

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="26"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2016"/> - * <input type="text" value="16"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by **Bats BZX Exchange, Inc.**  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

The Exchange proposed a rule change to add subparagraph (5) to Rule 21.1(h) modifying the operation of orders subject to the display price sliding process when a contra-side Post Only Order is received by the Bats BZX Exchange Options Platform.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * <input type="text" value="Chris"/>	Last Name * <input type="text" value="Solgan"/>
Title * <input type="text" value="Assistant General Counsel"/>	
E-mail * <input type="text" value="csolgan@bats.com"/>	
Telephone * <input type="text" value="(646) 856-8723"/>	Fax <input type="text"/>

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date <input type="text" value="05/03/2016"/>	<input type="text" value="Assistant General Counsel"/>
By <input type="text" value="Chris Solgan"/>	<input type="text" value=""/>
(Name *)	

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) 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> Bats BZX Exchange, Inc. f/k/a BATS Exchange, Inc. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposal to add subparagraph (5) to Rule 21.1(h) modifying the operation of orders subject to the display price sliding process when a contra-side Post Only Order<sup>3</sup> is received by the Exchange’s options platform (“BZX Options”). The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>4</sup>

The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in brackets.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on February 11, 2014. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

The persons on the Exchange staff prepared to respond to questions and

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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> See Exchange Rule 21.1(d)(8).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

comments on the proposed rule change are:

Eric Swanson  
EVP, General Counsel  
(913) 815-7000

Chris Solgan  
Assistant General Counsel  
(646) 856-8723

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

(a) Purpose

The Exchange is proposing to add subparagraph (5) to Rule 21.1(h) modifying the operation of orders subject to the display price sliding process when a contra-side Post Only Order is received by BZX Options.

Under current Exchange Rule 21.1(h), an order subject to the display price sliding process that, at the time of entry, would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the BZX Options Book<sup>5</sup> and displayed by the System at one minimum price variation below the current National Best Offer ("NBO")<sup>6</sup> (for bids) or to one minimum price variation above the current National Best Bid ("NBB")<sup>7</sup> (for offers). Post Only Orders are orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another trading center.<sup>8</sup> Currently, a Post Only Order will not remove liquidity from the BZX Options Book unless the value of price improvement associated with such execution equals or exceeds the sum of fees

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<sup>5</sup> "BZX Options Book" is defined as "the electronic book of options orders maintained by the Trading System." See Exchange Rule 16.1(a)(9).

<sup>6</sup> See Exchange Rule 16.1(a)(29) (defining the terms "NBB", "NBO", and "NBBO").

<sup>7</sup> Id.

<sup>8</sup> See Exchange Rule 21.1(d)(8).

charged for such execution and the value of any rebate that would be provided if the order posted to the BZX Options Book and subsequently provided liquidity. In order to prevent circumstances on the BZX Options Book where an order is ranked at the displayed price of a resting contra-side order, which could result in apparent violations of the Exchange's priority rule, an incoming Post Only Order is currently rejected if it would be posted at the locking price of a contra-side order subject to the display price sliding process. In particular, accepting such order would result in a situation where an order is displayed on the Exchange and a contra-side order is ranked at the same price as such order. In turn, if an execution at that price is reported by the Exchange, the Exchange believes a User<sup>9</sup> representing the order displayed on the Exchange might believe that an incoming order was received by the Exchange and then bypassed such order (i.e., removing some other liquidity on the same side of the market as the displayed order). As described in further detail below, the proposal will avoid the possibility of an execution of an order subject to display-price sliding at the same price as an order displayed on the Exchange. The Exchange notes that the circumstance described above, where an incoming Post Only Order is rejected by the Exchange, is limited to times when the Exchange is not already quoting at the NBBO and a Post Only Order is seeking to join either the NBB or NBO but there is a resting display-price slid order on the contra-side of the Exchange's order book.

In order to facilitate the entry of orders priced at the National Best Bid or Offer ("NBBO"), the Exchange proposes to add subparagraph (5) to Rule 21.1(h) modifying

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<sup>9</sup> "User" is defined as "any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access)." See Exchange Rule 16.1(a)(63).

the operation of orders subject to the display price sliding process when a contra-side Post Only Order is received by BZX Options. Under proposed subparagraph (5), to the extent an incoming Post Only Order would be ranked and displayed at a price equal to the ranked price of a contra-side order subject to display-price sliding (i.e., the locking price) the order subject to display-price sliding would be re-ranked at one (1) cent above the current NBB (for offers) or one (1) cent below the current NBO (for bids). An order subject to display price sliding that is re-ranked pursuant to proposed subparagraph (5) of Rule 21.1(h) would be re-ranked at the locking price in the event there is no longer displayed contra-side interest at the locking price. In both cases, the order would remain displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers).

