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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2016 - * 41
Amendment No. (req. for Amendments *) 1

Filing by Bats EDGX Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☐	☑	☐	☑	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

19b-4(f)(1) 19b-4(f)(4)
19b-4(f)(2) 19b-4(f)(5)
19b-4(f)(3) 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

Description

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

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 * Anders Last Name * Franzon
Title * SVP, Associate General Counsel
E-mail * afranzon@bats.com
Telephone * (913) 815-7154 Fax

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.

Date 12/15/2016
By Anders Franzon
(Name *)

(Title *)
SVP, Associate General Counsel

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.

afranzon@bats.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	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 * Add Remove View	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 * Add Remove View	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 Add Remove View 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 Add Remove View 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 Add Remove View	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 Add Remove View	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 Add Remove View	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 the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] Bats EDGX Exchange, Inc. (the "Exchange" or "EDGX") is filing with the Securities and Exchange Commission ("Commission") a proposal for the Exchange's equity options platform ("EDGX Options") to adopt a price improvement auction, the Bats Auction Mechanism, as further discussed below.

The text of the proposed rules is attached hereto 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 comments on the proposed rule change are:

Eric Swanson	Anders Franzon
EVP, General Counsel	SVP, Associate General Counsel

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

(913) 815-7000 (913) 815-7154

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

(a) Purpose

Amendment No. 1

This Amendment No. 1 to SR-BatsEDGX-2016-41 amends and replaces in its entirety the proposal as originally submitted on September 16, 2016 (the "Proposal"). The Exchange submits this Amendment No. 1 in order to clarify certain points and add additional details to the Proposal, as highlighted below. Specifically, Amendment No. 1 has been submitted to (all terms as defined below):

- Restrict an Auction from commencing with a stop price equal to a same side resting order unless the resting order is not a Priority Customer order, the Exchange's "Customer Overlay" is in effect pursuant to Rule 21.8(d)(1) and the incoming Agency Order to commence an Auction is a Priority Customer order – in all other instances the Agency Order must be priced better than the resting interest;[3]
- Prohibit an Initiating Order from being a solicited order for the account of an Options Market Maker assigned in the affected series on the Exchange;[4]
- Provide details regarding a survey conducted by the Exchange regarding the ability of participants to respond to an Auction lasting no less than one hundred milliseconds and no more than one second;
- Provide additional explanation and justification of certain aspects of the Proposal, including a modified example, additional examples related to the Proposal, and details regarding the handling of overlapping Auctions, which are only proposed to be allowed with respect to Auctions for 50 contracts or more; and

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[3] This behavior is based on Exchange Rule 21.8(d), which, as described below, provides Priority Customer orders priority on the Exchange ahead of other interest when the Customer Overlay is in effect.

[4] This prohibition is based on a prohibition contained in other options exchange's auction mechanisms. See, e.g., NASDAQ OMX BX, Inc. ("BX Options") Chapter VI, Section 9(i)(F).

- Make other minor structural, technical and clarifying amendments to the Proposal and the proposed rule text to improve the understandability of the Proposal.

Overview

The purpose of the proposed rule change is to establish a price improvement auction, the Bats Auction Mechanism ("BAM", "BAM Auction", or "Auction") on the Exchange. BAM includes functionality in which a Member (an "Initiating Member") may electronically submit for execution an order it represents as agent on behalf of a Priority Customer,[5] broker dealer, or any other person or entity ("Agency Order") against principal interest or against any other order it represents as agent (an "Initiating Order") provided it submits the Agency Order for electronic execution into the BAM Auction pursuant to the proposed Rule. For purposes of this filing and the proposed Rule, the term "NBBO" shall mean the national best bid or national best offer at the particular point in time applicable to the reference and the term "Initial NBBO" shall mean the national best bid or national best offer at the time an Auction is initiated.

The Exchange believes that the BAM Auction, as proposed herein, will encourage participants on EDGX Options to quote or display orders at the NBBO[6] with additional

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5 The term "Priority Customer" means any person or entity that is not: (A) a broker or dealer in securities; or (B) a Professional. The term "Priority Customer Order" means an order for the account of a Priority Customer. See Rule 16.1(a)(45). A "Professional" is any person or entity that: (A) is not a broker or dealer in securities; and (B) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). All Professional orders shall be appropriately marked by Options Members. See Rule 16.1(a)(46).

6 As explained below, the Exchange notes that as proposed, if the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is $0.01, the Initiating Member must stop the entire Agency Order at one minimum

size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all EDGX Options participants ("Users") the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

Auction Eligibility Requirements

All options traded on the Exchange are eligible for BAM. Proposed Rule 21.19(a) describes the circumstances under which an Initiating Member may initiate an Auction. More specifically, proposed paragraphs (a)(1) through (a)(3) describe three conditions to the initiation of an order. The proposed conditions relate to price, the existence of same-side orders on the EDGX order book when an Agency Order is submitted to BAM, and the existence of an Auction already underway on the Exchange in the same series when an Agency Order for less than 50 contracts is received.

First, with respect to price, in order to initiate an Auction, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at a price in an increment of $0.01 such that: (A) if the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is $0.01, the Initiating Member must stop

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price improvement increment better than the NBBO, which increment shall be determined by the Exchange but may not be smaller than $0.01.

the entire Agency Order at one minimum price improvement increment better than the NBBO, which increment shall be determined by the Exchange but may not be smaller than $0.01; or (B) for any other Agency Order, the Initiating Member must stop the entire Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).

Second, if the EDGX BBO on the same side of the market as the Agency Order represents a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price. If the EDGX BBO on the same side of the market as the Agency Order represents a quote or order that is not a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price unless the Agency Order is a Priority Customer order and the Priority Customer Overlay set forth in Rule 21.8(d)(1) is in effect. The Exchange believes this condition is consistent with the operation of the Exchange generally, where Priority Customer orders receive a priority advantage over all other orders.[7]

Third, with respect to Agency Orders for less than 50 contracts, only one such Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. In other words, prior to commencing an auction for less than 50 contracts, the Exchange will determine whether an Auction for less than 50 contracts is already underway in that series and will cancel the Auction if

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[7] See Exchange Rule 21.8(d)(1), which specifies that when the Customer Overlay is in effect, Priority Customer Orders shall have priority over orders on behalf of all other types of participants ("non-Customers") at the same price. The Exchange notes that the Customer Overlay is currently in effect with respect to all options traded on the Exchange.

there is. In contrast, Auctions for Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions in the same series. Thus, there will be no check to determine whether an Auction is already underway prior to commencing an Auction for an Agency Order for 50 contracts or more. Because multiple Auctions of Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions, there will be no queuing of Auctions for Agency orders of 50 contracts or more.

Agency Orders that do not meet the proposed conditions of paragraphs (a)(1) through (a)(3) will be rejected. Also, Agency Orders submitted at or before the opening of trading or when the NBBO is crossed are not eligible to initiate an Auction and will be rejected. Finally, an Initiating Order may not be a solicited order for the account of any Options Market Maker assigned in the affected series on the Exchange.

Auction Process

Initiating and Pricing of Auctions

To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the Agency Order (a "single-price submission"); or (ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all BAM Auction notification responses ("BAM responses") and other trading interest ("auto-match") as follows: (a) stopping the entire order at a single stop price and auto-matching BAM responses and other trading interest at all prices that improve the stop price to a specified price; or (b) stopping the entire order at a single stop price and auto-matching all BAM responses and other trading interest at all prices that improve the stop price. Once the Initiating Member has submitted an Agency Order for processing as described herein, such Agency Order may not be modified or cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% of the initial Agency Order in the event there is one competing quote, order or BAM response or 40% of the initial Agency Order in the event there are multiple competing quotes, orders or BAM responses.[8]

Last Priority

When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "last priority" to other BAM participants ("Last Priority"), which will result in the Initiating Member forfeiting priority and trade allocation privileges to which it is otherwise entitled pursuant to the proposed Rule.[9] If Last Priority is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the Agency Order at prices which are equal to or improve upon the stop price. Last Priority will not be applied if both the Initiating Order and Agency Order are Priority Customer Orders.[10] Last Priority cannot be designated on an Agency Order specified as auto-match, and thus, is only compatible with single-price submissions.

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[8] See proposed Rule 21.19(b)(1)(A).

[9] The Chicago Board Options Exchange, Incorporated's ("CBOE") has a process whereby initiating participants may elect to receive last priority in an allocation. See CBOE Rule 6.74A(b)(3)(J) (Automated Improvement Mechanism ("AIM")). See also Miami International Securities Exchange, LLC ("MIAX") Rule 5.15(A)(a)(2)(iii)(J); BX Options Chapter VI, Section 9(ii)(A)(1).

[10] As described below, a Priority Customer order that is entered to BAM paired with another Priority Customer order will immediately execute if received by the Exchange instead of commencing a BAM Auction. See proposed Rule 21.19(c)(2).

Finally, Last Priority information will not be available to other market participants and may not be modified.

Auction Notification Messages

When the Exchange receives an Agency Order for Auction processing, an auction notification message detailing the side, size, price, and options series of the Agency Order will be sent over the Exchange's Multicast PITCH Feed and Auction Feed.[11] Agency Orders will not be included in the Exchange's disseminated best bid or offer and will not be disseminated to OPRA.

