

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78535; File No. SR-BatsEDGX-2016-42)

August 10, 2016

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees

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 August 5, 2016, Bats EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 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 EDGX Rules 15.1(a) and (c).

The text of the proposed rule change is available at the Exchange’s website at [www.batstrading.com](http://www.batstrading.com), at the principal office of the Exchange, and at the Commission’s Public

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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).

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its fee schedule to: (i) adopt a new tier called the Cross-Asset Tier under footnote 1; and (ii) modify the billing policy for the logical port fees.

Logical Port Fees

The Exchange proposes to amend its fee schedule to modify the billing policy for the logical port fees. The Exchange currently charges for logical ports (including Multicast PITCH Spin Server and GRP ports) \$500 per port per month. A logical port represents a port established by the Exchange within the Exchange's system for trading and billing purposes. Each logical port established is specific to a Member or non-Member and grants that Member or non-Member the ability to operate a specific application, such as FIX order entry or PITCH data receipt. The Exchange's Multicast PITCH data feed is available from two primary feeds, identified as the "A feed" and the "C feed", which contain the same information but differ only in the way such feeds are received. The Exchange also offers two redundant feeds, identified as the "B feed" and the "D feed". Logical port fees are limited to logical ports in the Exchange's primary data center

and no logical port fees are assessed for redundant secondary data center ports. The Exchange assesses the monthly per logical port fees to all Member's and non-Member's logical ports.

The Exchange proposes to clarify within its fee schedule how monthly fees for logical ports may be pro-rated. As proposed, new requests will be pro-rated for the first month of service. Cancellation requests are billed in full month increments as firms are required to pay for the service for the remainder of the month, unless the session is terminated within the first month of service.

#### Proposed Cross-Asset Tier

The Exchange determines the liquidity adding rebate that it will provide to Members using the Exchange's tiered pricing structure. Currently, the Exchange provides various rebates under Footnote 1 of the fee schedule for a Member dependent on the Member's ADV<sup>6</sup> as a percentage of the TCV<sup>7</sup> for orders that yield fee codes B, V, Y, 3, 4 and ZA. The Exchange currently has eight Add Volume Tiers. Under such pricing structure, a Member will receive a rebate of anywhere between \$0.0025 and \$0.0033 per share executed, depending on the volume tier for which such Member qualifies.

The Exchange now proposes to amend the Add Volume Tiers to adopt a new tier called the Cross-Asset Tier. Under the proposed tier, a Member would receive an enhanced rebate of \$0.0028 per share where that: (i) Member has on the Exchange's equity options trading platform ("EDGX Options") an ADV<sup>8</sup> in Firm<sup>9</sup> orders equal to or greater than 0.10% of average TCV;

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<sup>6</sup> As defined in the Exchange's fee schedule available at [http://batstrading.com/support/fee\\_schedule/edgx/](http://batstrading.com/support/fee_schedule/edgx/).

<sup>7</sup> Id.

<sup>8</sup> As defined in the EDGX Options' fee schedule available at [http://www.batsoptions.com/support/fee\\_schedule/edgx/](http://www.batsoptions.com/support/fee_schedule/edgx/).

<sup>9</sup> Id.

and (2) Member has an ADAV<sup>10</sup> equal to or greater than 0.12% of average TCV. To accommodate this proposed change in its fee schedule, the Exchange proposes adding an additional row to the Add Volume Tier table under footnote 1 to list the Cross-Asset Tier. The Exchange proposes no changes to the criteria for the existing Add Volume Tiers.

In connection with adopting the above tier, the Exchange proposes to incorporate a definition of ADAV within the definition of ADV in its fee schedule.<sup>11</sup> ADAV would be defined as the average daily added volume calculated as the number of shares added per day. Like ADV, ADAV would be calculated on a monthly basis. Also like ADV, the Exchange will exclude from its calculation of ADAV shares added, removed, or routed on any day that the Exchange's system experiences a disruption that lasts for more than 60 minutes during Regular Trading Hours ("Exchange System Disruption"), on any day with a scheduled early market close, and on the last Friday in June (the "Russell Reconstitution Day"). Lastly, with prior notice to the Exchange, a Member may aggregate ADAV with other Members that control, are controlled by, or are under common control with such Member (as evidenced on such Member's Form BD) just like it may for ADV today.

#### Implementation Date

The Exchange proposes to implement this amendment to its fee schedule effective immediately.<sup>12</sup>

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<sup>10</sup> As defined in the Exchange's fee schedule available at [http://batstrading.com/support/fee\\_schedule/edgx/](http://batstrading.com/support/fee_schedule/edgx/).

<sup>11</sup> The proposed definition of ADAV is substantially similar and functionally identical to the definition of ADAV included in the EDGX Options fee schedule. See the EDGX Options' fee schedule available at [http://www.batsoptions.com/support/fee\\_schedule/edgx/](http://www.batsoptions.com/support/fee_schedule/edgx/).

<sup>12</sup> The Exchange initially filed the proposed fee change on July 29, 2016 (SR-BatsEDGX-2016-38). On August 5, 2016, the Exchange withdrew SR-BatsEDGX-2016-38 and

## 2. Statutory Basis

### Logical Port Fee

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>13</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>14</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. The proposed rule change seeks to provide clarity to subscribers regarding the Exchange's pro-rata billing policy for logical ports by describing how logical port fees may be pro-rated for a new request and upon cancellation. The Exchange believes that the proposed pro-rata billing of fees for logical ports is equitable and reasonable in that it is similar to how port fees are pro-rated by the Nasdaq Stock Market LLC ("Nasdaq").<sup>15</sup>

The Exchange operates in a highly competitive market in which exchanges offer connectivity services as a means to facilitate the trading activities of members and other participants. Accordingly, fees charged for connectivity are constrained by the active competition for the order flow of such participants as well as demand for market data from the Exchange. If a particular exchange charges excessive fees for connectivity, affected members

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submitted this filing.

