

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79496; File No. SR-BatsBZX-2016-83)

December 7, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use of the Exchange's Equity Options Platform

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 November 30, 2016, Bats BZX Exchange, Inc. (the "Exchange" or "BZX") filed with the Securities and Exchange Commission (the "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 BZX Rules 15.1(a) and (c).

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

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).

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 ("BZX Options") to reduce the rebates for: (i) fee code NF, which is appended to Firm⁶, Broker Dealer⁷, and Joint Back Office⁸ orders in Non-Penny Pilot Securities⁹; (ii) the Firm, Broker Dealer, and Joint Back Office Non-Penny Pilot Add Volume Tier 2 under footnote 8; (iii) fee code NN, which is appended to Away Market Maker¹⁰ orders which add liquidity in Non-Penny Pilot

⁶ The term "Firm" applies to any transaction identified by a Member for clearing in the Firm range at the OCC, excluding any Joint Back Office transaction.

⁷ The term "Broker Dealer" applies to any order for the account of a broker dealer, including a foreign broker dealer that clears in the Customer range at the OCC.

⁸ The term "Joint Back Office" applies to any transaction identified by a Member for clearing in the Firm range at the OCC that is identified with an origin code as Joint Back Office. A Joint Back Office participant is a Member that maintains a Joint Back Office arrangement with a clearing broker-dealer.

⁹ The term "Non-Penny Pilot Security" applies to those issues that are quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

¹⁰ The term "Away Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is not registered with the Exchange as a Market Maker, but is registered as a market maker on another options exchange.

Securities; and (iv) the Away Market Maker Non-Penny Pilot Add Volume Tier 1 under footnote 11. Additionally, the Exchange proposes to modify the required criteria for the: (i) NBBO Setter Tier 5 under footnote 4; and (ii) Firm, Broker Dealer, and Joint Back Office Non-Penny Pilot Add Volume Tier 3 under footnote 8 and increase the tier's rebate. Lastly, the Exchange proposes to modify the fee codes that may qualify for the additional rebates provided by the NBBO Setter Tiers 1 through 4 under footnote 4.

Fee Code NF

The Exchange proposes to reduce the rebate for fee code NF, under which a Member currently receives a rebate of \$0.36 per contract for its Firm, Broker Dealer, and Joint Back Office orders in Non-Penny Pilot Securities that add liquidity. The Exchange proposes to reduce the rebate for fee code NF from \$0.36 per contract to \$0.30 per contract. The Exchange also proposes to update the Standard Rates table of the fee schedule to reflect the new rebate.

Fee Code NN

The Exchange proposes to reduce the rebate for fee code NN, under which a Member currently receives a rebate of \$0.36 per contract for its Away Market Maker orders in Non-Penny Pilot Securities that add liquidity. The Exchange proposes to reduce the rebate for fee code NN from \$0.36 per contract to \$0.30 per contract. The Exchange also proposes to update the Standard Rates table to reflect the new rebate.

Firm, Broker Dealer, and Joint Back Office Non-Penny Pilot Add Volume Tiers

Firm, Broker Dealer, and Joint Back Office orders that add liquidity on the Exchange in Non-Penny Pilot Securities yield fee code NF and currently receive a standard rebate of \$0.36

per contract.¹¹ In addition, footnote 8 of the fee schedule currently sets forth three different tiers, each providing an enhanced rebate ranging from \$0.45 to \$0.67 per contract to an order that yields fee code NF upon satisfying the monthly volume criteria required by the respective tier.

To qualify for tier 2 and receive a rebate of \$0.65 per contract, the Exchange requires a Member has an ADV¹² equal to or greater than 0.25% of average TCV¹³. The Exchange proposes to reduce the rebate provided in tier 2 from \$0.65 per contract to \$0.60 per contract. The Exchange also proposes to update the Standard Rate table to reflect the new rebate. The Exchange does not propose to amend tier 2's required criteria.