Auction Period

The Auction will last for a period of time, as determined by the Exchange and announced on the Exchange's website. The Auction period will be no less than one hundred milliseconds and no more than one second.[12]

As set forth in the original Proposal, the Exchange based this time frame on filings made by NASDAQ OMX PHLX LLC ("PHLX") and BX Options,[13] citing surveys previously conducted by PHLX staff. As additional support, the Exchange conducted a survey of active EDGX market maker firms and other active liquidity providers inquiring as to the timeframe within which these market participants respond to

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11 Both data feeds are currently provided free of charge.

12 CBOE's AIM auction is a duration of one second. See CBOE Rule 6.74A(b)(1)(C).

13 See, e.g., Securities Exchange Act Release No. 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-Phlx-2016-40) (the "PHLX PIXL Amendment"); Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) (the "BX Options Prism Approval," and together with the PHLX PIXL Amendment, the "Filings").

an auction with a duration time ranging from less than fifty (50) milliseconds to more than one (1) second. In the Exchange's most recent survey, similar to the prior survey described by PHLX, an overwhelming number of the market maker firms and active liquidity providers on EDGX Options that responded to the survey indicated that they were capable of responding to auctions with a duration time of at least 50 milliseconds.[14] Based on the results of the survey, the Exchange believes that allowing for an auction period of no less than one hundred (100) milliseconds and no more than one (1) second would provide a meaningful opportunity for Members to respond to the BAM Auction while at the same time facilitating the prompt execution of orders. The Exchange believes that Members will have sufficient time to ensure competition for Agency Orders, and could provide orders within the Auction additional opportunities for price improvement.

The Exchange believes the proposed rule change could provide orders within BAM an opportunity for price improvement. Also, the shorter duration of time for the auction reduces the market risk for all Members executing trades in BAM. Initiating Members are required to guarantee an execution at the NBBO or at a better price, and are subject to market risk while their Agency Order is exposed to other Options Members.

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[14] Of the ten (10) active EDGX market maker firms that were surveyed, eight (8) of these market makers responded to the survey. In addition, because EDGX is a relatively new options exchange and is still encouraging market makers to register and participate on the Exchange as such, and to increase the sample size, the Exchange included six (6) additional liquidity providers that are not active EDGX market makers but are active participants on EDGX Options. Thirteen (13) of the fourteen (14) respondents, or 93% indicated that that their firm could respond to auctions with a duration time of at least 50 milliseconds, though one of these firms indicated a preference of auctions with a duration of 100 milliseconds. The remaining firm indicated that it could respond to auctions with a duration of at least 100 milliseconds. This survey was conducted in September of 2016.

While other Members are also subject to market risk, those providing responses in BAM may cancel or modify their orders while the Initiating Member cannot. The Exchange believes that the Initiating Member acts in a critical role within the BAM Auction. Their willingness to guarantee the orders entered into BAM an execution at the NBBO or a better price is the keystone to an order gaining the opportunity for price improvement. The Exchange believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit Members trading in BAM. EDGX believes it is in these Members' best interests to minimize the auction time while continuing to allow Members adequate time to electronically respond. Both the order being exposed and the responding orders are subject to market risk during the auction.

While some Members may wait to respond until later in the auction, presumably to minimize their market risk, the Exchange believes that a majority of BAM participants will respond early in an Auction. BAM Auctions are intended to provide all market participants with sufficient time to respond, compete, and provide price improvement for orders while also providing investors and other market participants with timely executions, thereby reducing their market risk. The proposed rule to cap the Auction time at one second will allow participants to respond quickly at the most favorable price while reducing the risk that the market will move against the response.

As set forth in the original Proposal and based on the additional survey conducted by the Exchange, EDGX believes that its Members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. EDGX believes that its Members will be able to compete within 100 milliseconds and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Auction Responses

As proposed, any person or entity other than the Initiating Member may submit responses to an Auction, provided such responses are properly marked specifying price, size, side of the market and information identifying the Auction to which the response is targeted. BAM responses will not be visible to Auction participants, and will not be disseminated to OPRA. The minimum price increment for BAM responses and for the Initiating Member's submission shall be $0.01 increment, regardless if the class trades in another increment. A BAM response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).

Multiple BAM responses from the same User may be submitted during the Auction. Multiple orders at a particular price point submitted by a User in response to an Auction or resting on the EDGX Options Book will be aggregated together and will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).[15]

BAM responses may be modified or cancelled during the Auction. BAM responses on the same side of the market as the Agency Order or with a Time in Force of IOC or FOK are considered invalid and will be immediately cancelled. BAM responses cannot cross the price of the Initial NBBO but will be executed, if possible, at the most

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[15] See proposed Rule 21.19(b)(1)(I).

aggressive permissible price within such Initial NBBO. The Exchange also proposes to limit the use of Match Trade Prevention ("MTP") functionality, set forth in Rule 21.1(g), in the context of BAM responses to the MTP Cancel Newest option. A BAM response with any other MTP modifier will be rejected.

Finally, with respect to the impact of this proposal on System[16] capacity, EDGX has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with BAM Auctions. Because neither BAM notification messages nor responses will be published to OPRA, the Exchange does not expect any additional capacity necessary with respect to OPRA and the operation of BAM on the Exchange. Additionally, in terms of overall capacity, the Exchange represents that its Systems will be able to sufficiently maintain an audit trail for order and trade information with the BAM Auction.

Conclusion of an Auction

The BAM Auction would conclude at the earliest of: the end of the Auction period, upon receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book, upon receipt by the Exchange of an unrelated order or quote that is not a Priority Customer order that is on the same side of the market as the Agency Order that would cause the Agency Order's stop price to be outside of the EDGX BBO, at the close of trading, or any time there is a trading halt on the Exchange in the affected series.[17]

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[16] The term "System" is defined in Rule 16.1(a)(59).

[17] See proposed Rule 21.19(b)(2).

The Exchange notes that it has proposed a distinction between same-side Priority Customer orders, which will cause early termination of the Auction when *at the stop price* of an Auction, and same-side orders or quotes that are not Priority Customer orders, which will cause early termination of the Auction when *better than the stop price* of an Auction. This is because the Exchange believes a Priority Customer order received by the Exchange and placed on the Exchange's order book should have certainty that it will be the first order executed on the Exchange at that price when contra-side liquidity is received by the Exchange. In contrast, because all other orders and quotes necessarily relinquish priority to Priority Customer orders on the Exchange, such orders and quotes are not necessarily first to execute once placed on the Exchange's order book (i.e., a Priority Customer order could still be entered later and yet trade before such order or quote). Accordingly, the Exchange does not believe it necessary to terminate an Auction simply because the Auction could execute at the stop price of an unrelated order or quote that is not a Priority Customer order. However, the Exchange does believe it necessary to terminate an Auction if such Auction could execute at a price that is through the price of the unrelated order or quote.

If the Auction concludes for any of the reasons set forth above other than a trading halt, then the Auction will be processed pursuant to the order allocation process set forth in proposed Rule 21.19(d), which is described in further detail below. As noted below and set forth in proposed Rule 21.19(b)(5), any unexecuted BAM responses at the conclusion of an Auction will be cancelled, and thus, will not execute against orders or quotes outside of the Auction, including an order or quote that caused an Auction to terminate early. In the event of a trading halt on the Exchange in the affected series, the

Auction will be cancelled without execution.

An unrelated market or marketable limit order (against the EDGX BBO) on the opposite side of the market from the Agency Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction.[18] If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described below. The Exchange notes that it also proposes to make clear that all unrelated orders submitted to the Exchange with contracts remaining at the time the Auction ends, including orders marked as Post Only Orders pursuant to Rule 21.1(d)(8), will be considered for participation as described below.[19] In other words, as proposed, Post Only Orders will participate in an Auction in the same manner as any other unrelated order even if the Post Only Order would be considered to be removing liquidity from the Auction (see Example No. 3 below).

Order Allocation

Allocations

At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) as follows. First, Priority Customer Orders would have priority at each price level. Next, the Initiating Member would be allocated after Priority Customer Orders.

If the Initiating Member selected the single-price submission option of the Auction, BAM executions will occur at prices that improve the stop price, and then at the

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[18] See proposed Rule 21.19(b)(3).

[19] Id.

stop price with up to 40% of the initial Agency Order allocated to the Initiating Member.[20] However, if only one other quote, order or BAM response matches the stop price, then the Initiating Member may be allocated up to 50% of the initial Agency Order when executed at such price. Remaining contracts would be allocated, pursuant to proposed sub-paragraphs (iii) and (iv) to Rule 21.19(b)(4)(B), among remaining quotes, orders and BAM responses at the stop price. Thereafter, remaining contracts, if any, would be allocated to the Initiating Member. The allocation will account for Last Priority, if applicable.

