

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87960; File No. SR-CboeBYX-2020-001)

January 14, 2020

Self-Regulatory Organizations; Cboe BYX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend its Fee Schedule

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 January 2, 2020, Cboe BYX Exchange, Inc. (the “Exchange” or “BYX”) filed with the Securities and Exchange Commission (the “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

Cboe BYX Exchange, Inc. (the “Exchange” or “BYX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend its fee schedule. The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website ([http://markets.cboe.com/us/equities/regulation/rule\\_filings/byx/](http://markets.cboe.com/us/equities/regulation/rule_filings/byx/)), at the Exchange’s Office of the Secretary, 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

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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 aspects 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 amend the rate for liquidity adding orders that yield fee code “MM”.<sup>3</sup> Additionally, the Exchange proposes to remove Non-Displayed Liquidity Incentives and replace them with Step-Up Tiers.

The Exchange first 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. More specifically, the Exchange is only one of 13 registered equities exchanges, as well as a number of alternative trading systems and other off-exchange venues that do not have similar self-regulatory responsibilities under the Exchange Act, to which market participants may direct their order flow. Based on publicly available information,<sup>4</sup> no single registered equities exchange has more than 16% of the market share. Thus, in such a low-concentrated and highly competitive market, no single equities exchange possesses significant pricing power in the execution of order flow.

The Exchange in particular operates a “Taker-Maker” model whereby it pays credits to Members that remove liquidity and assesses fees to those that add liquidity. The Exchange’s Fee Schedule sets forth the standard rebates and rates applied per share for orders that remove and

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<sup>3</sup> “MM” is appended to non-displayed orders that add liquidity using Mid-Point Peg.

<sup>4</sup> See Cboe Global Markets, U.S. Equities Market Volume Summary (December 26, 2019), available at [https://markets.cboe.com/us/equities/market\\_statistics/](https://markets.cboe.com/us/equities/market_statistics/).

provide liquidity, respectively. Particularly, for securities at or above \$1.00, the Exchange provides a standard rebate of \$0.0005 per share for orders that remove liquidity and assesses a fee of \$0.0019 per share for orders that add liquidity. The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow, or discontinue to reduce use of certain categories of products, in response to fee changes. Accordingly, competitive forces constrain the Exchange's transaction fees, and market participants can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable.

Proposed Change to Replace Non-Displayed Liquidity Incentives with Step-Up Tiers

In response to the competitive environment, the Exchange offers tiered pricing which provides Members opportunities to qualify for higher rebates or reduced fees where certain volume criteria and thresholds are met. Tiered pricing provides incremental incentives for Members to strive for higher or different tier levels by offering increasingly higher discounts or enhanced benefits for satisfying increasingly more stringent criteria or different criteria. For example, pursuant to footnote 2 of the Fee Schedule, the Exchange currently offers a Mid-Point Peg Tier that provides Members with a reduced fee of \$0.0005 for liquidity adding orders that yield fee code "MM", which generally has a fee of \$0.0010. To qualify for the Mid-Point Peg Tier, a Member must have an ADAV<sup>5</sup> of greater than or equal to 0.30% of the TCV.<sup>6</sup> Also pursuant to footnote 2 of the Fee Schedule, the Exchange offers a Non-Displayed Volume Tier that provides Members with a reduced fee of \$0.0004 for liquidity adding orders that yield fee

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<sup>5</sup> ADAV means average daily volume calculated as the number of shares added per day. ADAV is calculated on a monthly basis.

<sup>6</sup> TCV means total consolidated volume calculated as the volume reported by all exchanges and trade reporting facilities to a consolidated transaction reporting plan for the month for which the fees apply.

code “HA”,<sup>7</sup> which generally has a fee of \$0.00240, or “MM”, which as noted above generally has a fee of \$0.0010. To qualify for the Non-Displayed Volume Tier, a Member must have an ADAV of greater than or equal to 0.075% of the TCV as Non-Displayed Orders that yield fee codes “HA”, “HI”,<sup>8</sup> or “MM”. The aforementioned Non-Displayed Liquidity Incentives are designed to encourage Members that provide non-displayed liquidity adding orders on the Exchange to increase their order flow, thereby contributing to a deeper and more liquid market to the benefit of all market participants.