The Exchange proposes to increase the rebate and amend the required criteria for tier 3. To qualify for tier 3 and receive a rebate of \$0.67 per contract, the Exchange currently requires a Member to: (1) have an ADV equal to or greater than 0.40% of average TCV; and (2) have an ADAV¹⁴ in Away Market Maker, Firm, Broker Dealer, and Joint Back Office orders equal to or greater than 0.30% of average TCV. The Exchange proposes to increase the first prong of the tier's criteria to require a Member to have an ADV in equal to or greater than 1.75% of average TCV. In addition, the Exchange proposes to increase the second prong of the tier's criteria to require that a Member also have an ADAV in Away Market Maker, Firm, Broker Dealer, and Joint Back Office orders equal to or greater than 1.25% of average TCV. To reflect the proposed

¹¹ The Exchange proposes in this filing to reduce this rebate to \$0.30 per contact as of December 1, 2016.

¹² As set forth in the Exchange's fee schedule, "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day.

¹³ As set forth in the Exchange's fee schedule, "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

¹⁴ As set forth in the Exchange's fee schedule, "ADAV" means average daily volume calculated as the number of contracts added per day.

heightened criteria necessary to achieve tier 3, the Exchange proposes to increase the tier's rebate from \$0.67 per contract to \$0.69 per contract. The Exchange also proposes to update the Standard Rate table to reflect the new rebate.

Away Market Maker Non-Penny Pilot Add Volume Tiers

Away Market Maker orders that add liquidity on the Exchange in Non-Penny Pilot Securities yield fee code NN and currently receive a standard rebate of \$0.36 per contract. In addition, footnote 11 of the fee schedule currently sets forth two different tiers, which provide enhanced rebates of \$0.45 to \$0.52 per contract to orders that yield fee code NN upon satisfying monthly volume criteria required by the respective tier. To qualify for tier 1 and receive a rebate of \$0.45 per contract, the Exchange currently requires that a Member has an ADV equal to or greater than 0.30% of average TCV. The Exchange proposes to reduce the rebate provided in tier 1 from \$0.45 per contract to \$0.40 per contract. The Exchange also proposes to update the Standard Rate table to reflect the new rebate. The Exchange does not propose to amend tier 1's required criteria or to modify tier 2 under footnote 11.

NBBO Setter Tiers

The Exchange offers enhanced rebates under footnote 4 to incentivize aggressive quoting by Market Makers on BZX Options. Specifically, the Exchange offers 5 tiers NBBO Setter Tiers under footnote 4 that provide additional rebates ranging from of \$0.02 to \$0.05 per contract for Market Maker orders that add liquidity and establish a new NBBO (the "NBBO Setter Rebate").¹⁵

¹⁵ An order that is entered at a price that sets a new NBBO according to then current OPRA data will be determined to have set the NBBO for purposes of the NBBO Setter Rebate without regard to whether a more aggressive order is entered prior to the original order being executed.

First, the Exchange proposes to modify the fee codes that may qualify for the additional rebates provided by the NBBO Setter Tiers 1 through 4 under footnote 4. Currently, the additional rebates under tiers 1 through 4 are provided to orders that yield fee codes PF¹⁶, PM¹⁷, PN¹⁸, NF, NM¹⁹ or NN. Meanwhile, the additional rebate under tier 5 is provided to orders that yield fee codes PF, PM, and PN only. To align the fee codes that may qualify for the additional rebates provided under footnote 4, the Exchange proposes to no longer provide the additional rebates provided by tiers 1 through 4 to orders that yield fee codes NF, NM and NN. As amended, the additional rebates provided under tiers 1 through 5 of footnote 4 will be available to orders that yield fee codes PF, PM, and PN.

Second, the Exchange proposes to amend the required criteria for tier 5 of the NBBO Setter Tier under footnote 4. To qualify for tier 5 and receive an additional rebate of \$0.05 per contract, the Exchange currently requires that a Member has an: (1) ADAV in Non-Customer²⁰ orders equal to or greater than 1.00% of average TCV; and (2) ADV in Non-Customer orders equal to or greater than 1.80% of average TCV. The Exchange proposes to increase the first prong of the tier's criteria to require that a Member has an ADAV in Non-Customer orders equal to or greater than 2.30% of average TCV. As a result of increasing this threshold, the Exchange

¹⁶ Fee code "PF" is appended to Firm, Broker Dealer, and Joint Back Office orders which add liquidity in Penny Pilot options.

¹⁷ Fee code "PM" is appended to Market Maker orders which add liquidity in Penny Pilot options.

¹⁸ Fee code "PN" is appended to Away Market Maker orders which add liquidity in Penny Pilot options.