If the Initiating Member selected the auto-match option of the Auction the Initiating Member would be allocated an equal number of contracts as the aggregate size of all other quotes, orders and BAM responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member would be entitled to receive up to 40% (multiple competing quotes, orders or BAM responses) or 50% (one competing quote, order or BAM response) of the initial Agency Order at the final price point (including situations where the stop price is the final price) after Priority Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and BAM responses at the final price point the contracts will be allocated to such interest pursuant to proposed sub-paragraphs (iii) and (iv) to Rule 21.19(b)(4)(B). Any remaining contracts would be allocated to the Initiating Member.

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20 The Exchange notes that the International Securities Exchange ("ISE") bases the percentage-based allocations to an initiating member on the initial or original size of an agency order before other interest is executed. See ISE Rule 723(d)(3).

Next, for classes designated by the Exchange as eligible for "Priority Order" status, Users with resting quotes and orders that were at a price that is equal to the Initial NBBO on the opposite side of the market from the Agency Order ("Priority Orders") would have priority up to their size in the Initial NBBO at each price level at or better than such Initial NBBO after Priority Customer and the Initiating Member have received allocations.[21] Priority Orders and BAM responses submitted by Users with Priority Order Status will be allocated pursuant to the algorithm set forth in Rule 21.8(c).[22] Priority Order status is only valid for the duration of the particular Auction.

Finally, after Priority Customers, the Initiating Member and Users with Priority Orders, if applicable, have received allocations, all other interest will be allocated pursuant to Rule 21.8(c).[23]

Additional Details

Any unexecuted BAM responses will be cancelled.[24] With respect to

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21 MIAX allocates executions first to Priority Customer interest and second to priority Market Maker quotes and responses with priority status ahead of other interest. See MIAX Rule 515A(a)(2)(iii)(A) and (B). MIAX's system may designate Market Maker quotes as either priority quotes or non-priority quotes in accordance with the provisions in MIAX Rule 517(b). Although not limited to EDGX Market Makers, the Exchange is prioritizing Priority Order allocations in the proposed EDGX BAM Auction in a similar manner, after Priority Customer orders and the Initiating Member allocation but ahead of other interest. See also, BX Options Chapter VI, Section 9(ii)(E)(3).

22 See proposed Rule 21.19(b)(4)(B)(iii).

23 See proposed Rule 21.19(b)(4)(B)(iv).

24 See proposed Rule 21.19(b)(5).

"Intermarket Sweep Orders" or "ISO" Orders,[25] if an Auction is initiated for an Agency Order designated as an ISO Order, responses and executions will be permitted at a price inferior to the Initial NBBO.[26] Specifically, a BAM ISO is the transmission of two orders for crossing without regard for better priced Protected Bids or Protected Offers because the Member transmitting the BAM ISO to the Exchange has, simultaneous with the routing of the BAM ISO, routed one or more ISOs, as necessary, to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price. The Exchange will accept a BAM ISO provided the order adheres to the Agency Order acceptance requirements, but without regard to the NBBO, including interest on the Exchange's order book. The Exchange will execute the BAM ISO in the same manner as other Agency Orders, except that it will not protect prices away. Instead, an Initiating Member will bear the responsibility to clear all better priced interest away simultaneously with submitting the BAM ISO Order. The Exchange reiterates that an Initiating Member must also sweep any better priced interest on the Exchange's order book when sending a BAM ISO. However, it is possible for an Initiating Member to properly route a BAM ISO to the Exchange including sweeping any better priced interest on the Exchange, but for other interest to arrive that would be on the Exchange's order

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25 "Intermarket Sweep Orders" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by EDGX and are executed within the System at one or multiple price levels without regard to Protected Quotations of other Eligible Exchanges as defined in Rule 27.1. ISOs are not eligible for routing pursuant to Rule 21.9.

26 See proposed Rule 21.19(b)(6).

book when the Auction commences. In such circumstance, any better priced interest in the order book at the time of the BAM Auction would be executed pursuant to the proposed Auction functionality (see Example No. 12B below).

There is no other impact to BAM functionality. Specifically, liquidity present at the end of the BAM Auction will continue to be included in the BAM Auction as it is with Agency Orders not marked as ISOs. This order type is offered by other options exchanges.[27]

Crossing and Agency Orders

In lieu of the procedures in proposed paragraphs (a) - (b) to Rule 21.19, an Initiating Member may enter an Agency Order for the account of a Priority Customer paired with an order for the account of a Priority Customer and such paired orders will be automatically executed without an Auction ("Customer-to-Customer Immediate Cross"), subject to the following proposed conditions. A Customer-to-Customer Immediate Cross must be priced at or between the EDGX BBO and cannot trade through the NBBO. Further, a Customer-to-Customer Immediate Cross will not be initiated but will instead be cancelled if there is a resting Priority Customer order on the same side of the market and at the same price as the Agency Order. Finally, a Customer-to-Customer Immediate Cross will not be initiated if there is a resting Priority Customer order on the opposite side of the market from, and at the same price as, the Agency Order. Instead, the Agency Order will be subject to the Auction process set forth above, and the resting Priority

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[27] See PHLX Rules at 1080(n), which indicates that PIXL ISO Orders are permissible. See also CBOE Rule 6.53(q); BX Options Chapter VI, Section 9(ii)(K).

Customer order will participate in such process.[28]

Regulatory Provisions

Bona Fide Transactions; Disrupting or Manipulating Auctions

Under the proposed Rule, the Auction may be used only where there is a genuine intention to execute a bona fide transaction.[29] Also, under the proposed Rule, a pattern or practice of submitting orders or quotes for the purpose of disrupting or manipulating BAM Auctions would be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1. It would also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1 to engage in a pattern of conduct where the Initiating Member breaks up an Agency Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in sub-paragraph (b)(4) of the proposed Rule.[30]

Order Exposure

EDGX Rule 22.12 prevents an Options Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Options Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Member to establish a relationship with a Priority Customer or other person to deny

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[28] See proposed Rule 21.19(c).

[29] See proposed Interpretation and Policy .01 of Rule 21.19.

[30] See proposed Interpretation and Policy .02 of Rule 21.19.

agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. Under the proposed Rule, it would be a violation of Rule 22.12 for an Options Member to circumvent such rule by providing an opportunity for (i) a Priority Customer affiliated with the Options Member, or (ii) a Priority Customer with whom the Options Member has an arrangement that allows the Options Member to realize similar economic benefits from the transaction as the Options Member would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as BAM Priority Customer-to-Priority Customer immediate crosses pursuant to paragraph (c) of the proposed Rule.[31] In addition to the proposed Interpretation and Policy described above, the Exchange proposes to amend Rule 22.12 to add reference to BAM as an exception to the general restriction on the execution of orders as principal against orders they represent as agent.

Overlapping Auctions for 50 Contracts or More

As noted above, the Exchange has proposed to allow BAM Auctions for 50 contracts or more to occur concurrently with other BAM Auctions. Although Auctions for larger Agency Orders will be allowed to overlap, the Exchange does not believe that this raises any issues that are not addressed through the proposal as described above. The Exchange proposes to provide additional information regarding overlapping Auctions in Interpretation and Policy .04 to Rule 21.19.

The Exchange notes at the outset that based on how Exchange Systems operate

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[31] See proposed Interpretation and Policy .03 to Rule 21.19.

(and computer processes generally), it is impossible for Auctions to occur "simultaneously", meaning that they would commence and conclude at exactly the same time. Thus, although it is possible as proposed for one or more Auctions for 50 contracts or more to overlap, each Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two Auctions that commence and conclude at nearly the same time each Auction will have a distinct conclusion at which time the Auction will be allocated. In turn, when the first Auction concludes, unrelated orders that then exist will be considered for participation in the Auction.[32] If unrelated orders are fully executed in such Auction, then there will be no unrelated orders for consideration when the subsequent Auction is processed (unless new unrelated order interest has arrived). If instead there is remaining unrelated order interest after the first Auction has been allocated, then such unrelated order interest will be considered for allocation when the subsequent Auction is processed. In the event there are multiple Auctions underway that are each terminated early pursuant to proposed Rule 21.19(b)(2)(B) or (C), the Auctions will be processed sequentially based on the order in which they commenced.[33] As another example, each BAM response is required to specifically identify the Auction for which it is targeted[34] and if not fully executed will be

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32 See proposed Rule 21.19(b)(3).

33 The Exchange notes, however, that it is possible for multiple Auctions to be underway with different stop prices in the same series. Thus, it is possible for one or more of such Auctions to be terminated early based on receipt of an unrelated order while other Auctions to continue to their scheduled termination time to the extent the early termination provision is not triggered. See Example No. 18 below.

34 See proposed Rule 21.19(b)(1)(E).

cancelled back at the conclusion of the Auction.[35] Thus, BAM responses will be specifically considered only in the specified Auction.

Pilot Program Information to the Commission

Subject to a Pilot expiring January 18, 2017, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any raw data which is submitted to the Commission will be provided on a confidential basis.[36]

The Exchange will provide the following additional information on a monthly basis:

(1) the number of contracts (of orders of 50 contracts or greater) entered into BAM Auctions;

(2) the number of contracts (of orders of fewer than 50 contracts) entered into BAM Auctions;

(3) the number of orders of 50 contracts or greater entered into BAM Auctions; and

(4) the number of orders of fewer than 50 contracts entered into BAM Auctions.

