

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80205; File No. SR-BatsBZX-2017-17)

March 10, 2017

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

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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).

The text of the proposed rule change is available at the Exchange's website at [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 its fee schedule for its equity options platform ("BZX Options") to: (i) decrease the standard rebate provided by fee code PF; (ii) increase the standard fee assessed by fee code NP; (iii) increase the enhanced rebate provided in Firm, Broker Dealer and Joint Back Office Non-Penny Pilot Add Volume Tier 3, under footnote 8; (iv) increase the discounted fee provided in the Non-Customer<sup>6</sup> Non-Penny Pilot Take Volume Tier 1, under footnote 13; (v) eliminate the existing Non-Customer Non-Penny Pilot Take Volume Tier 2, under footnote 13; and (vi) increase the discounted fee provided in the Non-Customer Non-Penny Pilot Take Volume Tier 3 (to be re-numbered as Tier 2), under footnote 13.

Decrease the Standard Rebate Provided by Fee Code PF

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<sup>6</sup> "Non-Customer" applies to any transaction identified by a Member for clearing which is not in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a "Professional" as defined in Exchange Rule 16.1. See 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/).

Currently, fee code PF of the Exchange's fee schedule sets forth the standard rebate of \$0.36 per contract for Firm,<sup>7</sup> Broker Dealer,<sup>8</sup> and Joint Back Office<sup>9</sup> orders that add liquidity on the Exchange in Penny-Pilot securities. The Exchange now proposes to reduce this standard rebate to \$0.26 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect new standard rebate.

Increase the Standard Fee Assessed by Fee Code NP

Currently, fee code NP of the Exchange's fee schedule sets forth the standard fee of \$1.07 per contract for Non-Customer orders that remove liquidity on the Exchange in Non-Penny Pilot securities. The Exchange now proposes to increase this standard fee to \$1.10 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect new standard fee.

Increase the Enhanced Rebate Provided in Firm, Broker Dealer and Joint Back Office Non-Penny Pilot Add Volume Tier 3, Under Footnote 8

Firm, Broker Dealer and Joint Back Office orders that add liquidity in Non-Penny Pilot securities yield fee code NF and are provided a standard rebate of \$0.30 per contract. Footnote 8 of the fee schedule sets forth three tiers, each providing enhanced rebates between \$0.45 and \$0.69 per contract to a Member's order that yields fee code NF upon satisfying monthly volume criteria. Under Tier 3, qualifying Members earn a rebate per share of \$0.69 on Firm, Broker

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<sup>7</sup> "Firm" applies to any transaction identified by a Member for clearing in the Firm range at the OCC, excluding any Joint Back Office transaction. Id.

<sup>8</sup> "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 Options Clearing Corporation ("OCC"). Id.

<sup>9</sup> "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. Id.

Dealer and Joint Back Office orders that add liquidity in options in Non Penny Pilot securities. Currently, to qualify for this tier a Member must have: (i) an ADV<sup>10</sup> greater than or equal to 2.30% of average OCV;<sup>11</sup> and (ii) an ADAV<sup>12</sup> in Away Market Maker,<sup>13</sup> Firm, Broker Dealer and Joint Back Office orders greater than or equal to 1.65% of average OCV. The Exchange proposes to increase the enhanced rebate provided by Tier 3 to \$0.82 per contract. The Exchange also proposes to update the Standard Rates table accordingly to reflect this new enhanced rebate.

Modifications to Non-Customer Non-Penny Pilot Take Volume Tiers under Footnote 13

Non-Customer orders that yield fee code NP are charged a standard fee of \$1.07 per contract. Footnote 13 of the fee schedule sets forth three tiers, each providing reduced fees of either \$1.01 or \$1.02 per contract to a Member's order that yields fee code NP upon satisfying monthly volume criteria.

- Tier 1 offers a reduced fee of \$1.02 per share and currently requires that a Member has:
  - (i) an ADAV in Customer<sup>14</sup> orders greater than or equal to 0.80% of average OCV; (ii) an

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<sup>10</sup> “ADV” means average daily volume calculated as the number of contracts added or removed, combined, per day. Id.

<sup>11</sup> “OCV” means the total equity and ETF options volume that clears in the Customer range at the Options Clearing Corporation (“OCC”) 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. See 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>12</sup> “ADAV” means average daily added volume calculated as the number of contracts added per day. Id.

<sup>13</sup> “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. Id.

<sup>14</sup> “Customer” applies to any transaction 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. Id.

ADAV in Market Maker<sup>15</sup> orders greater than or equal to 0.35% of average OCV; and (iii) on the Exchange's equity securities platform ("BZX Equities") an ADAV greater than or equal to 0.30% of average TCV. As amended, Tier 1 will offer a reduced fee of \$1.04 per share. The Exchange does not propose to modify the required criteria for this Tier as part of this filing.

- Tier 2 offers a reduced fee of \$1.02 per share and currently requires that a Member has an ADAV in Customer orders greater than or equal to 1.30% of average OCV. The Exchange proposes to eliminate Tier 2.
- Tier 3 offers a reduced fee of \$1.01 per share and currently requires that a Member has an ADAV in Customer orders greater than or equal to 1.30% of average OCV. The Exchange proposes to re-number Tier 3 as Tier 2 based on the elimination of Tier 2 discussed above. Also, as amended, Tier 2 will offer a reduced fee of \$1.04 per share. The Exchange does not propose to modify the required criteria for this Tier as part of this filing.

#### Implementation Date

The Exchange proposes to implement the above changes to its fee schedule on March 1, 2017.<sup>16</sup>

#### 2. Statutory Basis

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<sup>15</sup> "Market Maker" applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37). See 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>16</sup> The Exchange notes that the date of its fee schedule was previously amended to state March 1, 2017 in SR-BatsBZX-2017-05. See Securities Exchange Act Release No. 79956 (February 3, 2017), 82 FR 10102 (February 9, 2017).

The Exchange believes that the proposed rule changes are 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 or incentives to be insufficient. The proposed rule changes reflect a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange.

#### Fee Codes PF and NP

The Exchange believes that its proposals to reduce the rebate provided by fee code PF and increase the fee provided by fee code NP are fair and equitable and reasonable because, such 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 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 PF and NP are not unfairly discriminatory because they will apply equally to all Members.

#### Modifications to the Volume Discount Tier Rebates and Required Criteria

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 or incentives provided to be insufficient. The proposed fee structure remains intended to attract order flow to the Exchange

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

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

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 pricing 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 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 or reduced fee made available by the tiers, in turn contributing to the growth of the Exchange. Thus, the Exchange believes that the proposed modifications to the tiered pricing structure is a reasonable, fair and equitable, and not an unfairly discriminatory allocation of fees and rebates, because it will provide Members with an incentive to reach certain thresholds on the Exchange by contributing a meaningful amount of order flow to the Exchange. The Exchange believes the proposed change to each tier's criteria is consistent with the Act.

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 competitive standing in the financial markets. The Exchange does not believe that the proposed change to the Exchange's standard fees, rebates and tiered pricing structure burdens competition, but instead, enhances competition as it is intended to increase the competitiveness of 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 Act<sup>19</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>20</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>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</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-2017-17 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-2017-17. 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-2017-17 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>21</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).