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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87946; File No. SR-CboeBZX-2020-001]

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

January 13, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 2, 2020, Cboe 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 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 BZX Exchange, Inc. (the “Exchange” or “BZX”) 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/bzx/), 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

¹ 15 U.S.C. 78s(b)(1).

² 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 for its equity options platform ("BZX Options"), effective January 2, 2020.

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 16 options venues to which market participants may direct their order flow. Based on publicly available information, no single options exchange has more than 22% of the market share and currently the Exchange represents less than 8% of the market share.³ Thus, in such a low-concentrated and highly competitive market, no single options exchange, including the Exchange, possesses significant pricing power in the execution of option order flow. 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.

³ See Cboe Global Markets U.S. Options Market Volume Summary by Month (December 26, 2019), available at https://markets.cboe.com/us/options/market_statistics/.

The Exchange's Fees Schedule sets forth standard rebates and rates applied per contract. For example, the Exchange assesses a standard rebate of \$0.29 per contract for Market Maker orders that add liquidity in Penny Pilot Securities⁴ and \$0.40 per contract for such orders in non-Penny Pilot Securities. Additionally, in response to the competitive environment, the Exchange also 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 an incremental incentive for Members to strive for higher tier levels, which provides increasingly higher benefits or discounts for satisfying increasingly more stringent criteria. For example, the Exchange currently offers nine Market Maker Penny Pilot Add Volume Tiers ("MM Penny Add Tiers") under footnote 6, which provide an enhanced rebate between \$0.33 and \$0.46 per contract for qualifying Market Maker orders which meet certain add liquidity thresholds and yield fee code PM.

Under the current MM Penny Add Tiers, a Member receives an enhanced rebate where the Member has an ADV, ADAV, or ADRV (depending on the Tier)⁵ in Market Maker orders greater than or equal to a specified percentage of OCV⁶ or TCV⁷ (currently in Tier 4). The

⁴ "Penny Pilot Securities" are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

⁵ "ADAV" means average daily added volume calculated as the number of contracts added, "ADRV" means average daily removed volume calculated as the number of contracts removed, and "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day. ADAV, ADRV and ADV are calculated on a monthly basis.

⁶ "OCC Customer Volume" or "OCV" means the total equity and ETF options volume that clears in the Customer range at the Options Clearing Corporation ("OCC") for the month for which the fees apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

Exchange proposes to adopt new MM Penny Add Tier 9 and, accordingly, relocate current MM Penny Add Tier 9 to a new Tier 10. The Exchange believes the proposed MM Penny Add Tier will provide Members an additional opportunity and alternative means to receive an enhanced rebate for meeting the corresponding proposed criteria. The Exchange believes the proposed tier, along with the existing tiers, also provides an incremental incentive for Members to strive for the highest tier levels, which provide increasingly higher discounts for such transactions.

Specifically, the Exchange proposes to adopt a new MM Penny Add Tier 9 (and subsequently move current Tier 9 to a new Tier 10), which would provide an enhanced rebate of \$0.44 per contract where a Member: (1) has an ADAV in Market Maker orders greater than or equal to 0.10% of average OCV; (2) has on BZX Equities an ADV greater than or equal to 0.60% of average TCV; and (3) has a step-up ADAV in Market Maker orders from December 2019 greater than or equal to 0.05% of average OCV. As such, under the proposed Tier, the Exchange is adopting an additional set of criteria that Members could meet to achieve an enhanced rebate. Particularly, Members must additionally satisfy a (i) ADAV threshold as it relates to a percentage of OCV, that is less stringent than such criteria under current Tier 9 (relocated to new Tier 10), (ii) cross-asset threshold, which is designed to incentivize Members to achieve certain levels of participation on both the Exchange's options and equities platform ("BZX Equities") and (iii) a step-up ADAV threshold, which is designed to encourage growth (i.e., Members must increase their relative liquidity each month over a predetermined baseline (in this case the month being December 2019)). Overall, the proposed enhanced rebate and corresponding criteria is

⁷ "TCV" means total consolidated volume calculated as the volume reported by all exchanges to the consolidated transaction reporting plan for the month for which the fees apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

designed to encourage Members to increase their order flow, thereby contributing to a deeper and more liquid market, which benefits all market participants and provides greater execution opportunities on the Exchange.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the Section 6 of the Act,⁸ in general, and Section 6(b)(4),⁹ 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.

In particular, the Exchange believes the proposed tier is reasonable because it provides an additional opportunity for Members to receive higher rebates by providing a different set of criteria they can reach for. The Exchange notes that volume-based incentives and discounts have been widely adopted by exchanges¹⁰, including the Exchange¹¹, and are reasonable, equitable and non-discriminatory because they are open to all Members on an equal basis. They also provide additional benefits or discounts that are reasonably related to (i) the value to 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 highly competitive market. The Exchange is only one of several options venues to

⁸ 15 U.S.C. 78f.

⁹ 15 U.S.C. 78f(b)(4).

¹⁰ See, e.g., Cboe EDGX U.S. Options Exchange Fee Schedule, Footnote 2, Market Maker Volume Tiers, which provide reduced fees between \$0.01 and \$0.17 per contract for Market Maker Penny and Non-Penny orders where Members meet certain volume thresholds.