Implementation

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[35] See proposed Rule 21.19(b)(5).

[36] See proposed Interpretation and Policy .05 to Rule 21.19.

If the Commission approves this proposed rule change, the Exchange anticipates that it will deploy BAM within 45 days of approval. Members will be notified of the deployment date through a Trade Desk Notice.

Examples of Agency Order Executions

Example No. 1

Summary:

Initiating Member & Priority Order interest fully satisfies Agency Order; all participants eligible for Priority Order status.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Member Firm 1 (non-Market Maker) offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 30 contracts at 1.02 (Priority Order status);
  - Market Maker B responds to sell 20 contracts at 1.02; and
  - Member Firm 1 responds to sell 30 contracts at 1.02 (Priority Order status).
- Auction ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A and Member Firm 1 each trades 30 contracts since each maintained Priority Orders for 30 contracts; and

- Market Maker B's response is cancelled since there were no contracts open after Priority Orders were filled at that price.

<u>Example No. 2</u>

Summary:

Initiating Member & Priority Order interest fully satisfies Agency Order with Priority Order interest exceeding remainder; Pro-Rata Amongst Priority Order interest

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker A responds to sell 30 contracts at 1.02 (Priority Order status);
    - Market Maker B responds to sell 30 contracts at 1.02 (Priority Order status);
    - Market Maker C responds to sell 10 at 1.01; and
    - Market Maker D responds to sell 10 contracts at 1.02.
- Auction ends:
    - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price;
    - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);

  - Market Maker A and Market Maker B each trades 25 contracts (pro rata among Priority Orders).
  - Market Maker D's response is cancelled since there were no contracts open after Priority Orders were filled at that price.

Example No. 3

Summary:

Market Makers improve upon the price and receive both Priority Order status and non-Priority Order status based on their size at initial NBBO; unrelated Post Only Order on the contra-side of Agency Order is received during Auction; Initiating Member does not receive an allocation.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 90 contracts stopped at 1.03 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Member Firm 1 submits a limit order to sell 50 contracts at 1.02 that is marked Post Only.
- Auction ends:

- Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price;
- Market Maker A and Market Maker B each trades 30 contracts at 1.02 since each has priority up to their size at the NBBO when the Auction started;
- Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance of 20 contracts at 1.02 based on their remaining interest size with Market Maker A being allocated 4 contracts (=20/90*20), Market Maker B being allocated 4 (=20/90*20) contracts, and Member Firm 1 being allocated 11 contracts (=50/90*20);
    - Note that the fact that the unrelated order submitted by Member Firm 1 was marked Post Only does not alter the result of the Auction, and that the result would be the same if the order was not marked Post Only or was instead a response directly to the Auction.
- The residual 1 contract will be allocated to Market Maker A based on the Exchange’s pro-rata priority methodology described in Rule 21.8(c);
- Initiating Member does not participate as entirety of order was price improved.

<u>Example No. 4</u>

Summary:

Initiating Member utilizes Auto-Match feature with specified price and Market Makers with Priority Orders participate; Initiating Member & Priority Order interest fully satisfies Agency Order.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 90 contracts stopped at 1.03 with Auto-Match feature to 1.02 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price; note that the Initiating Member specified a limit of 1.02 so such Initiating Member does not receive an Auto-Match execution at 1.01;
  - Initiating Member is allocated 40% or 36 contracts at 1.02 since it will be the final price point and Auto-Match is enabled;
  - Market Maker A and Market Maker B each trades 22 contracts at 1.02 since each has Priority Order status ahead of Market Maker D up to their size at the NBBO when the Auction started; and
  - Market Maker D's response is cancelled.

<u>Example No. 5</u>

Summary:

Initiating Member utilizes Auto-Match feature with specified price and Market Makers with Priority Order status and non-Priority Order status participate; Agency Order exceeds size of Initiating Member execution and Priority Orders.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each

- Class is designated as eligible for Priority Orders
- Agency Order to buy 150 contracts stopped at 1.03 with Auto-Match feature to 1.02 is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
    - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
    - Market Maker C responds to sell 10 at 1.01; and
    - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
    - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price; note that the Initiating Member specified a limit of 1.02 so such Initiating Member does not receive an Auto-Match execution at 1.01;
    - Initiating Member is allocated 40% or 60 contracts at 1.02 since it will be the final price point;
    - Market Maker A and Market Maker B each trades 30 contracts at 1.02 since each has Priority Order status up to their size at the NBBO when the Auction started;
    - Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance with Market Maker A and Market Maker B each trading 4 additional contracts at 1.02 (20/90*20) and Market Maker D trading 11 contracts at 1.02 (50/90*20);
    - The residual 1 contract will be allocated to Market Maker A based on the Exchange's pro-rata priority methodology described in Rule 21.8(c).

<u>Example No. 6</u>

Summary:

Initiating Member utilizes Auto-Match feature without specified price and Market Makers with Priority Order status and non-Priority Order status participate; Agency Order exceeds size of Initiating Member allocation plus Priority Orders.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 150 contracts stopped at 1.03 with Auto-Match feature is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01;
  - Initiating Member auto-matches and trades 10 at 1.01;
  - Initiating Member is allocated 40% or 60 contracts at 1.02 since it will be the final price point;
  - Market Maker A and Market Maker B each trades 30 contracts at 1.02 since each has Priority Order status up to their size at the NBBO when the Auction started;
  - Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance with Market Maker A and Market Maker B each trading

2 contracts at 1.02 (20/90*10) and Market Maker D trading 6 contracts at 1.02 (50/90*10).

Example No. 7

Summary:

All executions occurring at initial NBBO price and Priority Customer order received.

Assumptions:

- NBBO = .97 – 1.03
- Class is designated as eligible for Priority Orders
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 100 contracts stopped at 1.03 is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker C responds to sell 20 at 1.03; and
    - Priority Customer offers 2 contracts at 1.03.
- Auction ends:
    - Priority Customer trades 2 contracts at 1.03;
    - Initiating Member is allocated 40% or 40 contracts at 1.03;
    - Remaining allocation is pro-rata among Priority Order interest with Market Maker A trading 29 contracts (30/60*58) and Market Maker B trading 29 contracts (30/60*58).
        - Note that in this example the Priority Order interest from Market Maker A and Market Maker B is from quotations published on the Exchange’s order book and not from BAM responses received from such Market Makers.

- Market Maker C's response is cancelled since there were no contracts open after Priority Orders were filled at that price.

Example No. 8

Summary:

Initiating Member specifying Auto-Match feature without specified price, Market Maker with Priority Orders has multiple price levels of interest, and executions occur at initial NBBO price.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 300 contracts stopped at 1.03 with Auto-Match feature is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 10 contracts at 1.02 (Priority Order status);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 5 at 1.01; and
  - Market Maker D responds to sell 40 contracts at 1.02.
- Next, during Auction:
  - Market Maker A responds with 30 additional contracts at 1.03 (Priority Order status).
- Next, during Auction:

- Market Maker A moves his quote (maintains Priority Order status) and EDGX BBO becomes .95 – 1.02 for 10 contracts; and
- An order from Member Firm 1 arrives offering 10 contracts at 1.02 such that the EDGX BBO becomes .95 – 1.02 for 20 contracts.

- Auction ends:
  - Market Maker C trades 5 at 1.01;
  - Initiating Member auto-matches and trades 5 at 1.01;
  - Next, interest is then allocated at 1.02 as follows:
    - Market Maker A response (Priority Order status) trades 10 contracts;
    - Market Maker B response (Priority Order status) trades 30 contracts;
    - Market Maker A quote trades 10 contracts;
    - Market Maker B response (non-Priority Order status) trades 20 contracts;
    - Market Maker D's response (non-Priority Order status) trades 40 contracts;
    - Member Firm 1's quote (non-Priority Order status) trades 10 contracts.
  - Next, the Initiating Member order matches the full volume trading at 1.02 (because of Auto-Match feature) which is 120 contracts.
  - The remaining 50 contracts are traded by the Initiating Member at 1.03 since it will be the final price point (40% carve out; 0.4*300=75).

<u>Example No. 9</u>

Summary:

Initiating Member utilizing Last Priority.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 100 contracts stopped at 1.02 marked with Last Priority is received

BAM Process:

Auction begins

- During Auction:
    - Market Maker C responds to sell 5 at 1.01;
    - Market Maker A responds to sell 5 contracts at 1.02;
    - Market Maker B responds to sell 40 contracts at 1.02; and
    - Market Maker D responds to sell 20 contracts at 1.02.
- Next, during Auction:
    - Market Maker A adjusts his quote by moving 5 contracts to 1.02 (maintains Priority Order status);
    - EDGX BBO becomes .95 – 1.02 for 5 contracts; and
    - NBBO becomes .97 – 1.02.
- Auction ends:
    - Market Maker C trades 5 contracts at 1.01;
    - Market Maker A response with Priority Order status executes 5 contracts at 1.02;
    - Market Maker B response with Priority Order status executes 30 contracts at 1.02;
    - Market Maker A quote with Priority Order status executes 5 contracts at 1.02;
    - Non-Priority Order interest at 1.02 then executes with Market Maker B trading 10 contracts and Market Maker D trading 20 contracts.

