

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77846; File No. SR-BatsBZX-2016-18)

May 17, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rules 15.1(a) and (c) in Order to Implement a Tape B Quoting Tier

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 May 11, 2016, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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

The Exchange filed a proposal to amend the fee schedule applicable to Members³ and non-members of the Exchange pursuant to BZX Rules 15.1(a) and (c) in order to implement a Tape B Quoting Tier.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A Member is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

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 to adopt a new Tape B Quoting Tier in order to strengthen market quality in LMP Securities⁴ and ETPs⁵ more broadly, by providing an enhanced rebate in Tape B⁶ securities to Members that meet certain minimum quoting standards in at least 50 LMP Securities. In particular, the Exchange proposes to adopt the new Tape B Quoting Tier under which all Members would be eligible to receive an additional \$0.0001 for each share of added displayed liquidity in all Tape B securities if the Member is

⁴ As proposed, LMP Securities means a list of securities included in the Liquidity Management Program, the universe of which will be determined by the Exchange and published in a circular distributed to Members and on the Exchange's website. Such LMP Securities will include all Bats-listed ETPs and certain non-Bats-listed ETPs for which the Exchange wants to incentivize Members to provide enhanced market quality.

⁵ For purposes of this filing, ETP means any security type defined in Exchange Rule 14.11.

⁶ Tape B securities includes all securities listed on the Exchange, NYSE Arca, Inc., and NYSE MKT LLC.

enrolled in at least 50 LMP Securities for which:⁷ (i) the Member's NBBO Time⁸ is at least 15% or NBBO Size Time⁹ is at least 25%; and (ii) the Member's Displayed Size Time¹⁰ is at least

⁷ As proposed, a Member must be enrolled in at least 50 LMP Securities for which the Member meets proposed requirements (i) and (ii), as measured on a security by security basis, in order to qualify for the Tape B Quoting Tier. Where a Member is enrolled in 50 or more LMP Securities, but only meets proposed requirements (i) and (ii) in 49 or fewer of those LMP Securities, the Member will not qualify for the Tape B Quoting Tier.

⁸ As proposed, NBBO Time means the average of the percentage of time during regular trading hours during which the Member maintains at least 100 shares at each of the NBB and NBO. As an example, where the Member maintains at least 100 shares at the NBB for 20% of the time during regular trading hours and at least 100 shares at the NBO for 10% of the time during regular trading hours, the Member's NBBO Time would be 15% $((.20 + .10)/2)$.

⁹ As proposed, NBBO Size Time means the percentage of time during regular trading hours during which there are size-setting quotes at the NBBO on the Exchange. Stated another way, where the Exchange has size-setting quotes at the each of the NBB and NBO for any amount of time equal to or greater than 25% of regular trading hours, the proposed NBBO Size Time threshold will be met. A quote is a size-setting quote where it is the largest quote at the NBB or NBO and remains a size-setting quote until and unless another quote is at a more aggressive price or at the same price with greater size. The Exchange notes that, unlike NBBO Time, which applies to a particular Member's quoting activity, NBBO Size Time is calculated based on all quoting activity on the Exchange. As an example, where the NBB is 10.00 as quoted by a single exchange with 500 shares and the Exchange then quotes 600 shares at 10.00, such quote is a size-setting quote until another exchange quotes 700 shares at 10.00 or quotes at a more aggressive price.

¹⁰ As proposed, Displayed Size Time means the percentage of time during regular trading hours during which the Member maintains at least 2,500 displayed shares on the bid and separately maintains at least 2,500 displayed shares on the offer that are priced no more than 2% away from the NBB and NBO, respectively. Stated another way, where the Member maintains at least 2,500 displayed shares at or within 2% of the NBB and NBO on each of the bid and the offer, respectively, for any amount of time equal to or greater than 90% of regular trading hours, the Member will meet the proposed threshold. The Exchange notes that any displayed shares priced at or within 2% of the NBB or NBO (e.g. at multiple price levels) will be counted toward the 2,500 share requirement. As an example, where the NBBO is \$10.00 by \$10.01 all bid shares with a limit equal to or greater than \$9.80 will be counted and any offer shares with a limit equal to or less than \$10.21 will be counted. Where the Member maintains at least 2,500 displayed shares at or within those thresholds on each of the bid and the offer for any amount of time equal to or greater than 90% of regular trading hours, the Member will meet the proposed threshold.