The below examples describe the operation of orders subject to display price sliding under proposed subparagraph (5) to Rule 21.1(h).

Example 1: Securities Quoted in Penny Increments – Proposed Operation.

Assume the NBBO is \$1.00 x \$1.01 and that the Exchange's displayed best bid and offer ("BBO") is \$1.00 x \$1.02. Also assume that a non-routable order to buy at \$1.01 subject to display price sliding is resting on the BZX Options Book, ranked at \$1.01 and displayed at \$1.00. Assume a Post Only Order to sell at \$1.01 is entered and, under current functionality, would be rejected because it is executable at the locking price of the order to buy subject to display price sliding resting on the BZX Options Book. As proposed, the order to buy subject to display price sliding would be re-ranked and would remain displayed at \$1.00, one (1) cent below the current NBO. The Post Only Order to sell would be posted to the BZX Options Book, ranked and displayed at \$1.01 (i.e.,

allowing the Exchange to join the NBBO of \$1.00 x \$1.01). If the Post Only Order to sell is executed or cancelled, the order to buy subject to display price sliding would be re-ranked at \$1.01, its original ranked price, and would remain displayed at \$1.00.

Example 2: Securities Quoted in Non-Penny Increments – Proposed Operation.

Assume the NBBO is \$1.00 x \$1.05 and that the Exchange's BBO is \$1.00 x \$1.10. Also assume that a non-routable order to buy at \$1.05 subject to display price sliding is resting on the BZX Options Book, ranked at \$1.05 and displayed at \$1.00. Assume a Post Only Order to sell at \$1.05 is entered and, under current functionality, would be rejected because it is executable at the locking price of the order to buy subject to display price sliding resting on the BZX Options Book. As proposed, the order to buy subject to display price sliding would be re-ranked at \$1.04, one (1) cent below the NBO, and would remain displayed at \$1.00. The Post Only Order to sell would be posted to the BZX Options Book, ranked and displayed at \$1.05 (i.e., allowing the Exchange to join the NBBO of \$1.00 x \$1.01). If the Post Only Order to sell is executed or cancelled, the order to buy subject to display price sliding would be re-ranked at \$1.05, its original ranked price, and would remain displayed at \$1.00.

The Exchange notes that similar behavior currently exists on its equities platform that permits an order to buy(sell) subject to display price sliding to be executed at one-half minimum price variation more(less) than the price of a contra-side displayed BZX Post Only Order.<sup>10</sup> Specifically, under Exchange Rule 11.9(g)(1)(E), BZX Post Only Orders are permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. In the event an order subject to display-price sliding is ranked on

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<sup>10</sup> See Exchange Rule 11.9(c)(6).

the BZX Book<sup>11</sup> at a price equal to an opposite side order displayed by the Exchange, it cannot be executed at that price and instead will be subject to processing as set forth in Rule 11.13(a)(4)(D). Under Exchange Rule 11.13(a)(4)(D), in the event that an incoming order is a market order or is a limit order priced more aggressively than the displayed order, the Exchange will execute the incoming order at, in the case of an incoming sell order, one-half minimum price variation less than the price of the displayed order, and, in the case of an incoming buy order, at one-half minimum price variation more than the price of the displayed order. This behavior is designed to avoid an apparent priority issue. In particular, in such a situation the Exchange believes a User representing an order that is displayed on the Exchange might believe that an incoming order was received by the Exchange and then bypassed such displayed order, removing some other non-displayed liquidity on the same side of the market as such displayed order. Similar to what the Exchange proposes for BZX Options, the above described functionality on its equities platform also effectively changes the ranked price of the order subject to display price sliding. Although the underlying solution is intended to solve the same circumstance, because half-penny executions are not permitted with respect to options transactions, on BZX Options the Exchange proposes to adjust the ranked price of the display-price slid order when a contra-side Post Only order is received by BZX and posted at the locking price.