  - The Initiating Member then executes the remaining 25 contracts at 1.02 since there is no other interest to satisfy the Agency Order at a price equal to or better than the stop price of 1.02.

Example No. 10

Summary:

Initiating Member utilizing Last Priority and no responders.

Assumptions:

- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each

- Agency Order to buy 20 contracts stopped at 1.02 marked with Last Priority is received

BAM Process:

- Auction begins

- During Auction:

  - Market Maker C quotes .95 – 1.02 for 10 contracts and EDGX BBO becomes .95 – 1.02 for 10 contracts; and

  - NBBO becomes .97 – 1.02.

- Next, during Auction:

  - Market Maker A moves his quote (maintains Priority Order status) and joins the EDGX BBO at .95 – 1.02 for 10 contracts; and

  - NBBO remains .97 – 1.02.

- Auction ends:

  - Priority Order interest trades first: Market Maker A gets allocated 10 contracts of Agency Order.

  - Non-Priority Order interest trades next: Market Maker C gets allocated 10 contracts.

  - Neither the Initiating Member nor Market Maker B receives any execution in this example.

Example No. 11

Summary:

Initiating Member utilizing an ISO Order priced through NBBO.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.04
- Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 20 at 1.02; and
  - Market Maker B responds to sell 20 at 1.02.
- Auction ends:
  - Market Maker A gets allocated 20 contracts of Agency Order at 1.02.
  - Market Maker B gets allocated 20 contracts of Agency Order at 1.02.
  - The Initiating Member gets allocated the remaining 10 contracts at 1.04.

Example No. 12A

Summary:

Initiating Member utilizing an ISO Order priced through EDGX BBO; Initiating Member effectively sweeps all better priced interest on the Exchange.[37]

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Market Maker A offering 20 contracts
- Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received; at the same time an ISO is received from the Initiating Member, removing Market Maker A's offer at 1.03 for 20 contracts
- EDGX BBO updates to .95 – 1.05

BAM Process:

- Auction begins
- During Auction:
    - Market Maker B responds to sell 20 at 1.02; and
    - Market Maker C responds to sell 20 at 1.02.
- Auction ends:
    - Market Maker B gets allocated 20 contracts of Agency Order at 1.02.
    - Market Maker C gets allocated 20 contracts of Agency Order at 1.02.
    - The Initiating Member gets allocated the remaining 10 contracts at 1.04.

<u>Example No. 12B</u>

Summary:

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[37] The Exchange notes that, as described above, the Member transmitting the BAM ISO to the Exchange must, simultaneous with the routing of the BAM ISO, route one or more ISOs, as necessary, to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price.

Initiating Member utilizing an ISO Order priced through EDGX BBO; Initiating Member attempts to sweep all better priced interest on the Exchange but other interest is received by the Exchange while Agency Order and ISO are in flight.[38]

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Market Maker A offering 20 contracts
- Market Maker D submits to the Exchange a quotation to sell 20 contracts at 1.03. Before Market Maker D's quotation is received by the Exchange, the Initiating Member submits to the Exchange an Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag as well as an ISO to buy 20 contracts at 1.03. The quotation from Market Maker D for 20 contracts at 1.03 is then received by the Exchange, updating the EDGX BBO to .95 – 1.03(40). Subsequently, the Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received; at the same time the ISO is received from the Initiating Member, removing Market Maker A's offer at 1.03 for 20 contracts.
- EDGX BBO updates to .95 – 1.03(20) with Market Maker D offering 20 contracts

BAM Process:

- Auction begins
- During Auction:
  - Market Maker B responds to sell 10 at 1.02; and
  - Market Maker C responds to sell 10 at 1.02.
- Auction ends:
  - Market Maker B gets allocated 10 contracts of Agency Order at 1.02.
  - Market Maker C gets allocated 10 contracts of Agency Order at 1.02.
  - Market Maker D gets allocated 20 contracts of Agency Order at 1.03.

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38 This example demonstrates that it is possible for an Initiating Member to properly route ISOs to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price but for better priced interest to nonetheless exist on the Exchange's order book when an Auction commences.

- The Initiating Member gets allocated the remaining 10 contracts at 1.04.

Example No. 13

Summary:

Initiating Member submits an order that is ineligible to commence an Auction due to insufficient price improvement when the difference between the NBB and NBO is $0.01.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.00 – 1.04
- Agency Order to buy 30 contracts stopped at 1.03 is received
- Agency Order is rejected.
  - Note: if the Agency Order were instead stopped at 1.02, the Auction would commence based on guaranteed price improvement of $0.01 as compared to the NBO of 1.03.

Example No. 14

Summary:

Auction ends early based on receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Member Firm 1 offering 20 contracts
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker A responds to sell 30 contracts at 1.02.
- Next, during Auction:
    - Member Firm 2 submits a limit order to buy 30 contracts at 1.02 that is a Priority Customer order and is designated to be posted to the EDGX Book (i.e., non-routable, Time in Force other than IOC or FOK); and
    - Auction terminates early.
- Auction ends:
    - Initiating Member is allocated 50 contracts at 1.02 (50% carve out with only one other response);
    - Market Maker A trades 30 contracts at 1.02, Initiating Member trades remaining 20 contracts at 1.02, fully satisfying the Agency Order; and
    - Member Firm 2's incoming order to buy is posted to the EDGX Book at 1.02, updating the NBBO and the EDGX BBO to 1.02 – 1.03.

<u>Example No. 15</u>

Summary:

Auction ends early based on receipt by the Exchange of an unrelated order on the same side of the market as the Agency Order that would cause the Agency Order's stop price to be outside of the EDGX BBO.

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Member Firm 1 offering 20 contracts
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins

- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02;
  - Market Maker B responds to sell 50 contracts at 1.02; and
  - Market Maker C responds to sell 50 at 1.02.
- Next, during Auction:
  - NBBO becomes 1.02 – 1.04; and
  - Member Firm 2 submits a limit order to buy 30 contracts at 1.03 that is eligible to be posted to the EDGX Book (i.e., non-routable, Time in Force other than IOC or FOK); and
  - Auction terminates early.
- Auction ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A, Market Maker B, and Market Maker C each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
  - Member Firm 2’s incoming order to buy executes 20 contracts against Member Firm 1’s resting offer at 1.03;
  - Remaining 10 contracts from Member Firm 2’s incoming order to buy is posted to the EDGX Book at 1.03, updating the NBBO and the EDGX BBO to 1.03 – 1.04.

<u>Example No. 16</u>

Summary:

Multiple Auctions for Agency Orders with a size of 50 contracts or greater are initiated; unrelated order participates in Auctions.

Assumptions:

- NBBO = .97 – 1.04
- EDGX BBO = .97 – 1.04

- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received (Agency Order 1)

BAM Process:

- Auction #1 begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02;
  - Market Maker B responds to sell 50 contracts at 1.02; and
  - Member Firm 1 submits a limit order to sell 50 contracts at 1.02, which posts to the EDGX Book, updating the NBBO and the EDGX BBO to 0.97 – 1.02; and
  - The Exchange receives an Agency Order to buy 100 contracts stopped at 1.02 (Agency Order 2).
- Auction #2 begins
- Next, during Auctions:
  - Market Maker A responds to Auction #2 to sell 30 contracts at 1.02; and
  - Market Maker C responds to Auction #2 to sell 30 contracts at 1.02.
- Auction #1 ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A, Market Maker B, and Member Firm 1 each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
  - The remainder from the responses from Market Maker A and Market Maker B (30 contracts each) are cancelled and Member Firm 1's displayed order is reduced to 30 contracts.
- Auction #2 ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);

- Market Maker A, Market Maker C, and Member Firm 1 each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
- The remainder from the responses from Market Maker A and Market Maker C (10 contracts each) are cancelled and Member Firm 1's displayed order is reduced to 10 contracts.

Example No. 17

Summary:

Multiple Auctions for Agency Orders with a size of 50 contracts or greater are initiated at different prices; unrelated order priced through the price of the second Auction, but not the first, is received; second Auction terminates prior to first Auction.

Assumptions:

- NBBO = .97 – 1.04
- EDGX BBO = .97 – 1.04
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received (Agency Order 1)

BAM Process:

- Auction #1 begins
- During Auction:
    - Market Maker A responds to sell 50 contracts at 1.02;
    - Market Maker B responds to sell 50 contracts at 1.02; and
    - The Exchange receives an Agency Order to buy 100 contracts stopped at 1.00 (Agency Order 2), which commences Auction #2 below.
- Auction #2 begins
- Next, during Auctions:
    - Market Maker A responds to Auction #2 to sell 50 contracts at 1.00;

  - Market Maker C responds to Auction #2 to sell 50 contracts at 1.00; and
  - Member Firm 1 submits a limit order to buy 50 contracts at 1.02.