90%. As proposed, the Exchange will publish and update periodically via circular a list of LMP Securities in which all Members will be eligible to enroll.¹¹ All Members will be eligible to enroll in LMP Securities, there will be no limit to the number of LMP Securities in which a Member may enroll, and there will be no limit to the number of Members that can enroll in each LMP Security.¹² All Members enrolled in LMP Securities will be eligible for the additional rebate where the Member meets the Tape B Quoting Tier requirements.

In addition to the changes proposed above, the Exchange proposes to relocate the term “Qualified LMM” within the list of Definitions to its proper alphabetical placement.

Implementation Date

The Exchange proposes to implement these amendments to its fee schedule effective June 1, 2016.

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.¹³ Specifically, the

¹¹ The Exchange anticipates that the initial list of LMP Securities will include at least 175 ETPs, at least 80 of which will be Bats-listed securities. A current list of LMP Securities will be available on www.batstrading.com, which will be updated as new securities are added to the list of LMP Securities. A direct link to the list of LMP Securities will be included in the circular described above. All Bats-listed securities will be LMP Securities immediately upon listing on the Exchange. The Exchange will not remove a security from the list of LMP Securities without 30 days prior notice provided via circular.

¹² After executing a form notifying the Exchange of its intent to enroll in LMP Securities, a Member is eligible to enroll in LMP Securities daily through the Exchange’s website. There is no approval or disapproval process associated with enrollment and execution of the form is solely for administrative purposes. All Members will be eligible to enroll in all LMP Securities after executing the form.

¹³ 15 U.S.C. 78f.

Exchange believes that the proposed rule change is consistent with Section 6(b)(4) and 6(b)(5) of the Act,¹⁴ in that it provides for the equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities. The proposed rule change reflects a competitive pricing structure designed to incent market participants to direct their order flow to the Exchange and enhance market quality in LMP Securities and in Tape B securities. The Exchange believes that the proposed tier is equitable and non-discriminatory in that it would apply uniformly to all Members, any Member may enroll in any LMP Security, and enrollment is a purely administrative process. 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 at a particular venue to be excessive.

The Exchange believes that the proposed new tier is reasonable in that it will enhance market quality on the Exchange in two ways: (i) by incentivizing Members to meet certain quoting standards in LMP Securities designed to narrow spreads, increase size at the inside, and increase liquidity depth on the Exchange in such LMP Securities; and (ii) providing an additional rebate for all of a qualifying Member's orders that add liquidity in Tape B securities will incentivize Members to increase their participation on the Exchange in Tape B securities. The Exchange believes that the proposed quoting standards are reasonable because the NBBO Time and NBBO Size Time will either act to add additional liquidity at the NBBO in the LMP Securities or ensure that there is already significant size-setting quote activity on the Exchange in the LMP Securities and the Displayed Size Time will act to increase the depth of the market within 2% of the NBB and NBO for the vast majority of the trading day. The Exchange believes that such incentives will promote price discovery and market quality in such securities and,

¹⁴ 15 U.S.C. 78f(b)(4) and (5).

further, that the tightened spreads and increased liquidity from the proposal will benefit 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, enhancing quoting competition across exchanges, promoting market transparency, and improving investor protection. The Exchange also believes that including all Bats-listed ETPs as LMP Securities is equitable and not unfairly discriminatory because it will help to strengthen the Exchange's market quality for Bats-listed securities by enhancing the quality of quoting in such securities, which will further assist the Exchange in competing as a listing venue for issuers seeking to list ETPs. The Exchange also believes that including only certain non-Bats-listed ETPs as LMP Securities is equitable and not unfairly discriminatory because the Exchange has identified such non-Bats-listed ETPs as securities for which it would like to inject additional quoting competition, which it believes will generally act to narrow spreads, increase size at the inside, and increase liquidity depth in such securities. Accordingly, the Exchange believes that the proposal is reasonable, equitably allocated, and not unfairly discriminatory because it is consistent with the overall goals of enhancing market quality.