(b) Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities

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<sup>11</sup> See BZX Rule 1.5(e).



exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>12</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act<sup>13</sup> because it is designed to encourage displayed liquidity and offer market participants greater flexibility to post liquidity on the BZX Options Book, thereby promoting just and equitable principles of trade, fostering cooperation and coordination with persons engaged in facilitating transactions in securities, removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.

Under current functionality, an incoming Post Only Order would be rejected if it is executable at the locking price of a contra-side order subject to display price sliding resting on the BZX Options Book. This, at times, inhibits market participants, including Market Makers<sup>14</sup> from utilizing Post Only Orders to quote at the NBBO. Post Only Orders allow Users to post aggressively priced liquidity, as such Users have certainty as to the fee or rebate they will receive from the Exchange if their order is executed. Without such ability and by rejecting such Post Only Orders in scenarios described herein, the Exchange believes that certain Users would simply post less aggressively priced liquidity, and prices available for market participants, including retail investors, would deteriorate. Accordingly, the Exchange believes that the proposed rule change promotes just and equitable principles of trade by enhancing the liquidity available to all market participants by allowing Market Makers and other liquidity providers to add liquidity to the Exchange at the NBBO without fear that their order would be rejected. In

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<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> See Exchange Rule 16.1(a)(37).

addition, the proposed rule change would assist Market Makers in satisfying their two-sided quoting obligations under Exchange Rules 22.5(a)(1) and 22.6(d)(1). The proposed rule change should increase displayed liquidity at the NBBO on the Exchange, resulting in improved market quality and price discovery for all participants. The Exchange also notes that similar behavior currently exists on its equities platform that permits an order to buy(sell) subject to display price sliding to be executed at one-half minimum price variation more(less) than the price of a contra-side displayed BZX Post Only Order.<sup>15</sup>

4. 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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes the proposed rule change would enhance competition by enabling market participants to post liquidity at the NBBO, thereby increasing the liquidity on the Exchange at the NBBO. For all the reasons stated above, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change. The Exchange has not received any written comments from

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<sup>15</sup> See Exchange Rules 11.9(g)(1)(E) and 11.13(a)(4)(D). See also Securities Exchange Act Release No. 64754 (June 27, 2011), 76 FR 38712 (July 1, 2011) (SR-BATS-2011-015) (Order Approving a Proposed Rule Change to Amend BATS Rule 11.9, Entitled "Orders and Modifiers" and BATS Rule 11.13, Entitled "Order Execution").

members or other interested parties.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>16</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>17</sup> The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of investors or the public interest, (2) will not impose any significant burden on competition, and (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing, or such shorter time as designated by the Commission.<sup>18</sup>

The Exchange believes that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. The Exchange believes the proposed rule change is consistent with the protection of investors and the public interest because it would enhance the ability of market participants to post liquidity at the NBBO, thereby helping to increase liquidity on the Exchange at the NBBO. The Exchange also notes that similar behavior currently exists on its equities platform that permits an order to buy(sell) subject to

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

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

<sup>18</sup> 17 CFR 240.19b-4(f)(6)(iii).

display price sliding to be executed at one-half minimum price variation more(less) than the price of a contra-side displayed BZX Post Only Order.<sup>19</sup> Both the behavior on the Exchange's equities platform and BZX options are designed to avoid an apparent priority issue by changing the ranked price of the order subject to display price sliding to avoid allowing an order that is ranked but not displayed at the same price as a displayed contra-side order. Accordingly, the issues raised by the proposal have been subject to public notice and comment and approved by the Commission<sup>20</sup>. As such, the Exchange believes that the proposed rule change does not raise any new or unique regulatory issues not already considered by the Commission and, accordingly, the Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>21</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>22</sup>

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>24</sup> Waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange

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<sup>19</sup> See Exchange Rules 11.9(g)(1)(E) and 11.13(a)(4)(D). See also Securities Exchange Act Release No. 64754 (June 27, 2011), 76 FR 38712 (July 1, 2011) (SR-BATS-2011-015) (Order Approving a Proposed Rule Change To Amend BATS Rule 11.9, Entitled "Orders and Modifiers" and BATS Rule 11.13, Entitled "Order Execution") (SR-BATS-2011-015).

<sup>20</sup> Id.

