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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78453; File No. SR-BatsBZX-2016-42)

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Options Regulatory Fee

August 1, 2016

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 July 20, 2016, 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.batstrading.com](http://www.batstrading.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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to modify the fee schedule applicable to the Exchange's options platform ("BZX Options") to amend the rate of its ORF as well as to expand its application to non-Members. Currently, the Exchange charges an ORF in the amount of \$0.0010 per contract side. The Exchange proposes to decrease the amount of ORF to \$0.0008 per contract side.

Currently, the per-contract ORF is assessed by the Exchange to each Member for all options transactions executed and cleared, or simply cleared, by the Member, that are cleared by OCC in the "customer" range, regardless of the exchange on which the transaction occurs. The ORF is collected indirectly from Members through their clearing firms by OCC on behalf of the Exchange. The ORF is also charged for transactions that are not executed by a Member but are ultimately cleared by a Member. Thus, in the case where a non-Member executes a transaction and a Member clears the transaction, the ORF is assessed to the Member who clears the

transaction. Similarly, in the case where a Member executes a transaction and another Member clears the transaction, the ORF is assessed to the Member who clears the transaction.

The Exchange now proposes to expand the application of ORF to options transactions executed or cleared by non-Members in the “customer” range. As proposed, the ORF will be assessed by BZX Options to each Member and non-Member for all options transactions cleared by OCC in the “customer” range, regardless of the exchange on which the transaction occurs. Like for Members, the ORF will be collected indirectly from non-Members through their clearing firms by OCC on behalf of BZX Options.

The Exchange believes it is appropriate to charge the ORF to transactions by non-Members that clear as customer at the OCC, irrespective of where the transactions takes place. Many of the Exchange’s surveillance programs for customer trading activity require the Exchange to look at activity across all options markets, such as surveillances for position limit violations, manipulation, insider trading, front-running and contrary exercise advice violations/expiring exercise declarations. Accordingly, there is a strong nexus between the ORF and the Exchange’s regulatory activities with respect to its Members’, as well as non-Members’, customer trading activity. These activities span across multiple exchanges.

In addition to its own surveillance programs, the Exchange works with other SROs and exchanges on intermarket surveillance related issues. Through its participation in the Intermarket Surveillance Group (“ISG”),<sup>6</sup> the Exchange shares information and coordinates inquiries and investigations with other exchanges designed to address potential intermarket manipulation and trading abuses. Also, the Exchange and the other options exchanges are

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<sup>6</sup> ISG is an industry organization formed in 1983 to coordinate intermarket surveillance among the SROs by co-operatively sharing regulatory information pursuant to a written agreement between the parties. The goal of the ISG’s information sharing is to coordinate regulatory efforts to address potential intermarket trading abuses and manipulations.

required to populate a consolidated options audit trail (“COATS”)<sup>7</sup> system in order to surveil trading activities across markets.

The Exchange proposes to assess ORF monthly based on information received from the OCC regarding transactions that cleared in the customer range. Notably, the Exchange believes that this will help to alleviate confusion or even potential double-billing of customer transactions. In particular, by billing all customer transactions on a monthly basis the Exchange will be able to capture transactions that may have been executed on the Exchange that were submitted for clearing by a Member but then “flipped” to the account of a non-Member. Thus, the Exchange believes that charging the ORF to Members and non-Members across all markets will avoid having non-Members clear their trades through non-Members in order to avoid the fee and to thereby avoid paying for their fair share for regulation. If the ORF did not apply to activity across markets then a non-Member would send their orders to the least cost, least regulated exchange. In addition, applying the fee to all Members’ and non-Members’ activity across all market will avoid options participants from terminating their membership status on or not becoming a Members of certain exchanges simply to avoid being assessed ORF.

As discussed above, the ORF is designed to recover a material portion of the costs to the Exchange of the supervision and regulation of Members’ and non-Member’s customer options business, including performing routine surveillances and investigations, as well as policy, rulemaking, interpretive and enforcement activities. The Exchange believes that revenue generated from the ORF, when combined with all of the Exchange’s other regulatory fees and fines, will continue to cover a material portion, but not all, of the Exchange’s regulatory costs.<sup>8</sup>

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<sup>7</sup> COATS effectively enhances intermarket options surveillance by enabling the options exchanges to reconstruct the market promptly to effectively surveil certain rules.

<sup>8</sup> The Exchange notes that its regulatory responsibilities with respect to compliance with

The Exchange will continue to monitor the amount of revenue collected from the ORF to ensure that it, in combination with its other regulatory fees and fines, does not exceed the Exchange's total regulatory costs. The Exchange expects to monitor its regulatory costs and revenues at a minimum on a semi-annual basis. If the Exchange determines regulatory revenues exceed or are insufficient to cover a material portion of its regulatory costs, the Exchange will adjust the ORF by submitting a fee change filing to the Commission. The Exchange will continue to notify Members and non-Members of adjustments to the ORF at least 30 calendar days prior to the effective date of the change.<sup>9</sup>

#### Implementation Date

The Exchange proposes to implement changes to the ORF on August 1, 2016.

#### 2. Statutory Basis

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>10</sup> Specifically, the Exchange believes that the proposed rule change is consistent with section 6(b)(4) of the Act,<sup>11</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

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options sales practice rules has been allocated to the Financial Industry Regulatory Authority, Inc. ("FINRA") under a 17d-2 Agreement. The ORF is not designed to cover the cost of options sales practice regulation.