- Auction #2 ends early based on the receipt of Member Firm 1's order:
  - Initiating Member is allocated 40 contracts at 1.00 (40% carve out);
  - Market Maker A and Market Maker B each trades 30 contracts at 1.00 (pro rata among orders of equal size), fully satisfying the Agency Order;
  - The remainder from the responses from Market Maker A and Market Maker B (20 contracts each) are cancelled; and
  - Member Firm 1's order is posted to the EDGX Book, updating the NBBO and the EDGX BBO to 1.02 – 1.04

- Auction #1 ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A, Market Maker C, and Member Firm 1 each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
  - The remainder from the responses from Market Maker A and Market Maker C (30 contracts each) are cancelled and Member Firm 1's displayed order is reduced to 30 contracts.

<u>Example No. 18</u>

Summary:

NBBO moves through stop price of an Agency Order after Auction has commenced.

Assumptions:

- NBBO = 1.00 – 1.01
- EDGX BBO = .99 – 1.02 (note: Market Maker A is quoting 20 contracts at 1.02)
- Agency Order to buy 100 contracts stopped at 1.00 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker B responds to sell 30 contracts at 1.00; and
  - Market Maker C responds to sell 30 contracts at 1.00.
- Next, during Auction:
  - NBBO moves to 1.01 – 1.02 (but EDGX BBO remains .99 – 1.02)
  - Member Firm 1 responds to sell 30 contracts at 1.00.
- Auction ends:
  - Initiating Member is allocated 40 contracts at 1.00 (40% carve out);
  - Market Maker B, Market Maker C and Member Firm 1 each trades 20 contracts (pro rata among orders of equal size) at 1.00, fully satisfying the Agency Order;
  - Remaining 10 contracts from Market Maker B, Market Maker C and Member Firm 1's responses are cancelled.
    - Note: although the NBBO moved after the Auction commenced such that the stop price of the Auction is priced below the NBB of 1.01, the Auction does not terminate early in this scenario, later responses priced at the stop price but through the NBB are accepted, and the Auction is permitted to execute at 1.00 based upon the Initial NBBO.[39]

Example No. 19

Summary:

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39 The Exchange notes that this proposed handling is consistent with auction mechanisms in place on other options exchanges, which similarly focus upon the Initial NBBO. See, e.g., Example #14, Securities Exchange Act Release No. 75827 (September 3, 2015), 80 FR 54601, 54609 (September 10, 2015) (SR-BX-2015-032) (Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto To Establish a New Auction, BX PRISM).

Initiating Member submits an order that is ineligible to commence an Auction due to a resting Priority Customer order.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.02 – 1.03, which includes Priority Customer A's order to buy 10 contracts at 1.02
- Agency Order to buy 30 contracts stopped at 1.02 is received
- Agency Order is rejected. The Exchange believes rejection is the most appropriate handling in such a scenario because it will allow the Initiating Member the opportunity to immediately re-assess how to best handle the order in order to execute it.
    - Note: the result in this example is the same whether the incoming Agency order is a Priority Customer order or is an order for any other type of participant. The resting Priority Customer order will prevent any Auction from commencing at that price.

<u>Example No. 20</u>

Summary:

Initiating Member submits an order that is eligible to commence an Auction despite a resting order from a non-Priority Customer because the Agency Order is a Priority Customer order.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.02 – 1.03, which includes Member Firm 1's order to buy 10 contracts at 1.02
- Agency Order that is a Priority Customer Order to buy 30 contracts stopped at 1.02 is received
- BAM Auction commences and would be processed in accordance with examples set forth above, executing at 1.02 at the conclusion of the Auction.

- Member Firm 1's order to buy 10 contracts at 1.02 would remain on the Exchange's order book, fully executable during the course of the Auction and unaffected by the Auction and any responses thereto.

Example No. 21

Summary:

Initiating Member submits an order that is ineligible to commence an Auction based on a resting order from a non-Priority Customer because the Agency Order is also a non-Priority Customer order.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.02 – 1.03, which includes Member Firm 1's order to buy 10 contracts at 1.02
- Agency Order that is a Member Firm order (not a Priority Customer order) to buy 30 contracts stopped at 1.02 is received
- Agency Order is rejected for the reasons described above
- Member Firm 1's order to buy 10 contracts at 1.02 would remain on the Exchange's order book, fully executable and unaffected by the incoming Agency Order.

Example No. 22

Summary:

Post Only Order is received by the Exchange during an Auction on the same side of the market as the Agency Order.

Assumptions:

- NBBO = 2.00 – 2.05
- Agency Order to buy 100 contracts stopped at 2.03 is received

BAM Process:

- Auction begins

- During Auction:

    - Member Firm A submits a limit order to buy 50 contracts at 2.05 that is marked Post Only and subject to the Exchange's Price Adjust functionality.[40]

        - If the series is quoted in minimum increments of .05, the incoming Post Only Order would be ranked and displayed at 2.00, because displaying the order at 2.05 would lock the NBO, and the Auction would continue unaffected.

        - If the series is quoted in minimum increments of .01, the incoming Post Only Order would be ranked and displayed at 2.04, because displaying the order at 2.05 would lock the NBO. In this case, the Auction would terminate early pursuant to proposed Rule 21.19(b)(2)(C) because the incoming order would cause the Agency Order's stop price to be outside of the EDGX BBO.

(b) Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of the Act,[41] in general, and with Section 6(b)(5) of the Act,[42] in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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40 See Rule 21.1(i).

41 15 U.S.C. 78a et seq.

42 15 U.S.C. 78f(b)(5).

The Exchange believes that the proposal will result in increased liquidity available at improved prices, with competitive final pricing out of the Initiating Member's complete control. BAM should promote and foster competition and provide more options contracts with the opportunity for price improvement. As a result of the increased opportunities for price improvement, the Exchange believes that participants will use BAM to increase the number of Priority Customer Orders that are provided with the opportunity to receive price improvement over the NBBO.

The Exchange believes that the BAM Auction will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all Users the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

The Exchange again notes that, as proposed, if the EDGX BBO on the same side of the market as the Agency Order represents a quote or order that is not a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price unless the Agency Order is a Priority Customer order. The Exchange believes this condition is consistent with the operation of the Exchange generally, where

Priority Customer orders receive a priority advantage over all other orders.[43] As such, the Exchange believes it is appropriate to restrict a BAM Auction to commence with a stop price equal to resting Priority Customer interest or non-Priority Customer interest to the extent the Agency Order is not on behalf of a Priority Customer. However, the Exchange does not believe that allowing a BAM Auction to commence for a Priority Customer Agency Order even if there is resting non-Priority Customer interest at that price raises any issues that have not already been approved more generally for the Exchange and other options exchanges that grant first priority to Priority Customers.

As noted above, the Exchange has proposed to allow BAM Auctions for 50 contracts or more to occur concurrently with other BAM Auctions. The Exchange does not believe that allowing multiple auctions to overlap for Agency Orders of 50 contracts or more presents any unique issues that differ from functionality already in place on other exchanges. The Exchange notes that other options exchanges offer auctions for orders 50 contracts or greater (generally referred to as "facilitation auctions") that are permitted to overlap.[44] In contrast, similar to the Exchange's proposal, other options exchanges do prevent overlapping auctions to occur for orders less than 50 contracts (generally referred

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43 As noted above, the proposed provision that would allow a BAM Auction to commence despite resting interest on the Exchange's order book at that price is only applicable when a BAM Order is for a Priority Customer, the resting interest is not on behalf of a Priority Customer, and the Exchange's Customer Overlay is in effect. As also noted above, the Customer Overlay is currently in effect for all options traded on the Exchange.

44 See, e.g., ISE Rule 716(d), which governs ISE's facilitation mechanism and does not restrict such auctions to one auction at a time. See also Boston Options Exchange ("BOX") Rule 7270.

to as “price improvement auctions”).[45] Instead of proposing two separate auction processes that are functionally the same with only minor differences, such as the restriction on overlapping or queuing auctions -- which is present in other options exchanges’ price improvement auctions but not in their facilitation auctions -- the Exchange is proposing to have a single process that recognizes these specific nuances to avoid introducing new policy issues regarding such topics.

The Exchange represents that it has systems capacity to process multiple overlapping auctions consistent with the proposal, including systems necessary to conduct surveillance of activity occurring in such auctions.

The Exchange does not anticipate overlapping auctions necessarily to be a common occurrence, however, after considerable review, believes that such behavior is more fair and reasonable with respect to the Users of BAM because the alternative presents other issues to such Users. Specifically, if the Exchange does not permit overlapping auctions then an Initiating Member who wishes to submit an Agency Order to BAM but has its order rejected because another BAM Auction is already underway in the series must either wait for such BAM Auction to conclude and re-submit the order to the Exchange (possibly constantly resubmitting the Agency Order to ensure it is received by the Exchange before another BAM Auction commences) or must send the order to an auction mechanism operated by another options exchange. In the latter case, as noted above, because facilitation mechanisms operated by other exchanges do not restrict such functionality to one auction at a time, such Users would have greater certainty of their

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[45] See ISE Rule 723, Interpretation and Policy .04. See also BOX IM-7150-3.

order being accepted and auctioned the first time at such exchanges than at the Exchange if the Exchange were to restrict all auctions to one auction at a time. The Exchange also notes that because the functionality is consistent with other facilitation auctions currently in place on other options exchanges, Users of BAM who use such facilitation auctions on other exchanges are familiar with the concept of overlapping auctions.

