

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80012; File No. SR-BatsBZX-2017-12)

February 10, 2017

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees as they Relate to the Equities Options Platform

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 1, 2017, 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 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 BZX Rules 15.1(a) and (c) applicable to its equity options platform (“BZX Options”).

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.bats.com](http://www.bats.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the BZX Options fee schedule to: (i) modify the definitions of fee codes RQ and RR to include routing to MIAX Pearl LLC ("MIAX PEARL") and to increase the fee for fee code RR; (ii) reduce the required criteria for the Market Maker Non-Penny Pilot Add Volume Tier 3 under footnote 7; and (iii) remove all fees for Mini Options.

Modifications to Fee Codes RQ and RR to Include Routing to MIAX PEARL

The Exchange's current approach to routing fees is to set forth in a simple manner certain sub-categories of fees that approximate the cost of routing to other options exchanges based on the cost of transaction fees assessed by each venue as well as costs to the Exchange for routing (i.e., clearing fees, connectivity and other infrastructure costs, membership fees, etc.) (collectively, "Routing Costs"). The Exchange then monitors the fees charged as compared to the costs of its routing services and adjusts its routing fees and/or sub-categories to ensure that

the Exchange's fees do indeed result in a rough approximation of overall Routing Costs, and are not significantly higher or lower in any area.

First, the Exchange proposes to modify the description of fee codes RQ and RR in connection with the upcoming launch of MIAX PEARL. Currently, fee code RR is appended to Customer<sup>6</sup> orders in non-Penny Pilot securities that are routed to ARCA, C2, ISE, ISE Gemini or NOM and assessed a fee of \$1.00 per contract. Additionally, fee code RQ is appended to Customer orders in Penny Pilot securities that are routed to ARCA, C2, ISE, ISE Gemini or NOM and assessed a fee of \$0.70 per contract. The Exchange proposes to modify the definitions of fee codes RR and RQ to include MIAX Pearl.

Second, the Exchange proposes to increase the fee for fee code RR from \$1.00 per contract to \$1.10 per contract to account for the cost of routing to MIAX Pearl. The Exchange does not propose to amend the fee for fee code RQ. The Exchange anticipates that the proposed fee structure will approximate the cost of routing orders to MIAX Pearl. The Exchange is proposing the charges set forth above to maintain a simple and fair fee schedule with respect to routing fees that approximate the total cost of routing, including Routing Costs.

#### Market Maker Non-Penny Pilot Add Volume Tier 3

The Exchange determines the liquidity adding rebate that it will offer Members using a tiered pricing structure. Currently, the Exchange offers rebates ranging from \$0.45 and \$0.65 per share for Market Maker<sup>7</sup> orders that add volume in non-Penny Pilot securities under three tiers described in footnote 7 of the fee schedule. To receive Tier 3's rebate of \$0.65 per share, a

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<sup>6</sup> As defined in the Exchange's fee schedule available at [http://www.bats.com/us/options/membership/fee\\_schedule/bzx/](http://www.bats.com/us/options/membership/fee_schedule/bzx/).

<sup>7</sup> Id.

Member must have: (i) an ADAV<sup>8</sup> in Market Maker non-Penny Pilot Securities equal to or greater than 0.20% of average OCV<sup>9</sup>; and (ii) an ADAV in Non-Customer orders equal to or greater than 3.00% of average OCV. The Exchange now proposes to reduce the first prong of Tier 3's required criteria to require that a Member have an ADAV in Market Maker Non-Penny Pilot orders of at least 0.10% of average OCV, rather than 0.20% of average OCV. The Exchange does not proposed to amend the second prong of Tier 3's required criteria or the rebate associated with the tier.

#### Elimination of References to Mini Options

Mini Options<sup>10</sup> on SPDR S&P 500 ("SPY"), Apple Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Alphabet Inc. ("GOOGL"), and Amazon.com Inc. ("AMZN") listed and traded on BZX Options expired in January 2017 and no other series of Mini Options currently trade nor will any new series of Mini Options be trading on BZX Options. As a result, the Exchange proposes to delete all fees for Mini Options from its fee schedule by deleting fee codes DM,<sup>11</sup>

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<sup>8</sup> Id.

<sup>9</sup> Id.