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

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

<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 C.F.R. 240.19b-4(f)(6).

to implement the proposed rule change on May 16, 2016. The Exchange believes that the proposed rule change will benefit market participants by enhancing their ability to post liquidity at the NBBO. Waiver of the operative delay should increase displayed liquidity at the NBBO on the Exchange, resulting in improved market quality and price discovery for all participants in a timely manner. Therefore, the Exchange believes that benefits to Exchange Users expected from the proposed rule change should not be delayed. Further, the proposed rule change will not require any systems changes by Exchange Users that would necessitate a delay, as the Exchange will now accept and no longer reject Post Only Orders in the situations described herein. Therefore, the Exchange requests that the Commission waive the 30-day operative delay.

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.

8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

Proposed subparagraph (4) to Rule 21.1(h) is based on BZX Rules 11.9(g)(1)(E) and 11.13(a)(4)(D). Under BZX Rules 11.9(g)(1)(E) and 11.13(a)(4)(D), the Exchange will execute the incoming order at, in the case of an incoming sell order, one-half minimum price variation less than the price of the displayed order, and, in the case of an incoming buy order, at one-half minimum price variation more than the price of the displayed order. Because half-penny executions are not permitted with respect to options transactions, on BZX Options the Exchange proposes to adjust the ranked price of the display-price slid order when a contra-side Post Only order is received by BZX and

posted at the locking price.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1: Completed Notice of the Proposed Rule Change for publication in the Federal Register.

Exhibit 2–4: Not applicable.

Exhibit 5: Text of Proposed Rule Change

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BatsBZX-2016-16)

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Add Subparagraph (5) to Rule 21.1(h) Modifying the Operation of Orders Subject to the Display Price Sliding Process when a Contra-Side Post Only Order is Received by the Bats BZX Exchange Options Platform

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 \_\_\_\_\_, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it 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 add subparagraph (5) to Rule 21.1(h) modifying the operation of orders subject to the display price sliding process when a contra-side Post Only Order<sup>5</sup> is received by the Exchange’s options platform (“BZX Options”).

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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).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>5</sup> See Exchange Rule 21.1(d)(8).

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to add subparagraph (5) to Rule 21.1(h) modifying the operation of orders subject to the display price sliding process when a contra-side Post Only Order is received by BZX Options.

Under current Exchange Rule 21.1(h), an order subject to the display price sliding process that, at the time of entry, would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the BZX Options Book<sup>6</sup> and displayed by the System at one minimum price variation below the current National Best Offer ("NBO")<sup>7</sup> (for bids) or to one minimum price variation above the current National

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<sup>6</sup> "BZX Options Book" is defined as "the electronic book of options orders maintained by the Trading System." See Exchange Rule 16.1(a)(9).

<sup>7</sup> See Exchange Rule 16.1(a)(29) (defining the terms "NBB", "NBO", and "NBBO").



Best Bid (“NBB”)<sup>8</sup> (for offers). Post Only Orders are orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another trading center.<sup>9</sup> Currently, a Post Only Order will not remove liquidity from the BZX Options Book unless the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BZX Options Book and subsequently provided liquidity. In order to prevent circumstances on the BZX Options Book where an order is ranked at the displayed price of a resting contra-side order, which could result in apparent violations of the Exchange’s priority rule, an incoming Post Only Order is currently rejected if it would be posted at the locking price of a contra-side order subject to the display price sliding process. In particular, accepting such order would result in a situation where an order is displayed on the Exchange and a contra-side order is ranked at the same price as such order. In turn, if an execution at that price is reported by the Exchange, the Exchange believes a User<sup>10</sup> representing the order displayed on the Exchange might believe that an incoming order was received by the Exchange and then bypassed such order (i.e., removing some other liquidity on the same side of the market as the displayed order). As described in further detail below, the proposal will avoid the possibility of an execution of an order subject to display-price sliding at the same price as an order

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<sup>8</sup> Id.

<sup>9</sup> See Exchange Rule 21.1(d)(8).

<sup>10</sup> “User” is defined as “any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access).” See Exchange Rule 16.1(a)(63).

displayed on the Exchange. The Exchange notes that the circumstance described above, where an incoming Post Only Order is rejected by the Exchange, is limited to times when the Exchange is not already quoting at the NBBO and a Post Only Order is seeking to join either the NBB or NBO but there is a resting display-price slid order on the contra-side of the Exchange's order book.