¹⁹ Fee code "NM" is appended to Market Maker orders which add liquidity in Non-Penny Pilot options.

²⁰ The term "Non-Customer" applies to any transaction which is not identified by a Member for clearing in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a "Professional" as defined in Exchange Rule 16.1.

proposes to remove the second prong of the tier's criteria and, therefore, no longer require Members to also have an ADV in Non-Customer orders equal to or greater than 1.80% of average TCV to achieve the tier.

Implementation Date

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

2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with the objectives of Section 6 of the Act,²¹ in general, and furthers the objectives of Section 6(b)(4),²² 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 proposed rule changes reflect a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange. The Exchange believes that the proposed tier is equitable and non-discriminatory in that it would apply uniformly to all Members. The Exchange believes the rates remain competitive with those charged by other venues and, therefore, are reasonable and equitably allocated to Members.

Fee Codes NN and NF

The Exchange believes that its proposal to reduce the rebates provided by fee codes NN and NF is equitable and reasonable because, while the changes mark a decrease in the rebates for orders that yield fee codes NN or NF, such proposed rebates remain consistent with pricing

²¹ 15 U.S.C. 78f.

²² 15 U.S.C. 78f(b)(4).

previously offered by the Exchange as well as competitors of the Exchange²³ and does not represent a significant departure from the Exchange's general pricing structure and will allow the Exchange to earn additional revenue that can be used to offset the addition of new pricing incentives. Lastly, the proposed changes to fee codes NN and NF are not unfairly discriminatory because they will apply equally to all Members.

Volume Based Tier Modifications

The Exchange believes that the proposed modifications to the tiered pricing structure 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. The proposed fee structure remains intended to attract order flow to the Exchange by offering market participants a competitive pricing structure. The Exchange believes it is reasonable to offer and incrementally modify incentives intended to help to contribute to the growth of the Exchange.

Volume-based rebates such as that proposed herein have been widely adopted by exchanges, including the Exchange, 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: (i) the

²³ The Exchange offers a rebate of \$0.36 for Away Market Maker orders which add liquidity in Non-Penny Pilot options, appended with fee code NN. The Nasdaq Stock Market LLC ("Nasdaq") charges a fee of \$0.45 for non-NOM Market Makers orders which add liquidity in non-penny pilot securities.

The Exchange offers a rebate of \$0.36 for Firm, Broker Dealer, and Joint Back Office orders which add liquidity in Non-Penny Pilot options, appended with fee code NF. Nasdaq charges a fee of \$0.45 for Firm and Broker Dealer orders which add liquidity in Non-Penny Pilot options. See the Nasdaq fee schedule [available at <http://www.nasdaqtrader.com/Micro.aspx?id=OptionsPricing>](http://www.nasdaqtrader.com/Micro.aspx?id=OptionsPricing). NYSE Arca, Inc. ("NYSE Arca") charges a fee of \$0.50 for Firm and Broker Dealer orders which add liquidity in Non-Penny Pilot options. See the NYSE Arca fee schedule [available at \[https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf\]\(https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf\)](https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf).

value to an exchange's market quality; (ii) associated higher levels of market activity, such as higher levels of liquidity provisions and/or growth patterns; and (iii) introduction of higher volumes of orders into the price and volume discovery processes.

The proposed modifications proposed herein are also intended to incentivize additional Members to send orders to the Exchange in an effort to qualify for the enhanced rebate made available by the tiers. The Exchange believes the proposed change to each tier's criteria is consistent with the Act.

Firm, Broker Dealer, and Joint Back Office Non-Penny Pilot Add Volume Tier 2 and 3.

As explained above, the Exchange is proposing various slight increases to fees as well as decreases in rebates in order to contribute to the overall profitability of the Exchange. The Exchange believes that its proposal to reduce the rebate in tier 2 and increase the rebate in tier 3 under the Firm, Broker Dealer, and Joint Back Office Non-Penny Pilot Add Volume Tiers in footnote 8 is equitable and reasonable as these changes represent a relatively modest adjustment in rates, which is necessary to fund the continued growth of the Exchange. For the same reason, the Exchange believes that the modest corresponding increase to the required criteria threshold for tier 3 is reasonable, fair and equitable and non-discriminatory, specifically because such increase is designed to incentivize participants to further contribute to market quality to the Exchange and the Exchange will be providing a higher enhanced rebates to participants who qualify. The Exchange also believes that the proposed fees and rebates remain consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and do not represent a significant departure from the Exchange's general pricing structure.