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

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

<sup>15</sup> See Nasdaq Price List – Trade Connectivity available at <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2#connectivity>. The Exchange notes that, unlike as proposed by the Exchange, Nasdaq does not pro-rate where the session is terminated within the first month of service

will opt to terminate their connectivity arrangements with that exchange, and adopt a possible range of alternative strategies, including routing to the applicable exchange through another participant or market center or taking that exchange's data indirectly. Accordingly, an exchange charging excessive fees would stand to lose not only connectivity revenues, but also revenues associated with the execution of orders routed to it by affected members, and, to the extent applicable, market data revenues. The Exchange believes that this competitive dynamic imposes powerful restraints on the ability of any exchange to charge unreasonable and unequitable fees for connectivity.

#### Cross-Asset Tier

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>16</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>17</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 changes reflect a competitive pricing structure designed to incent market participants to direct their order flow to the Exchange. The Exchange believes that the proposed amendments to the Add Volume Tier are equitable and non-discriminatory in they would apply uniformly to all Members. The Exchange believes the rate remains competitive with those charged by other venues and is, therefore, reasonable.

Volume-based rebates such as that proposed herein have been widely adopted by

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<sup>16</sup> 15 U.S.C. 78f.

<sup>17</sup> 15 U.S.C. 78f(b)(4).

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 provision and/or growth patterns; and (iii) introduction of higher volumes of orders into the price and volume discovery processes. The Exchange believes that the proposal is a reasonable, fair and equitable, and not unfairly discriminatory allocation of fees and rebates because it will provide Members with an additional incentive to reach certain thresholds on the Exchange.

In particular, the Exchange believes the addition of the proposed Cross-Asset Tier is a reasonable means to encourage Members to increase the liquidity they provide on the Exchange. The addition of the tier merely incentivizes a Member to provide even greater liquidity. Currently, the Exchange's incentives to add such liquidity are separated by asset class. The proposed Cross-Asset Tier will incentivize Members to provide liquidity in two asset classes, both in EDGX equities and EDGX Options. The Exchange further believes that the amendment to the Add Volume Tiers represents an equitable allocation of reasonable dues, fees, and other charges because the thresholds necessary to achieve the tier continue to encourage Members to add displayed liquidity to the EDGX Book<sup>18</sup> and the EDGX Options Book<sup>19</sup> each month. The increased liquidity benefits all investors by deepening EDGX's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection.

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<sup>18</sup> The EDGX Book is the System's electronic file of orders. See Exchange Rule 1.5(d).

<sup>19</sup> The EDGX Options Book is the electronic book of options orders maintained by the Trading System. See Exchange Rule 16.1(a)(9).

Such pricing programs thereby reward a Member's growth pattern on the Exchange and such increased volume increases potential revenue to the Exchange, and will allow the Exchange to continue to provide and potentially expand the incentive programs operated by the Exchange. To the extent a Member participates on the Exchange but not on EDGX Options, the Exchange does believe that the proposal is still reasonable, equitably allocated and non-discriminatory with respect to such Member based on the overall benefit to the Exchange resulting from the success of EDGX Options. As noted above, such success allows the Exchange to continue to provide and potentially expand its existing incentive programs to the benefit of all participants on the Exchange, whether they participate on EDGX Options or not. The proposed pricing program is also fair and equitable in that membership in EDGX Options is available to all market participants which would provide them with access to the benefits on EDGX Options provided by the proposed changes, as described above, even where a member of EDGX Options is not necessarily eligible for the proposed increased rebates on the Exchange. Further, the proposed changes will result in Members receiving either the same or an increased rebate than they would currently receive.

Lastly, the Exchange believes the proposed definition of ADAV is also consistent with the Act as it is substantially similar and functionally identical to the definition of ADAV included in the EDGX Options fee schedule.<sup>20</sup>

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

The Exchange does not believe its proposed amendment to its fee schedule would 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

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<sup>20</sup> See the EDGX Options' fee schedule available at [http://www.batsoptions.com/support/fee\\_schedule/edgx/](http://www.batsoptions.com/support/fee_schedule/edgx/).



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. The Exchange does not believe that the proposed additional tier would burden competition, but instead, enhances competition, as it is intended to increase the competitiveness of and draw additional volume to the Exchange. The Exchange does not believe the amended tier would burden intramarket competition as it would apply to all Members uniformly. 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.

With regard to the proposed logical port fee amendment, the Exchange believes that fees for connectivity are constrained by the robust competition for order flow among exchanges and non-exchange markets. Further, excessive fees for connectivity, including logical port fees, would serve to impair an exchange's ability to compete for order flow rather than burdening competition. The Exchange also does not believe the proposed rule change would impact intramarket competition as it would apply to all Members and non-Members equally.

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>21</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>22</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:

- 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-BatsEDGX-2016-42 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-BatsEDGX-2016-42. 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

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

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

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-BatsEDGX-2016-42, 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>23</sup>

Robert W. Errett  
Deputy Secretary

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<sup>23</sup> 17 CFR 200.30-3(a)(12).