The Exchange now proposes to remove the existing tiers related to Non-Displayed Liquidity Incentives on the Exchange, and to instead offer “Step-Up Tiers”. Specifically, the Exchange proposes to remove the Mid-Point Peg Tier and Non-Displayed Volume Tier described above. In place of the existing Non-Displayed Liquidity Incentives, the Exchange proposes to offer Step-Up Tiers that will provide Members an opportunity to receive a discounted rate from the standard fee assessment for displayed liquidity adding orders that yield fee codes “B”,<sup>9</sup> “V”,<sup>10</sup> or “Y”.<sup>11</sup> The Exchange proposes criteria under Tier 1 of the Step-Up Tiers that would offer a reduced fee of \$0.0016 for liquidity adding orders that yield fee code “B”, “V”, or “Y”, which generally have a fee of \$0.0019. To qualify for proposed Tier 1, the Member must have a “Step-Up Add TCV” from December 2019 of greater than or equal to 0.05%. The Exchange proposes to add a definition of “Step-Up Add TCV” to the Fee Schedule

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<sup>7</sup> “HA” is appended to non-displayed orders that add liquidity.

<sup>8</sup> “HI” is appended to non-displayed orders that receive price improvement and add liquidity.

<sup>9</sup> “B” is appended to displayed orders that add liquidity to BYX (Tape B).

<sup>10</sup> “V” is appended to displayed orders that add liquidity to BYX (Tape A).

<sup>11</sup> “Y” is appended to displayed order that add liquidity to BYX (Tape C).

which would mean ADAV as a percentage of TCV in the relevant baseline month subtracted from current ADAV as a percentage of TCV. The Exchange notes that this definition is consistent with the definitions in the Fees Schedules of the Exchange’s affiliated exchanges.<sup>12</sup>

The proposed Tier 1 under the Step-Up Tiers is designed to provide Members that submit displayed liquidity on the Exchange a further incentive to contribute to a deeper, more liquid market, in turn, providing additional execution opportunities at transparent prices as a result of such increased, displayed liquidity. Further, while the Exchange proposes to eliminate the Non-Displayed Liquidity Incentives, as discussed in further detail below, the Exchange also proposes to reduce the current fee assessed to non-displayed liquidity adding orders yielding fee code “MM”. Therefore, the Exchange will offer similarly reduced fees to orders yielding fee code “MM” under the proposed amendment as currently offered to such orders under the Non-Displayed Liquidity Incentives. The Exchange believes that this benefits all Members by enhancing overall market quality and contributing towards a robust and well-balanced market ecosystem. The Exchange notes the proposed tier is available to all Members and is competitively achievable for all Members that submit displayed order flow, in that, all firms that submit the requisite displayed order flow could compete to meet the tier.

#### Proposed Change to Fee Code “MM”

As stated above, the Exchange currently charges fees for liquidity adding orders that yield fee code “MM” of \$0.0010 in securities priced at or above \$1.00. Orders yielding fee code “MM” in securities priced below \$1.00 are not assessed a fee. The Exchange now proposes to reduce the current fee of \$0.0010 per share to \$0.0005 per share for orders yielding fee code

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<sup>12</sup> See Cboe BZX U.S. Equities Exchange Fee Schedule, Definitions; Cboe EDGX U.S. Equities Exchange Fee Schedule, Definitions.