The Exchange notes that the proposed pricing structure is not dissimilar from volume-based rebates and fees ("Volume Tiers") that have been widely adopted by exchanges, including the Exchange, and are equitable and not unfairly discriminatory because they are open to all members on an equal basis and provide higher rebates and lower fees that are reasonably related to the value to an exchange's market quality. Much like Volume Tiers are generally designed to incentivize higher levels of liquidity provision and/or growth patterns on the Exchange, the proposal is designed to incentivize enhanced market quality on the Exchange through tighter spreads, greater size at the inside, and greater quoting depth in LMP Securities by offering an

enhanced rebate in Tape B securities. Such enhanced rebate will simultaneously incentivize higher levels of liquidity provision in all Tape B securities. Where the NBBO Size Time is at least 25%, there is no minimum NBBO Time standard applicable to the Member, however, the Exchange believes that this is reasonable because where the NBBO Size Time is already at least 25%, a Member meeting the NBBO Time standard will not significantly enhance market quality at the NBBO for the product on the Exchange. The Exchange also notes that the Member must still have a Displayed Size Time of at least 90% to receive the enhanced rebate. As such, the Exchange believes that the proposed enhanced rebate will strengthen the Exchange's market quality for LMP Securities by enhancing the quality of quoting in such securities, as well as enhancing market quality in Tape B securities generally. Accordingly, the Exchange believes that the proposal will act to enhance liquidity and competition across exchanges in LMP Securities and enhance liquidity provision in Tape B securities on the Exchange by providing a rebate reasonably related to such enhanced market quality to the benefit of all investors, thereby promoting the principles discussed in Section 6(b)(5) of the Act.¹⁵

The Exchange also believes that the clarifying change to alphabetize the Definitions section of the fee schedule is reasonable, fair and equitable and non-discriminatory because it is non-substantive and is designed to make sure that the fee schedule is as clear and easily understandable as possible.

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. The Exchange does not believe that the changes burden competition, but instead,

¹⁵ 15 U.S.C. 78f(b)(5).

enhance competition, as these changes are intended to increase the competitiveness of the Exchange as it is designed to draw additional volume to the Exchange. 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 deemed fee structures to be unreasonable or excessive. The proposed changes are generally intended to enhance the rebates in Tape B securities, which is intended to enhance market quality in LMP Securities and Tape B securities. As such, the proposal is a competitive proposal that is intended to add additional liquidity to the Exchange, which will, in turn, benefit the Exchange and all Exchange participants.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁶ and paragraph (f)(6) of Rule 19b-4 thereunder.¹⁷

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative before 30 days from the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁸ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest.

The Exchange has asked the Commission to waive the 30-day operative delay. The Exchange states that waiver of the 30-day operative delay will allow the Exchange to implement the proposal without delay on June 1, 2016, allowing market participants to potentially realize the benefits of the proposal. The Exchange further states that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest because it believes that the proposed rule change would promote enhanced market quality and serve as an additional safeguard against extreme price dislocation. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission hereby waives the 30-day operative delay and designates the proposed rule change to be operative upon filing with the Commission.¹⁹

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.

¹⁸ 17 CFR 240.19b-4(f)(6)(iii).

¹⁹ For purposes only of waiving the operative delay for this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-BatsBZX-2016-18 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-BatsBZX-2016-18. 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-BatsBZX-2016-18 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.²⁰

Robert W. Errett
Deputy Secretary

²⁰ 17 CFR 200.30-3(a)(12).