Away Market Maker Non-Penny Pilot Add Volume Tier 1. The Exchange believes that its proposal to reduce the rebate provided for Away Market Maker Non-Penny Pilot Add Volume

Tier 1 under footnote 11 is reasonable, fair and equitable because the reduced rebate is consistent with similar pricing currently offered by the Exchange. Specifically, tier 1 under footnote 10 and tier 1 under footnote 11 have identical required criteria (i.e. the Member must have an ADV equal to or greater than 0.30% of average TCV) while providing different rebates (i.e., \$0.40 per contract under tier 1 of footnote 10 and \$0.45 per contract under tier 1 of footnote 11). Reducing the rebate under tier 1 of footnote 11 would result in the rebate provided for under both tier to be the same. 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. The proposed decreased rebate will allow the Exchange to earn additional revenue that can be used to offset the addition of new pricing incentives. The Exchange also believes the proposed change is not unfairly discriminatory because it will apply equally to all participants.

NBBO Setter Tier 5. The Exchange believes that its proposal to modify the required criteria for the NBBO Setter Tier 5 under footnote 4 is reasonable, fair and equitable because raising the threshold under prong 1 of the required criteria in conjunction with removing the additional requirement under prong 2 results in a similar, but simplified tier requirement which better corresponds to the tier's corresponding rebate. The proposed modifications to tier 5 are also reasonable when compared to the criteria and rebates provided by tier 1 through 4 under footnote 5 [sic]. These modifications also do not mark a significant departure from the Exchange's other NBBO Setter Tiers under footnote 5 [sic], which also generally require a Member satisfy a single criteria. The Exchange also believes the proposed change is not unfairly discriminatory because it will apply equally to all participants.

NBBO Setter Tiers Applicable Fee Codes.

The Exchange believes that the proposed modifications to the applicable fee codes of the NBBO Setter Tiers are reasonable, fair and equitable. The Exchange believes it is reasonable, fair and equitable to limit the NBBO Setter Tiers' applicability to orders yielding fee codes applicable to Penny Pilot Securities (thus excluding Non-Penny Pilot Securities) and to orders on behalf of participants that are most likely to actively engage in providing liquidity on the Exchange (thus excluding Customers and Professional Customers).²⁴ Offering the additional rebates under NBBO Setter Tiers 1 through 4 was not providing the desired result of incentivizing Members to enter orders in Non-Penny Pilot securities that established a new NBBO. Therefore, removing fee codes NF, NM and NN from the NBBO Setter Tier's applicability will have a negligible effect on order flow and market behavior. The Exchange believes it is reasonable to continue to incrementally modify the volume based incentives to help to contribute to the growth of the Exchange. The Exchange also believes the proposed change is not unfairly discriminatory because it will apply equally to all participants.

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

The Exchange believes the proposed amendment 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. 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

²⁴ The Exchange notes that when it adopted Tier 5, it limited its applicability to fee codes NF, NM and NN [sic], as it believed those were the fee codes most likely to benefit from the tier's rebate. See Securities Exchange Act Release No. 76130 (October 13, 2015), 80 FR 63257 (October 19 2015) (SR-BATS-2015-85).

competitive standing in the financial markets. The Exchange does not believe that the proposed change to the Exchange's tiered pricing structure burdens competition, but instead, enhances competition as it is intended to increase the competitiveness of the Exchange. The Exchange also believes the proposal enhances competition by seeking to draw additional volume to BZX Options. Therefore, the Exchange believes that the amendment to the tiers' thresholds as proposed herein, contributes to, rather than burdens competition, as such change is intended to incentivize 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 Act²⁵ and paragraph (f) of Rule 19b-4 thereunder.²⁶ 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:

²⁵ 15 U.S.C. 78s(b)(3)(A).

²⁶ 17 CFR 240.19b-4(f).

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-2016-83 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-BatsBZX-2016-83. 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 the 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-BatsBZX-2016-83 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.²⁷

Eduardo A. Aleman
Assistant Secretary

²⁷ 17 CFR 200.30-3(a)(12).