In order to facilitate the entry of orders priced at the National Best Bid or Offer ("NBBO"), the Exchange proposes to add subparagraph (5) to Rule 21.1(h) modifying the operation of orders subject to the display price sliding process when a contra-side Post Only Order is received by BZX Options. Under proposed subparagraph (5), to the extent an incoming Post Only Order would be ranked and displayed at a price equal to the ranked price of a contra-side order subject to display-price sliding (i.e., the locking price) the order subject to display-price sliding would be re-ranked at one (1) cent above the current NBB (for offers) or one (1) cent below the current NBO (for bids). An order subject to display price sliding that is re-ranked pursuant to proposed subparagraph (5) of Rule 21.1(h) would be re-ranked at the locking price in the event there is no longer displayed contra-side interest at the locking price. In both cases, the order would remain displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers).

The below examples describe the operation of orders subject to display price sliding under proposed subparagraph (5) to Rule 21.1(h).

Example 1: Securities Quoted in Penny Increments – Proposed Operation.

Assume the NBBO is \$1.00 x \$1.01 and that the Exchange's displayed best bid and offer ("BBO") is \$1.00 x \$1.02. Also assume that a non-rutable order to buy at \$1.01 subject

to display price sliding is resting on the BZX Options Book, ranked at \$1.01 and displayed at \$1.00. Assume a Post Only Order to sell at \$1.01 is entered and, under current functionality, would be rejected because it is executable at the locking price of the order to buy subject to display price sliding resting on the BZX Options Book. As proposed, the order to buy subject to display price sliding would be re-ranked and would remain displayed at \$1.00, one (1) cent below the current NBO. The Post Only Order to sell would be posted to the BZX Options Book, ranked and displayed at \$1.01 (i.e., allowing the Exchange to join the NBBO of \$1.00 x \$1.01). If the Post Only Order to sell is executed or cancelled, the order to buy subject to display price sliding would be re-ranked at \$1.01, its original ranked price, and would remain displayed at \$1.00.

Example 2: Securities Quoted in Non-Penny Increments – Proposed Operation.

Assume the NBBO is \$1.00 x \$1.05 and that the Exchange's BBO is \$1.00 x \$1.10. Also assume that a non-rutable order to buy at \$1.05 subject to display price sliding is resting on the BZX Options Book, ranked at \$1.05 and displayed at \$1.00. Assume a Post Only Order to sell at \$1.05 is entered and, under current functionality, would be rejected because it is executable at the locking price of the order to buy subject to display price sliding resting on the BZX Options Book. As proposed, the order to buy subject to display price sliding would be re-ranked at \$1.04, one (1) cent below the NBO, and would remain displayed at \$1.00. The Post Only Order to sell would be posted to the BZX Options Book, ranked and displayed at \$1.05 (i.e., allowing the Exchange to join the NBBO of \$1.00 x \$1.01). If the Post Only Order to sell is executed or cancelled, the order to buy subject to display price sliding would be re-ranked at \$1.05, its original ranked price, and would remain displayed at \$1.00.

The Exchange notes that similar behavior currently exists on its equities platform that permits an order to buy(sell) subject to display price sliding to be executed at one-half minimum price variation more(less) than the price of a contra-side displayed BZX Post Only Order.<sup>11</sup> Specifically, under Exchange Rule 11.9(g)(1)(E), BZX Post Only Orders are permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. In the event an order subject to display-price sliding is ranked on the BZX Book<sup>12</sup> at a price equal to an opposite side order displayed by the Exchange, it cannot be executed at that price and instead will be subject to processing as set forth in Rule 11.13(a)(4)(D). Under Exchange Rule 11.13(a)(4)(D), in the event that an incoming order is a market order or is a limit order priced more aggressively than the displayed order, the Exchange will execute the incoming order at, in the case of an incoming sell order, one-half minimum price variation less than the price of the displayed order, and, in the case of an incoming buy order, at one-half minimum price variation more than the price of the displayed order. This behavior is designed to avoid an apparent priority issue. In particular, in such a situation the Exchange believes a User representing an order that is displayed on the Exchange might believe that an incoming order was received by the Exchange and then bypassed such displayed order, removing some other non-displayed liquidity on the same side of the market as such displayed order. Similar to what the Exchange proposes for BZX Options, the above described functionality on its equities platform also effectively changes the ranked price of the order subject to display price sliding. Although the underlying solution is intended to solve the same

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<sup>11</sup> See Exchange Rule 11.9(c)(6).