<sup>10</sup> After an option class on a stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security with a 100 share deliverable has been approved for listing and trading on the Exchange, series of option contracts with a 10 share deliverable on that stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security may be listed for all expirations opened for trading on the Exchange. See Exchange Rule.19.6. Interpretations and Policies .07

<sup>11</sup> Fee code DM is appended to an order executed at a Member's directed destinations when bypassing the Bats Options order book, executed in Mini Options Securities, and is assessed a fee of \$0.15 per contract.

MA,<sup>12</sup> MR,<sup>13</sup> ZC,<sup>14</sup> and ZF<sup>15</sup> from the Fee Codes and Associate Fees table and updating the Standard Rates table to reflect the removal of these fee codes.

### Implementation Date

The Exchange proposes to implement the proposed rule change on February 1, 2017.<sup>16</sup>

### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>18</sup> 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 change reflects 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,

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<sup>12</sup> Fee code MA is appended to a Member's order which adds liquidity in Mini Options Securities, and is not assessed a fee.

<sup>13</sup> Fee code MR is appended to a Member's order which removes liquidity in Mini Options Securities, and is not assessed a fee.

<sup>14</sup> Fee code ZC is appended to a Member's routed Customer order in Mini Options Securities, and is assessed a fee of \$0.12.

<sup>15</sup> Fee code ZF is appended to a Member's routed Non-Customer order in Mini Options Securities, and is assessed a fee of \$0.12.

<sup>16</sup> The Exchange notes that the date of its fee schedule was previously amended to state February 1, 2017 in SR-BatsBZX-2017-02 (filed January 30, 2017).

<sup>17</sup> 15 U.S.C. 78f.

<sup>18</sup> 15 U.S.C. 78f(b)(4).

therefore, are reasonable and equitably allocated to Members.

#### Modifications to Fee Codes RQ and RR to Include Routing to MIAX PEARL

As explained above, the Exchange generally attempts to approximate the cost of routing to other options exchanges, including other applicable costs to the Exchange for routing. The Exchange believes its proposed fees are equitable and reasonable by taking into account Routing Costs based on the rates charged by MIAX PEARL. The Exchange believes that a pricing model based on approximate Routing Costs is a reasonable, fair and equitable approach to pricing. Specifically, the Exchange believes that its proposal to adopt routing fees to MIAX PEARL is fair, equitable and reasonable because the fees are generally an approximation of the anticipated cost to the Exchange for routing orders to MIAX PEARL. The Exchange notes that routing through the Exchange is voluntary. The Exchange also believes that the proposed fee structure for orders routed to and executed at MIAX PEARL is fair and equitable and not unreasonably discriminatory in that it applies equally to all Members.

#### Market Maker Non-Penny Pilot Add Volume Tier 3

The Exchange believes that the proposed rule change to modify the required criteria of the Market Maker Non-Penny Pilot Add Volume Tier 3 is consistent with Section 6(b)(4) of the Act,<sup>19</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. Volume-based rebates such as those currently maintained on the Exchange 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

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<sup>19</sup> 15 U.S.C. 78f(b)(4).

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. Decreasing the criteria is intended to incentivize additional Members to send orders to the Exchange in an effort to qualify for the enhanced rebate made available by the tier.

#### Elimination of References to Mini Options

The Exchange believes it is equitable, reasonable, and not unfairly discriminatory to delete fees for Mini Options from its fee schedule because the Mini Options listed and traded on BZX Options expired in January 2017 and no other series of Mini Options currently trade nor will any new series of Mini Options be trading on BZX Options. The Exchange believes that the proposed changes will make the fee schedule clearer and eliminate potential investor confusion, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and in general, protecting investors and the public interest.

#### 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. The Exchange believes the proposed routing fee will not impose an undue burden on competition because the Exchange will uniformly assess the routing fee on all Members. The Exchange does not believe that the proposed changes represent a significant departure from routing fees 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 or if they view the proposed fee as excessive. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets. The Exchange does not believe that the proposed 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. Further, excessive fees for participation would serve to impair an exchange's ability to compete for order flow and members rather than burdening competition. Lastly, the Exchange believes removing fees for Mini Options from its fee schedule will not have impact on competition as it is simply designed to eliminate potential investor confusion by eliminating fees for products no longer available 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 unsolicited 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>20</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>21</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f).



- 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-BatsBZX-2017-12 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-2017-12. 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-2017-12 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>22</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).