

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82409; File No. SR-IEX-2017-43)

December 27, 2017

Self-Regulatory Organizations; Investors Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to the Displayed Match Fee

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”),² and Rule 19b-4 thereunder,³ notice is hereby given that on December 14, 2017, the Investors Exchange LLC (“IEX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. 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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”),⁴ and Rule 19b-4 thereunder,⁵ Investors Exchange LLC (“IEX” or “Exchange”) is filing with the Commission a proposed rule change to modify its Fee Schedule, pursuant to IEX Rule 15.110(a) and (c), to: (i) to increase the fee for orders that provide or take resting interest with displayed priority (i.e., displayed liquidity) during continuous trading, (ii) eliminate the exception to the Non-Displayed Match Fee for taking non-displayed liquidity with a displayable order for Members that predominantly provide displayed liquidity (iii) increase the fee for orders displayed on the Continuous Book that execute as part of the Opening Process for Non-IEX-

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ 15 U.S.C. 78s(b)(1).

⁵ 17 CFR 240.19b-4.

Listed Securities (the “Opening Process”) while continuing to provide such orders free execution in the Opening and Closing Auction when IEX begins to list securities as a primary listing exchange, and (iv) make two nonsubstantive clarifying changes to its Fee Schedule. Changes to the Fee Schedule pursuant to this proposal are effective upon filing, and will be operative on January 1, 2018. The text of the proposed rule change is available at the Exchange’s website at www.iextrading.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 self-regulatory organization 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 statement may be examined at the places specified in Item IV below. The self-regulatory organization 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 modify its Fee Schedule, pursuant to IEX Rule 15.110(a) and (c), to (i) to increase the fee for orders that provide or take displayed liquidity during continuous trading, (ii) eliminate the exception to the Non-Displayed Match Fee for taking non-displayed liquidity with a displayable order for Members that predominantly provide displayed liquidity, (iii) increase the fee for orders displayed on the Continuous Book that execute as part of the Opening Process while continuing to provide such orders free execution in the Opening and

Closing Auction when IEX begins to list securities as a primary listing exchange, and (iv) make two nonsubstantive clarifying changes to its Fee Schedule.

Displayed Match Fee

Pursuant to the existing Fee Schedule, the Exchange currently does not charge any fee to Members for executions on IEX that provide or take displayed liquidity (i.e., an order or portion of a reserve order that is booked and ranked with display priority on the Order Book⁶ either as the IEX best bid or best offer (“BBO”), or at a less aggressive price). This pricing is referred to by the Exchange as the “Displayed Match Fee”, resulting in a Fee Code of ‘L’ provided by the Exchange on execution reports to Members.⁷ The Exchange proposes to update its Fee Schedule, pursuant to IEX Rule 15.110(a) and (c), to (i) increase the Displayed Match Fee from \$0 to \$0.0003 for securities with an execution price at or above \$1.00, or 0.30% of the total dollar value of the transaction for securities with an execution price below \$1.00, calculated as the execution price multiplied by the number of shares executed in the transaction.

The current Displayed Match Fee of \$0 was adopted in connection with IEX’s launch as a national securities exchange in August 2016, and was designed to attract displayed order flow to the Exchange, without offering rebates, thereby contributing to price discovery and consistent with the overall goal of enhancing market quality. The Exchange periodically assesses its fee structure. Based upon a recent assessment, the Exchange determined that the modest proposed fee increase for the Displayed Match Fee would continue to attract and incentivize displayed order flow in a comparable manner, while also increasing revenue.

The Exchange is not proposing any change to the Internalization Fee whereby no fee is charged for executions when the adding and removing order originated from the same Exchange

⁶ See Rule 1.160(p).

⁷ See the [Investors Exchange Fee Schedule](#), available on the Exchange’s public website.