“MM” in securities priced at or above \$1.00. Orders yield fee code “MM” in securities priced below \$1.00 would continue to be free. As the proposed fee for orders yielding fee code “MM” is lower than the current fee for such orders, the Exchange believes the proposed amendment will encourage Members to increase their liquidity on the Exchange. Further, as “MM” orders would no longer be able to receive reduced fees under the Non-Displayed Liquidity Incentives, the proposed fee change to the “MM” fee code would offer another means for such orders to receive a similar fee reduction that would require no minimum ADAV. Therefore, “MM” orders would be eligible to receive a reduced fee of \$0.0005 on a less stringent basis.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>13</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>14</sup> in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and issuers 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 change reflects a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange, which the Exchange believes would enhance market quality to the benefit of all Members.

The Exchange 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 change reflects a competitive

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<sup>13</sup> 15 U.S.C. 78f.

<sup>14</sup> 15 U.S.C. 78f(b)(4).

pricing structure designed to incentivize market participants to direct their order flow to the Exchange, which the Exchange believes would enhance market quality to the benefit of all Members.

In particular, the Exchange believes the proposed amendment to replace the Non-Displayed Liquidity Incentives with Step-Up Tiers is reasonable because it provides an additional opportunity for Members to receive a discounted fee by means of liquidity-adding displayed orders. The Exchange notes that relative volume-based incentives and discounts have been widely adopted by other exchanges,<sup>15</sup> and are reasonable, equitable and non-discriminatory 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 of an exchange's market quality and (ii) associated higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns. Additionally, as noted above, the Exchange operates in a highly competitive market. The Exchange is only one of several equity venues to which market participants may direct their order flow, and it represents a small percentage of the overall market. It is also only one of several taker-maker exchanges. Competing equity exchanges offer similar tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume and/or growth thresholds. These competing pricing schedules, moreover, are presently comparable to those that the Exchange provides, including the pricing of comparable tiers.<sup>16</sup>

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<sup>15</sup> See, e.g., Cboe BZX Equities Exchange Fee Schedule, Footnote 2, Step-Up Tiers, Tier 1, which offers an enhanced rebate for certain volume-adding orders; see also NYSE Arca Equities, Fees and Charges, Step Up Tiers.

<sup>16</sup> See e.g., NYSE Arca Equities, Fees and Charges, Step Up Tiers which offers rebates between \$0.0022 - \$0.0034 per share if the corresponding required criteria per tier is met. NYSE Arca Equities' Step Up Tiers similarly require Members to increase their relative liquidity each month over a predetermined baseline.

Moreover, the Exchange believes the proposed Step-Up Tier is a reasonable means to encourage Members to increase their overall displayed order flow to the Exchange based on increasing their daily total added volume (ADAV) above a percentage of the total volume (TCV). Particularly, the Exchange believes that adopting a Step-Up Tier based on a Member's displayed adding orders will encourage displayed liquidity providing Members to provide for a deeper, more liquid market, and, as a result, increased execution opportunities at improved price levels and, thus, overall order flow. The Exchange believes that these increases will benefit all Members by contributing towards a robust and well-balanced market ecosystem. Increased overall order flow benefits all investors by deepening the Exchange's liquidity pool, providing greater execution incentives and opportunities, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. The proposed discount (i.e. fee reduction) per share amount also does not represent a significant departure from the rebates currently offered, or required criteria, under the Exchange's existing tiers. For example, the fee assessed under the existing Mid-Point Peg Tier, for which, as stated, a Member must have a daily volume add (ADAV) of 0.30% or greater than the TCV, is \$0.0005 per share. In other words, under this tier, Members receive a \$0.0005 "discount" from the standard \$0.0010 assessed fee for orders yielding fee code "MM". Orders yielding fee code "B", "V", and "Y" generally have a fee of \$0.00190, and therefore the proposed discount offered under Tier 1 (i.e., \$0.0016) is comparable to the discount currently offered under the Mid-Point Peg Tier.

