uniformly to all Members.

NBBO Setter and Joiner Tiers

The Exchange does not believe that its proposal to eliminate the NBBO Setter and Joiner Tiers would burden competition, but, rather, enhance the Exchange's ability to compete with other market centers. As described above, the Exchange believes that it is offering enhanced rebates for orders that would be submitted to the Exchange without the enhanced rebate, which prevents the Exchange from being able to offer other rebates or reduced fees that might be able to enhance market quality to the benefit of all Members. As such, eliminating the NBBO Setter and Joiner Tiers will allow the Exchange other opportunities to enhance market quality on the Exchange and ultimately, better compete with other market centers.

Single MPID Investor Tier

The Exchange believes that its proposal to adopt the Single MPID Investor Tier would increase intramarket competition by rewarding Members with order flow characteristics that contribute meaningfully to price discovery on the Exchange. In other words, the proposal is a competitive proposal in that it is designed to incentivize the entry of orders to the Exchange that will provide liquidity to other Members. The Exchange does not believe that its proposal would burden intramarket competition because the proposed rebate would apply uniformly to all

Members that achieve the objective criteria of the Single MPID Investor Tier.

Physical Connection Fees

The Exchange does not believe that the proposed change to physical port fees represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Rather, as described above, the Exchange is simply normalizing its fees for physical access to the Exchange regardless of the location where a physical connection is made. The offering is consistent with the Exchange's own economic incentives to facilitate as many market participants as possible in connecting to its market. 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 its proposal would burden intramarket competition because the fees for physical connections would apply uniformly to all Members.

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 Act¹⁴ and paragraph (f) of Rule 19b-4 thereunder.¹⁵ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f).

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. Please include File Number SR-BATS-2015-35 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-2015-35. 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 also will be available for inspection and copying at the principal offices 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-2015-35, 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.¹⁶

Robert W. Errett
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).