Member. Accordingly, transactions that qualify for the Internalization Fee will not be charged the Displayed Match Fee, since the IEX Fee Schedule provides that to the extent a Member receives multiple Fee Codes on an execution, the lower fee shall apply.⁸

Non-Displayed Match Fee

The Exchange currently charges the Non-Displayed Match Fee of \$0.0009 per share (or 0.30% of the total dollar value of the transaction for securities with an execution price below \$1.00) to Members for executions on IEX that provide or take non-displayed liquidity (*i.e.*, an order or portion of a reserve order that is booked and ranked with non-display priority on the Order Book either at the NBBO midpoint or at a less aggressive price on the Order Book),⁹ with the exception of (i) executions on the Exchange where the adding and removing order originated from the same Exchange Member and (ii) executions on IEX that involve taking resting interest with non-displayed priority where (a) the liquidity removing order was displayable (*i.e.*, the order would have booked and displayed if posted to the Order Book) and (b) on a monthly basis, at least 90% of the liquidity removing Member's aggregate executions of displayable orders added liquidity during such calendar month (*i.e.*, the "90% display exception").¹⁰ The Exchange is proposing to eliminate the 90% display exception. As explained in IEX's rule change adopting the 90% display exception to the Non-Displayed Match Fee, the flexibility was designed to address limited inadvertent liquidity removal by Members who are largely adding displayed liquidity and generally intend to add displayed liquidity on IEX, to further encourage

⁸ Id.

⁹ Id.

¹⁰ However, in such transactions, the non-displayed liquidity adding interest is subject to the Non-Displayed Match Fee.

aggressively priced displayed orders.¹¹ However, the Exchange believes that the 90% display exception has had limited success in encouraging aggressively priced displayed orders on the Exchange, and has resulted in relatively small credits to Members. During September, October, and November of 2017, no more than 31 Members (of 159 total Members) qualified for the 90% display exception through one or more MPID's during any month. The credits ranged from \$0.03 to \$9,195 with 47% (on average) of the credits under \$100.

Further the 90% display exception introduces certain technical complexities for IEX that are associated with processing the 90% display exception at the end of the month, as well as for Members with respect to forecasting fees due to the Exchange. Specifically, the Exchange's current billing processes account for the 90% display exception at the end of the trading month by processing each MPID's eligible trading activity to determine the number of shares, if any, that are eligible for free execution under the 90% display exception. The Exchange believes the computational components of the 90% display exception are not inherently complex; however, accounting for the 90% display exception along with other conditional fees that are processed at the end of the trading month (e.g., the Crumbling Quote Remove Fee), raises unnecessary technical complexities considering the fees limited practical utility. Moreover, the Exchange believes that removing the 90% display exception will provide Members more clarity regarding the fees assessed for executions on the Exchange, because Members will not need to account for the 90% display exception when calculating the fees due to the Exchange, and will instead know with certainty that executions that receive Fee Code 'I' in isolation will be subject to the Non-Displayed Match Fee. Accordingly, the Exchange proposes to eliminate the exception. The Exchange thus proposes to delete the single asterisked footnote to the Fee Schedule to delete the

¹¹ See Securities Exchange Act Release No. 78550 (August 11, 2016), 81 FR 54873 (August 17, 2016) (SR-IEX-2016-09).

reference and description of the 90% display exception, and to adjust the footnote references that follow accordingly.

Auction and Opening Process Fee

The Exchange Fee Schedule currently provides that displayed orders resting on the Continuous Book that execute in the Opening Auction, Closing Auction, or the Opening Process are not charged a fee (i.e., are free).¹² IEX proposes to retain the free pricing for displayed orders resting on the Continuous Book that execute in the Opening or Closing Auction, but to increase the fee for displayed orders resting on the Continuous Book that execute in the Opening Process to align with the proposed Displayed Match Fee. The Exchange believes that the Opening and Closing Auctions will provide a critical price discovery mechanism that establishes the IEX Official Opening and Closing Prices, respectively, for IEX-listed securities. It is generally the data point most closely scrutinized by investors, securities analysts, and the financial media, and is used to value and assess management fees on mutual funds, hedge funds, and individual investor portfolios. The Exchange further believes that displayed liquidity is an important part of the Opening and Closing Auction price discovery process. Therefore, in order to incentivize market participants to display quotations on the Exchange leading into the Opening and Closing Auctions to support the price formation process, the Exchange is proposing to not charge a fee for displayed interest resting on the Continuous Book that executes as part of the Opening or Closing Auction. In contrast, the Opening Process for Non-Listed Securities is not designed to be a price discovery mechanism and accordingly the Exchange does not believe that a free pricing incentive is appropriate.

¹² See supra note 7 [sic].