The Exchange believes that the proposal represents an equitable allocation of fees and is not unfairly discriminatory because all Members are eligible for the proposed Step-Up Tiers, and would have the opportunity to meet the Tier 1 criteria and receive the proposed fee reduction if



such criteria is met. The proposed tier is designed as an incentive to any and all Members interested in meeting the tier criteria to submit additional displayed order flow to achieve the proposed discount. Without having a view of activity on other markets and off-exchange venues, the Exchange has no way of knowing whether this proposed rule change would definitely result in any Members qualifying for this tier. While the Exchange has no way of predicting with certainty how the proposed tier will impact Member activity, the Exchange anticipates that at up to ten Members will be able to compete for and reach the proposed tier. The Exchange anticipates that these will include multiple Member types, including liquidity providers and broker-dealers, each providing distinct types of order flow to the Exchange to the benefit of all market participants. For example, broker-dealer customer order flow provides more trading opportunities, which attracts Market Makers. Increased Market Maker activity facilitates tighter spreads, which potentially increases order flow from other market participants. The Exchange also notes that the proposed tier will not adversely impact any Member's pricing or their ability to qualify for other rebate tiers. Rather, should a Member not meet the proposed criteria, the Member will merely not receive a reduced fee. Furthermore, the proposed fee would uniformly apply to all Members that meet the required criteria under proposed Step-Up Tiers.

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 intramarket or intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, as discussed above, the Exchange believes that the proposed change would encourage the submission of additional displayed order flow to a public exchange, thereby promoting market depth, execution incentives and enhanced execution opportunities, as well as price discovery and transparency for all Members. As a result, the Exchange believes that the proposed change furthers the Commission's goal in adopting Regulation NMS of fostering

competition among orders, which promotes “more efficient pricing of individual stocks for all types of orders, large and small.”<sup>17</sup>

The Exchange believes the proposed rule change does not impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. Particularly, the proposed change applies to all Members equally in that all Members are eligible for the proposed tier, have a reasonable opportunity to meet the tier’s criteria and will all receive the proposed fee rate if such criteria is met. Additionally the proposed change is designed to attract additional order flow to the Exchange. The Exchange believes that the modified tier criteria would incentivize market participants to direct displayed liquidity and, as a result, executable order flow and improved price transparency, to the Exchange. Greater overall order flow and pricing transparency benefits all market participants on the Exchange by providing more trading opportunities, enhancing market quality, and continuing to encourage Members to send orders, thereby contributing towards a robust and well-balanced market ecosystem, which benefits all market participants.

Next, the Exchange believes the proposed rule change does not impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. As previously discussed, the Exchange operates in a highly competitive market. Members have numerous alternative venues that they may participate on and direct their order flow, including other equities exchanges and off-exchange venues and alternative trading systems. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no single equities exchange has more than 16% of the market

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<sup>17</sup> Securities Exchange Act Release No. 51808, 70 FR 37495, 37498-99 (June 29, 2005) (S7-10-04) (Final Rule).

share.<sup>18</sup> Therefore, no exchange possesses significant pricing power in the execution of order flow. Indeed, participants can readily choose to send their orders to other exchange and off-exchange venues if they deem fee levels at those other venues to be more favorable. Moreover, the Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”<sup>19</sup> The fact that this market is competitive has also long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’ ....”<sup>20</sup> Accordingly, the Exchange does not believe its proposed fee change imposes any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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<sup>18</sup> See *supra* note 5 [sic].

<sup>19</sup> See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

<sup>20</sup> *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

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 is effective upon filing pursuant to Section 19(b)(3)(A)<sup>21</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>22</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such 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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>23</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

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

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<sup>21</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>22</sup> 17 CFR 240.19b-4(f)(2).

<sup>23</sup> 15 U.S.C. 78s(b)(2)(B).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-CboeBYX-2020-001 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549-1090.

All submissions should refer to File No. SR-CboeBYX-2020-001. 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, D.C. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File No. SR-CboeBYX-2020-001, 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>24</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>24</sup> 17 CFR 200.30-3(a)(12).