Further, the new functionality may lead to an increase in Exchange volume and should allow the Exchange to better compete against other markets that already offer an electronic solicitation mechanism, while providing an opportunity for price improvement for agency orders. The Exchange believes that its proposal will allow the Exchange to better compete for solicited transactions, while providing an opportunity for price improvement for agency orders and assuring that Priority Customers on the book are protected. The new auction mechanism should promote and foster competition and provide more options contracts with the opportunity for price improvement, which should benefit market participants, investors, and traders. The Exchange has proposed a range between no less than one hundred milliseconds and no more than one second for the duration of the BAM Auction; therefore the proposed rule change will provide investors with more timely execution of their options orders than a mechanism that has a one second auction, while ensuring that there is an adequate exposure of orders in EDGX BAM. The Exchange preliminary expects to use a default of 100 milliseconds for all symbols, a time period which 100% of the responders to a recent survey conducted by the Exchange indicated would be sufficient to respond to BAM.[46] The time will be

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[46] See supra, note 14.

announced to Members and available on the Exchange's website. The proposed auction response time of no less than one hundred milliseconds and no more than one second should allow investors the opportunity to receive price improvement through BAM while reducing market risk. The Exchange believes a briefer time period reduces the market risk for the Initiating Member, versus an auction with a one second period, as well as for any Member providing orders in response to a broadcast. As such, EDGX believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors' and the public interest. The Exchange believes the proposed rule change is not unfairly discriminatory because the BAM duration would be the same for all Members and symbols. All Members will have an equal opportunity to respond with their best prices during the BAM Auction. Since the Exchange considers all interest present in the System, and not solely BAM responses, for execution against the Agency Order, those participants who are not explicit responders to the Auction will expect executions via BAM as well.

With respect to trading halts, as described herein, in the case of a trading halt on the Exchange in the affected series, the Auction will be cancelled without execution. Cancelling Auctions without execution in this circumstance is consistent with Exchange handling of trading halts in the context of continuous trading on EDGX Options and promotes just and equitable principles of trade and, in general, protects investors and the public interest.[47]

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[47] The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market and other circumstances. See Rule 20.3.

The Exchange further believes that the proposal is consistent with the requirements of Section 11(a) of the Act[48] and Rule 11a2-2(T)[49] thereunder. Section 11(a) prohibits a member of a national securities exchange from effecting transactions on the exchange for its own account, the account of an associated person, or an account in which it or an associated person exercises investment discretion, unless an exception applies (collectively "Covered Accounts"). Rule 11a2-2(T) under the Act,[50] known as the effect versus execute" rule, provides exchange members with an exemption from the Section 11(a)(1) prohibition. Rule 11a2-2(T) permits an exchange member, subject to certain conditions, to effect transactions for Covered Accounts by arranging for an unaffiliated member to execute transactions on the exchange.[51] To comply with Rule 11a2-2(T)'s conditions, a member: (i) must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[52] (iii) may not be affiliated with the

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48 15 U.S.C. 78k(a)(1).

49 17 CFR 240.11a2-2(T).

50 CFR 240.11a2-2(T).

51 In enacting this provision, Congress was concerned about members benefiting in their principal transactions from special "time and place" advantages associated with floor trading--such as the ability to "execute decisions faster than public investors." The Commission, however, has adopted a number of exceptions to the general statutory prohibition for situations in which the principal transactions contribute to the fairness and orderliness of exchange markets or do not reflect any time and place trading advantages. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978); Securities Exchange Act Release No. 14713 (April 28, 1978), 43 FR 18557 (May 1, 1978); Securities Exchange Act Release No. 15533 (January 29, 1979), 44 FR 6093 (Jan. 31, 1979). The 1978 and 1979 Releases cite the House Report at 54-57.

52 The member may, however, participate in clearing and settling the transaction.

executing member; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule. For the reasons set forth below, the Exchange believes that Exchange Members entering orders into BAM would satisfy the requirements of Rule 11a2-2(T).

The Exchange does not operate a physical trading floor, rather the Exchange operates an electronic market. Rule 11a2-2(T)'s first condition is that orders for Covered Accounts be transmitted from off the exchange floor. In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a Covered Account order is transmitted from a remote location directly to an exchange's floor by electronic means.[53] EDGX represents that the System and the proposed BAM Auction receive all orders electronically through remote terminals or computer-to-computer interfaces. The Exchange represents that orders for Covered Accounts from Members will be transmitted from a remote location directly to the proposed BAM mechanisms by electronic means.

The second condition of Rule 11a2-2(T) requires that neither a member nor an

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[53] See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR-BATS-2009-031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SRBSE-2008-48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release").

associated person participate in the execution of its order once the order is transmitted to the floor for execution. The Exchange represents that, upon submission to the BAM Auction, an order will be executed automatically pursuant to the rules set forth for BAM. In particular, execution of an order sent to the mechanism depends not on the Initiating Member entering the order, but rather on what other orders are present and the priority of those orders. Thus, at no time following the submission of an order is a Member able to acquire control or influence over the result or timing of order execution.[54] Once the Agency Order has been transmitted, the Exchange Initiating Member that transmitted the order will not participate in the execution of the Agency Order. Initiating Members submitting Agency Orders will relinquish control to modify or cancel their Agency Orders upon transmission to the Exchange's System. Further, no Member, including the Initiating Member, will see a BAM response submitted into BAM and therefore and will not be able to influence or guide the execution of their Agency Orders. Finally, the Last Priority feature will not permit a Member to have any control over an order. The election to Last Priority an order is available prior to the submission of the order and therefore could not be utilized to gain influence or guide the execution of the Agency Order. The information provided with respect to the Last Priority feature by the Initiating Member will not be broadcast and further, the information may not be modified by the Initiating Member during the auction.

Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The

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[54] The Exchange notes that a Member may not cancel or modify an order after it has been submitted into BAM.

Commission has stated that the requirement is satisfied when automated exchange facilities, such as the BAM Auction are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.[55] The Exchange represents that the BAM Auction is designed so that no Member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the mechanism.

Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.[56] The Exchange recognizes that Members relying on Rule

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55 In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

56 See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for Covered Accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such

11a2-2(T) for transactions effected through the BAM Auction must comply with this condition of the Rule and the Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange believes that the instant proposal is consistent with Rule 11a2-2(T), and that therefore the exception should apply in this case.

The Exchange also believes that the proposed rule changes would further the objectives of the Act to protect investors by promoting the intermarket price protection goals of the Options Intermarket Linkage Plan.[57] The Exchange believes its proposal would help ensure inter-market competition across all exchanges and facilitate compliance with best execution practices. The Exchange believes that these objectives are consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 11A of the Act.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The competition among the options exchanges is vigorous and this proposal is intended to afford the EDGX Options market the opportunity to compete for order flow by offering an auction mechanism on EDGX similar to that of other exchanges.

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transactions. See also 1978 (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

[57] See Rule 27.3 regarding Locked and Crossed Markets.

With respect to intra-market competition, the Auction will be available to all EDGX Options Members. Moreover, as explained above, the proposal should encourage EDGX Options Members to compete amongst each other by responding with their best price and size for a particular auction. With respect to overall market quality, the Exchange believes that the BAM Auction, as proposed herein, will encourage will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all Users the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

The Exchange's proposal is a competitive response to similar provisions in the price improvement auction rules of other options exchanges.[58] The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish more uniform price improvement auction rules on the various options exchanges. The Exchange anticipates that this auction proposal will create new

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[58] Today, the following options markets offer auctions: CBOE, ISE, BOX, MIAX, PHLX and BX Options. <u>See</u> CBOE Rule 6.74A, ISE Rule 723, BOX Rule 7150, MIAX Rule 5.15, PHLX Rule 1080(n), and BX Options Chapter VI, Section 9.

opportunities for EDGX to attract new business and compete on equal footing with those options exchanges with auctions and for this reason the proposal does not create an undue burden on inter-market competition. Rather, the Exchange believes that the proposed rule would bolster inter-market competition by promoting fair competition among individual markets, while at the same time assuring that market participants receive the benefits of markets that are linked together, through facilities and rules, in a unified system, which promotes interaction among the orders of buyers and sellers. The Exchange believes its proposal would help ensure inter-market competition across all exchanges and facilitate compliance with best execution practices. In addition, the Exchange believes that the proposed rule change would help promote fair and orderly markets by helping ensure compliance with Options Order Protection and Locked and Crossed Market Rules.[59] Thus, the Exchange does not believe the proposal creates any significant impact on competition.

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

Written comments were neither solicited nor received.