Clarifying Changes

The Exchange is proposing to make two nonsubstantive changes to its Fee Schedule to clarify the fees assessed on certain orders that receive multiple Fee Codes. First, the Exchange proposes to reorder the asterisked footnotes to account for the elimination of the 90% display exception. Secondly, the Exchange proposes to amend the triple asterisked footnote and add a new sentence to the quadruple asterisked footnote to clarify the Fee Codes provided for orders that execute in the Opening Process and in the Opening or Closing Auctions. As proposed, the triple asterisked footnote provides that, for orders that execute in the Opening Process, non-displayed orders will receive a Fee Code of X rather than I, and executions that receive a Fee Code of XL are assessed the Displayed Match Fee. The current quadruple asterisked footnote provides that, for orders that execute in the Opening Auction or Closing Auction, non-displayed orders will receive a Fee Code of O or C, respectively, rather than I, and orders that were displayed on the Continuous Book prior to the Opening or Closing Auction will receive a Fee Code of L, in addition to O or C, respectively (i.e., such orders will receive Fee Codes OL or CL, respectively). The proposed new sentence to the quadruple asterisked footnote further provides that executions in the Opening or Closing Auction that receive a Fee Code of OL or CL, respectively, are free. While the third bullet in the Transaction Fees section of the Fee Schedule currently specifies that, except for the Crumbling Quote Remove Fee Code of Q, to the extent a Member receives multiple Fee Codes on an execution, the lower fee shall apply, the Exchange believes that the proposed changes will provide additional clarity to Members with respect to how multiple Fee Codes on an execution apply.

2. Statutory Basis

IEX believes that the proposed rule change is consistent with the provisions of Section 6(b)¹³ of the Act in general, and furthers the objectives of Sections 6(b)(4)¹⁴ of the Act, in particular, in that 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 believes that the proposed fee change is reasonable, fair and equitable, and non-discriminatory. 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.

As proposed, the modest increase to the Displayed Match Fee remains intended to attract displayed order flow to the Exchange by offering a pricing incentive to send IEX aggressively priced displayable orders, without offering rebates, thereby contributing to price discovery and consistent with the overall goal of enhancing market quality. The Exchange does not believe that the proposed change represents a significant departure from pricing currently offered by the Exchange.

Specifically, the Displayed Match Fee will continue to be less than the Non-Displayed Match Fee and substantially lower than the fee to add displayed liquidity on an exchange with a “taker-maker” fee structure (i.e., that charges liquidity providers) and to take displayed liquidity on an exchange with a “maker-taker” fee structure (i.e., that charges liquidity takers).¹⁵ In

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(4).

¹⁵ For example, the New York Stock Exchange (“NYSE”) trading fee schedule on its public website reflects fees to “take” liquidity ranging from \$0.0024 - \$0.0030 depending on the type of market participant, order and execution. Additionally, NYSE fees to “add” liquidity range from \$0.0018-\$0.0030 per share for shares executed in continuous trading. (See, <https://www.nyse.com/markets/nyse/trading-info/fees>). The Nasdaq Stock Market

addition, the Exchange believes that it continues to be reasonable, equitable and not unfairly discriminatory to charge the Displayed Match Fee to both the liquidity adder and remover because it is designed to facilitate execution of, and enhance trading opportunities for, displayable orders, thereby further incentivizing entry of displayed orders.

The Exchange also believes that it is reasonable, fair and equitable, and non-discriminatory to charge the increased Displayed Match Fee for displayed interest resting on the Continuous Book that executes as part of the Opening Process. As discussed in the Purpose Section, the Opening Process is not designed to be a price discovery mechanism and accordingly the Exchange believes that the same factors that support increasing the Displayed Match Fee also support increasing the fee for such orders.