¹¹ See, e.g., Cboe BZX U.S. Options Exchange Fee Schedule, Footnote 7, Market Maker Non-Penny Pilot Volume Tiers which provide comparable enhanced rebates for Market Maker orders where Members meet certain volume thresholds.

which market participants may direct their order flow, and it represents a small percentage of the overall market. Competing options 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 pricing incentives tied to comparable tiers.¹²

Moreover, the Exchange believes the proposed Market Maker Tier 9 is a reasonable means to encourage Members to increase their liquidity on the Exchange and also their participation on BZX Equities. The Exchange believes that adopting a tier with alternative criteria to the existing Market Maker Volume Tiers may encourage those Members who could not previously achieve the criteria under the existing Market Maker Volume Tiers to increase their order flow on BZX Options and Equities. For example, the proposed tier would provide an opportunity for Members who have an ADAV in Market Makers Orders of at least 0.10% of average OCV, but less than the more stringent 0.75% of average OCV (the requirement under current Tier 9, i.e. new Tier 10), to receive a higher rebate than they may currently receive but slightly lower than the rebate they would receive for reaching the more stringent criteria under current Tier 9 (new Tier 100), if they otherwise meet the threshold requirement based on BZX Equities participation and can grow a modest amount since December 2019. Similarly, for Market Makers that participate on both BZX Options and Equities, and do not currently meet the 0.75% ADAV threshold under current Tier 9 (i.e., new Tier 10), but can or do meet the proposed equities ADV threshold, the proposed tier may incentivize those participants to grow their options volume in order to receive enhanced rebates. Increased liquidity benefits all investors by

¹² See supra note 11.

deepening the Exchange'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. The Exchange also believes that proposed enhanced rebate is reasonable based on the difficulty of satisfying the tier's criteria and ensures the proposed rebate and threshold appropriately reflects the incremental difficulty to achieve the existing Market Maker Volume Tiers. The proposed enhanced rebate amount also does not represent a significant departure from the enhanced rebates currently offered under the Exchange's existing Market Maker Volume Tiers. Indeed, the proposed enhanced rebate amount (\$0.44) is incrementally higher than current Tiers 7 and 8 (\$0.42), which the Exchange believes offers slightly less stringent criteria than the proposed Tier 9, but is incrementally lower than the rebate offered under existing Tier 9 (i.e., new Tier 10) (\$0.46), which the Exchange believes is more stringent than the proposed criteria under proposed Tier 9. The Exchange also notes that the proposed rebate remains within the range of the enhanced rebates offered under the current Market Maker Volume Tiers (i.e., \$0.33 - \$0.46).

The Exchange believes that the proposal represents an equitable allocation of fees and is not unfairly discriminatory because it applies uniformly to all Market Makers. Additionally a number of Market Makers have a reasonable opportunity to satisfy the tier's criteria, which the Exchange believes is less stringent than the existing Market Maker Volume Tier 9 (new Tier 10). While the Exchange has no way of knowing whether this proposed rule change would definitively result in any particular Market Maker qualifying for the proposed tier, the Exchange anticipates up to three Market Makers meeting, or being reasonably able to meet, the proposed criteria. The Exchange believes the proposed tier could provide an incentive for other Members to submit additional liquidity on BZX Options and Equities to qualify for the proposed enhanced

rebate. To the extent a Member participates on the Exchange but not on BZX Equities, 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 BZX Equities. Particularly, the Exchange believes 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 BZX Equities or not. The proposed pricing program is also fair and equitable in that membership in BZX Equities is available to all market participants, which would provide them with access to the benefits on BZX Equities provided by the proposed change, even where a member of BZX Equities is not necessarily eligible for the proposed enhanced rebate on the Exchange.

The Exchange lastly notes that it does not believe the proposed tier will adversely impact any Member's pricing or ability to qualify for other tiers. Rather, should a Member not meet the proposed criteria, the Member will merely not receive the proposed enhanced rebate, and has nine alternative choices to aim to achieve under the Market Maker Volume Tiers. Furthermore, the proposed enhanced rebate would apply to all Members that meet the required criteria under proposed Market Maker Volume Tier 9.

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 liquidity to a public exchange, thereby promoting market depth, price discovery and transparency and enhancing order execution opportunities 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."¹³

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 uniformly to market participants. As discussed above, to the extent a Member participates on the Exchange but not on BZX Equities, the Exchange notes that the proposed change can provide an overall benefit to the Exchange resulting from the success of BZX Equities. Such success enables 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 BZX Equities or not. The proposed pricing program is also fair and equitable in that membership in BZX Equities is available to all market participants. Additionally, the proposed change is designed to attract additional order flow to the Exchange and BZX Equities. Greater liquidity benefits all market participants on the Exchange by providing more trading opportunities and encourages Members to send orders, thereby contributing to robust levels of liquidity, which benefits all market participant.

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 15 other options exchanges and off-exchange venues. Additionally, the Exchange represents a small percentage of the overall market. Based on publicly available information, no

¹³ Securities Exchange Act Release No. 51808, 70 FR 37495, 37498-99 (June 29, 2005) (S7-10-04) (Final Rule).

single options exchange has more than 22% of the market share.¹⁴ Therefore, no exchange possesses significant pricing power in the execution of option 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.”¹⁵ 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’”¹⁶ 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.

¹⁴ See supra note 1.

¹⁵ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005).

¹⁶ *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 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 Act¹⁷ and paragraph (f) of Rule 19b-4¹⁸ thereunder. 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 will institute proceedings 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number

SR-CboeBZX-2020-001 on the subject line.

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f).

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-CboeBZX-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, 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-CboeBZX-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.¹⁹

J. Matthew DeLesDernier,
Assistant Secretary.

¹⁹ 17 CFR 200.30-3(a)(12).