<sup>12</sup> See BZX Rule 1.5(e).

circumstance, because half-penny executions are not permitted with respect to options transactions, on BZX Options the Exchange proposes to adjust the ranked price of the display-price slid order when a contra-side Post Only order is received by BZX and posted at the locking price.

## 2. Statutory Basis

The Exchange believes that its proposal 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(b) of the Act.<sup>13</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act<sup>14</sup> because it is designed to encourage displayed liquidity and offer market participants greater flexibility to post liquidity on the BZX Options Book, thereby promoting just and equitable principles of trade, fostering cooperation and coordination with persons engaged in facilitating transactions in securities, removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.

Under current functionality, an incoming Post Only Order would be rejected if it is executable at the locking price of a contra-side order subject to display price sliding resting on the BZX Options Book. This, at times, inhibits market participants, including Market Makers<sup>15</sup> from utilizing Post Only Orders to quote at the NBBO. Post Only Orders allow Users to post aggressively priced liquidity, as such Users have certainty as to the fee or rebate they will receive from the Exchange if their order is executed.

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

<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> See Exchange Rule 16.1(a)(37).

Without such ability and by rejecting such Post Only Orders in scenarios described herein, the Exchange believes that certain Users would simply post less aggressively priced liquidity, and prices available for market participants, including retail investors, would deteriorate. Accordingly, the Exchange believes that the proposed rule change promotes just and equitable principles of trade by enhancing the liquidity available to all market participants by allowing Market Makers and other liquidity providers to add liquidity to the Exchange at the NBBO without fear that their order would be rejected. In addition, the proposed rule change would assist Market Makers in satisfying their two-sided quoting obligations under Exchange Rules 22.5(a)(1) and 22.6(d)(1). The proposed rule change should increase displayed liquidity at the NBBO on the Exchange, resulting in improved market quality and price discovery for all participants. The Exchange also notes that similar behavior currently exists on its equities platform that permits an order to buy(sell) subject to display price sliding to be executed at one-half minimum price variation more(less) than the price of a contra-side displayed BZX Post Only Order.<sup>16</sup>

(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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes the proposed rule change would enhance competition by enabling market participants to post liquidity at the NBBO, thereby increasing the liquidity on the Exchange at the NBBO. For all the reasons stated

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<sup>16</sup> See Exchange Rules 11.9(g)(1)(E) and 11.13(a)(4)(D). See also Securities Exchange Act Release No. 64754 (June 27, 2011), 76 FR 38712 (July 1, 2011) (SR-BATS-2011-015) (Order Approving a Proposed Rule Change to Amend BATS Rule 11.9, Entitled "Orders and Modifiers" and BATS Rule 11.13, Entitled "Order Execution").

above, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

The Exchange has neither solicited nor received written comments on the 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

Because the foregoing proposed rule change does not: (A) significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designate it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and paragraph (f)(6) of Rule 19b-4 thereunder,<sup>18</sup> the Exchange has designated this rule filing as non-controversial. The Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

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

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<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4.

Commission that such action is: (1) necessary or appropriate in the public interest; (2) for the protection of investors; or (3) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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 proposal 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-2016-16 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-2016-16. 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 am and 3:00 pm. Copies of such filing will also 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-2016-16 and should be submitted on or before [\_\_\_\_\_21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

Robert W. Errett  
Deputy Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).

Note: Proposed new language is underlined. Proposed deletions are enclosed in [brackets].

**Rules of Bats BZX Exchange, Inc.**

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**CHAPTER XXI. TRADING SYSTEMS**

Rule 21.1. Definitions

(No change.)

(a) – (g) (No changes.)

(h) Display-Price Sliding.

(1) – (4) (No change).

(5) To the extent an incoming Post Only Order would be ranked and displayed at a price equal to the ranked price of a contra-side order subject to display-price sliding (“locking price”) the order subject to display-price sliding will be re-ranked at one (1) cent above the current NBB (for offers) or one (1) cent below the current NBO (for bids). An order subject to display price sliding that is re-ranked pursuant to this paragraph will be re-ranked at the locking price in the event there is no longer displayed contra-side interest at the locking price.

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