The Exchange further believes that it is reasonable, fair and equitable, and non-discriminatory to continue to not charge a fee for displayed interest resting on the Continuous Book that executes as part of the Opening or Closing Auction. As discussed in the Purpose section, the Opening and Closing Auctions provide a critical price discovery mechanism that establishes the IEX Official Opening and Closing Prices, respectively, for IEX-listed securities, and displayed liquidity is an important part of the Opening and Closing Auction price discovery

(“Nasdaq”) trading fee schedule on its public website reflects fees to “remove” liquidity ranging from \$0.0025-\$0.0030 per share for shares executed in continuous trading at or above \$1.00 or 0.30% of total dollar volume for shares executed below \$1.00. Additionally, Nasdaq fees for “adding” liquidity range from \$0.0001-\$0.00305 per share for shares executed in continuous trading. (See, <http://nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>). The Cboe BZX Exchange (“Cboe BZX”) trading fee schedule on its public website reflects fees for “removing” liquidity ranging from \$0.0025-\$0.0030, for shares executed in continuous trading at or above \$1.00 or 0.30% of total dollar volume for shares executed below \$1.00. Additionally, Cboe BZX fees for “adding” liquidity ranging from \$0.0020-\$0.0045 per share for shares executed in continuous trading. (See, https://www.batstrading.com/support/fee_schedule/bzx/).

process. Therefore, the Exchange believes that a fee incentive is appropriate in order to incentivize market participants to display quotations on the Exchange leading into the Opening and Closing Auctions. The Exchange notes that Cboe BZX Exchange, Inc. (“BZX”) does not charge a fee for continuous book orders that execute in an opening or closing auction in a BZX-listed security, notwithstanding that it charges various fees for other orders that execute in such auctions.¹⁶

Additionally, the Exchange believes that it is reasonable, fair and equitable, and non-discriminatory to continue to charge the Internalization Fee rather than the Displayed Match Fee for executions on IEX that provide or take resting interest with displayed priority when the adding and removing order originated from the same Exchange Member. IEX believes that the same factors that support not charging fees for such transactions, as described in its rule filing adopting this fee structure, continue to be relevant.¹⁷ Specifically, not charging a fee is designed to incentivize Members (and their customers) to send orders to IEX that may otherwise be internalized off exchange, with the goal of increasing order interaction on IEX. Internalization on IEX is not guaranteed, and the additional order flow that does not internalize is available to trade by all Members.

The Exchange also believes that it is reasonable, fair and equitable, and non-discriminatory to eliminate the 90% display exception, based on its limited practical utility and the technical complexities that are associated with processing the exception, as described in the Purpose section. Moreover, the Exchange believes that removing the 90% display exception is reasonable because it will provide Members more clarity regarding the fees assessed for

¹⁶ See Cboe BZX U.S. Equities Exchange Fee Schedule available at: http://markets.cboe.com/us/equities/membership/fee_schedule/bzx/.

¹⁷ See supra note 11 [sic].

executions on the Exchange, because Members will not need to account for the 90% display exception when calculating the fees due to the Exchange, and will instead know with certainty that executions that receive Fee Code 'I' in isolation will be subject to the Non-Displayed Match Fee.

Additionally, the Exchange believes that the proposed nonsubstantive clarifying changes to the Fee Schedule are reasonable, fair and equitable, and non-discriminatory because they will provide additional clarity to Members with respect to how multiple Fee Codes on an execution apply, thereby eliminating any potential confusion.

Finally, the Exchange believes that the proposed fees are nondiscriminatory because they will apply uniformly to all Members.

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

IEX 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. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a highly competitive market in which market participants can readily favor competing venues if fee schedules at other venues are viewed as more favorable. Consequently, the Exchange believes that the degree to which IEX fees could impose any burden on competition is extremely limited, and does not believe that such fees would burden competition between Members or competing venues in a manner that is not necessary or appropriate in furtherance of the purposes of the Act. Moreover, as noted in the Statutory Basis section, the Exchange does not believe that the proposed changes represent a significant departure from its current fee structure.

The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act because, while different fees are assessed in some circumstances, these different fees are not based on the type of Member entering the orders that match but on the type of order entered and all Members can submit any type of order. Further, the proposed fee changes continue to be intended to encourage market participants to bring increased order flow to the Exchange, which benefits all market participants.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

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)(ii)¹⁸ of the Act.

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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)¹⁹ of the Act to determine whether the proposed rule change should be approved or disapproved.

¹⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁹ 15 U.S.C. 78s(b)(2)(B).

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-IEX-2017-43 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-IEX-2017-43. 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.

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 Number SR-IEX-2017-43 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

Brent J. Fields
Secretary

²⁰ 17 CFR 200.30-3(a)(12).