<sup>9</sup> The Exchange announced its intent to charge an ORF on June 30, 2016. See Bats Options Exchange Regulatory Fee Schedule Update Effective August 1, 2016 available at: [http://cdn.batstrading.com/resources/fee\\_schedule/2016/Bats-Options-Exchange-Regulatory-Fee-Schedule-Update-Effective-August-1-2016.pdf](http://cdn.batstrading.com/resources/fee_schedule/2016/Bats-Options-Exchange-Regulatory-Fee-Schedule-Update-Effective-August-1-2016.pdf).

<sup>10</sup> 15 U.S.C. 78f.

<sup>11</sup> 15 U.S.C. 78f(b)(4).

controls. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues or providers of routing services if they deem fee levels to be excessive.

The Exchange believes the decreased ORF is equitable and not unfairly discriminatory because it would be objectively allocated to Members and non-Members in that it would be charged to all Members and non-Members on all their transactions that clear as customer transactions at the OCC. In addition, the Exchange believes the amount of the ORF is reasonable as it is significantly lower than ORFs charged by other exchanges. By way of comparison, MIAX charges an ORF of \$0.0045 per contract side,<sup>12</sup> and both NYSE Arca and NYSE Amex charge an ORF of \$0.0055 per contract side.<sup>13</sup> The CBOE charges an ORF of \$0.0081 per contract.<sup>14</sup>

The Exchange believes the expanding the decreased ORF to transactions executed or cleared by non-Members is equitable and not unfairly discriminatory because it should avoid having transactions cleared through non-Members in order to avoid the fee and to thereby avoid paying for their fair share for regulation.<sup>15</sup> If the ORF did not apply to activity across markets

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<sup>12</sup> See MIAX fee schedule available at [http://www.miaxoptions.com/sites/default/files/MIAX\\_Options\\_Fee\\_Schedule\\_06012016.pdf](http://www.miaxoptions.com/sites/default/files/MIAX_Options_Fee_Schedule_06012016.pdf) (dated May 1, 2016).

<sup>13</sup> See NYSE Arca Options fee schedule available at [https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE\\_Arca\\_Options\\_Fee\\_Schedule.pdf](https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf) (dated June 6, 2016); and NYSE Amex fee schedule available at [https://www.nyse.com/publicdocs/nyse/markets/amex-options/NYSE\\_Amex\\_Options\\_Fee\\_Schedule.pdf](https://www.nyse.com/publicdocs/nyse/markets/amex-options/NYSE_Amex_Options_Fee_Schedule.pdf) (dated June 9, 2016).

<sup>14</sup> See CBOE fee schedule available at [http://www.cboe.com/framed/pdf/framed.aspx?content=/publish/feeschedule/CBOEFeeSchedule.pdf&section=SEC\\_RESOURCES&title=CBOE%20Fee%20Schedule](http://www.cboe.com/framed/pdf/framed.aspx?content=/publish/feeschedule/CBOEFeeSchedule.pdf&section=SEC_RESOURCES&title=CBOE%20Fee%20Schedule) (dated May 16, 2016).

<sup>15</sup> Despite rule text to the contrary, the Exchange believes based on conversations with market participants that other options exchanges currently charge an ORF on all options

then a non-Member would send their orders to the least cost, least regulated exchange. In addition, applying the fee to all Members' and non-Members' activity across all market will avoid options participants from terminating their membership status or not becoming a Members of certain exchanges simply to avoid being assessed ORF. Moreover, the Exchange believes the ORF ensures fairness by assessing fees to those Members and non-Members that are directly based on the amount of customer options business they conduct.

The Exchange also believes it is reasonable and appropriate for the Exchange to charge the ORF for options transactions by a non-Member regardless of the exchange on which the transactions occur. The Exchange has a statutory obligation to enforce compliance by Members and their associated persons under the Act and the rules of the Exchange and cannot effectively surveil for manipulative conduct by market participants (including non-Members) trading on the Exchange without looking at and evaluating activity across all options markets. Many of the Exchange's market surveillance programs require the Exchange to look at and evaluate activity across all options markets, such as surveillance for position limit violations, manipulation, front-running and contrary exercise advice violations/expiring exercise declarations.

The Exchange has designed the ORF to generate revenues that, when combined with all of the Exchange's other regulatory fees, will be less than or equal to the Exchange's regulatory costs, which is consistent with the Commission's view that regulatory fees be used for regulatory purposes and not to support the Exchange's business side. In this regard, the Exchange believes that the decreased level of the fee and its expansion to non-Members is reasonable and appropriate.

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transactions cleared by the OCC in the customer range regardless of whether they are executed or cleared by their member.

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 ORF is not intended to have any impact on competition. Rather, it is designed to enable the Exchange to recover a material portion of the Exchange's cost related to its regulatory activities. The decreased ORF is also comparable to, and in most instances less than, ORF fees charged by other options exchanges. The expansion of ORF to non-Members is also not designed to have an impact on competition as the Exchange believes based on conversations from market participants that it is consistent with the practice by other exchanges in applying ORF to non-Member transactions, despite rule text to the contrary.

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>16</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>17</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.

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

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

#### 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 No. SR-BatsBZX-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 No. SR-BatsBZX-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 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 No. SR-BatsBZX-2016-42, and should be submitted on or before **[INSERT DATE 21 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

Robert W. Errett,  
Deputy Secretary.

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<sup>18</sup> 17 CFR 200.30-3(a)(12).

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