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 requests the Commission to find good cause to accelerate effectiveness of this proposed rule change pursuant to Section 19(b)(2) of the Act and to

[59] See Chapter XXVII of the Exchange's Rules.

approve the proposed rule change prior to the 30th day after publication of the proposed rule change in the Federal Register. The Exchange believes there is good cause to grant expedited review and accelerated effectiveness of this amended proposal because the amendment is intended to provide additional detail and clarity regarding proposed Auction functionality and to further align the proposed functionality with existing functionality on the Exchange and similar auction mechanisms operated by other options exchanges that have been approved by the Commission. First, the proposal has been amended in order to restrict an Auction from commencing with a stop price equal to a same side resting order unless the resting order is not a Priority Customer order, the Exchange's Customer Overlay is in effect pursuant to Rule 21.8(d)(1) and the incoming Agency Order to commence an Auction is a Priority Customer order – in all other instances the Agency Order must be priced better than the resting interest. This change is intended to more closely align the Proposal with the Exchange's existing pro rata priority allocation model, which provides Priority Customers interest over other interest when the Customer Overlay is in effect pursuant to Rule 21.8(d)(1). Second, the Exchange has also amended the proposal to prohibit an Initiating Order from being a solicited order for the account of an Options Market Maker assigned in the affected series on the Exchange.[60] Third, the amended proposal provides details regarding a survey conducted by the Exchange regarding the ability of participants to respond to an Auction lasting no less than one hundred milliseconds and no more than one second. Although the

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60 This prohibition is based on a prohibition contained in other options exchange's auction mechanisms. See, e.g., NASDAQ OMX BX, Inc. ("BX Options") Chapter VI, Section 9(i)(F).

Exchange included justification for the proposed timeframe based on the options industry in general and the view that participants on the Exchange are the same or similar to participants on other Exchanges, the Exchange conducted this survey to bolster the Exchange's proposal by confirming that the proposed timeframe was specifically appropriate for Exchange participants. Last, the amended proposal is intended to provide additional explanation and justification of certain aspects of the Proposal, to add additional detail regarding the operation of the proposed functionality, and to make other minor structural, technical and clarifying amendments to the Proposal and the proposed rule text to improve the understandability of the Proposal.

Because each of these changes is either proposed to more closely align the Proposal with the Exchange's rules or the rules of other options exchanges or to provide additional clarification and justification without actually modifying any aspect of the proposed functionality, the Exchange does not believe that the amendment raises any new or novel issues. The Exchange further notes that no comments have been received in connection with the Proposal. Finally, as set forth above, this proposal is a competitive proposal that will allow the Exchange to compete with other options exchanges that offer similar auction mechanisms to their participants.

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

Not applicable.

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.
Exhibits 2-3:	Not applicable.
Exhibit 4:	Text of Proposed Rule Change Compared to Original Proposal
Exhibit 5:	Text of Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____________; File No. SR-BatsEDGX-2016-41 Amendment No. 1)

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to the Exchange's Equity Options Platform to Adopt a Price Improvement Auction, the Bats Auction Mechanism

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 ________________________, Bats EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The 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 for the Exchange's equity options platform ("EDGX Options") to adopt a price improvement auction, the Bats Auction Mechanism, as further discussed below.

The text of the proposed rule change is available at the Exchange's website at www.bats.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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

Amendment No. 1

This Amendment No. 1 to SR-BatsEDGX-2016-41 amends and replaces in its entirety the proposal as originally submitted on September 16, 2016 (the "Proposal"). The Exchange submits this Amendment No. 1 in order to clarify certain points and add additional details to the Proposal, as highlighted below. Specifically, Amendment No. 1 has been submitted to (all terms as defined below):

- Restrict an Auction from commencing with a stop price equal to a same side resting order unless the resting order is not a Priority Customer order, the Exchange's "Customer Overlay" is in effect pursuant to Rule 21.8(d)(1) and the incoming Agency Order to commence an Auction is a Priority Customer order – in all other instances the Agency Order must be priced better than the resting interest;[3]
- Prohibit an Initiating Order from being a solicited order for the account of an Options Market Maker assigned in the affected series on the Exchange;[4]

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3 This behavior is based on Exchange Rule 21.8(d), which, as described below, provides Priority Customer orders priority on the Exchange ahead of other interest when the Customer Overlay is in effect.

4 This prohibition is based on a prohibition contained in other options exchange's auction mechanisms. See, e.g., NASDAQ OMX BX, Inc. ("BX Options") Chapter VI, Section 9(i)(F).

- Provide details regarding a survey conducted by the Exchange regarding the ability of participants to respond to an Auction lasting no less than one hundred milliseconds and no more than one second;
- Provide additional explanation and justification of certain aspects of the Proposal, including a modified example, additional examples related to the Proposal, and details regarding the handling of overlapping Auctions, which are only proposed to be allowed with respect to Auctions for 50 contracts or more; and
- Make other minor structural, technical and clarifying amendments to the Proposal and the proposed rule text to improve the understandability of the Proposal.

Overview

The purpose of the proposed rule change is to establish a price improvement auction, the Bats Auction Mechanism ("BAM", "BAM Auction", or "Auction") on the Exchange. BAM includes functionality in which a Member (an "Initiating Member") may electronically submit for execution an order it represents as agent on behalf of a Priority Customer,[5] broker dealer, or any other person or entity ("Agency Order") against principal interest or against any other order it represents as agent (an "Initiating Order") provided it submits the Agency Order for electronic execution into the BAM Auction pursuant to the proposed Rule. For purposes of this filing and the proposed Rule, the term "NBBO" shall mean the national best bid or national best offer at the particular point in time applicable to the reference and the term "Initial NBBO" shall mean the national best bid or national best offer at the time an Auction is initiated.

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5 The term "Priority Customer" means any person or entity that is not: (A) a broker or dealer in securities; or (B) a Professional. The term "Priority Customer Order" means an order for the account of a Priority Customer. See Rule 16.1(a)(45). A "Professional" is any person or entity that: (A) is not a broker or dealer in securities; and (B) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). All Professional orders shall be appropriately marked by Options Members. See Rule 16.1(a)(46).

The Exchange believes that the BAM Auction, as proposed herein, will encourage participants on EDGX Options to quote or display orders at the NBBO[6] with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all EDGX Options participants ("Users") the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

Auction Eligibility Requirements

All options traded on the Exchange are eligible for BAM. Proposed Rule 21.19(a) describes the circumstances under which an Initiating Member may initiate an Auction. More specifically, proposed paragraphs (a)(1) through (a)(3) describe three conditions to the initiation of an order. The proposed conditions relate to price, the existence of same-side orders on the EDGX order book when an Agency Order is submitted to BAM, and the existence of an Auction already underway on the Exchange in the same series when an Agency Order for less than 50 contracts is received.

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6 As explained below, the Exchange notes that as proposed, if the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is $0.01, the Initiating Member must stop the entire Agency Order at one minimum price improvement increment better than the NBBO, which increment shall be determined by the Exchange but may not be smaller than $0.01.

First, with respect to price, in order to initiate an Auction, the Initiating Member must stop the entire Agency Order as principal or with a solicited order at a price in an increment of $0.01 such that: (A) if the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is $0.01, the Initiating Member must stop the entire Agency Order at one minimum price improvement increment better than the NBBO, which increment shall be determined by the Exchange but may not be smaller than $0.01; or (B) for any other Agency Order, the Initiating Member must stop the entire Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).

Second, if the EDGX BBO on the same side of the market as the Agency Order represents a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price. If the EDGX BBO on the same side of the market as the Agency Order represents a quote or order that is not a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price unless the Agency Order is a Priority Customer order and the Priority Customer Overlay set forth in Rule 21.8(d)(1) is in effect. The Exchange believes this condition is consistent with the operation of the Exchange generally, where Priority Customer orders receive a priority advantage over all other orders.[7]

Third, with respect to Agency Orders for less than 50 contracts, only one such

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7 See Exchange Rule 21.8(d)(1), which specifies that when the Customer Overlay is in effect, Priority Customer Orders shall have priority over orders on behalf of all other types of participants ("non-Customers") at the same price. The Exchange notes that the Customer Overlay is currently in effect with respect to all options traded on the Exchange.

Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. In other words, prior to commencing an auction for less than 50 contracts, the Exchange will determine whether an Auction for less than 50 contracts is already underway in that series and will cancel the Auction if there is. In contrast, Auctions for Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions in the same series. Thus, there will be no check to determine whether an Auction is already underway prior to commencing an Auction for an Agency Order for 50 contracts or more. Because multiple Auctions of Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions, there will be no queuing of Auctions for Agency orders of 50 contracts or more.

Agency Orders that do not meet the proposed conditions of paragraphs (a)(1) through (a)(3) will be rejected. Also, Agency Orders submitted at or before the opening of trading or when the NBBO is crossed are not eligible to initiate an Auction and will be rejected. Finally, an Initiating Order may not be a solicited order for the account of any Options Market Maker assigned in the affected series on the Exchange.

Auction Process

Initiating and Pricing of Auctions

To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify either: (i) a single price at which it seeks to execute the Agency Order (a “single-price submission”); or (ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all BAM Auction notification responses (“BAM responses”) and other trading interest (“auto-match”) as follows: (a) stopping the entire order at a single stop price and auto-matching BAM responses and other trading interest at all prices that improve the stop price to a specified price; or (b) stopping the entire order at a single stop price and auto-matching all BAM responses and other trading interest at all prices that improve the stop price. Once the Initiating Member has submitted an Agency Order for processing as described herein, such Agency Order may not be modified or cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% of the initial Agency Order in the event there is one competing quote, order or BAM response or 40% of the initial Agency Order in the event there are multiple competing quotes, orders or BAM responses.[8]

Last Priority

When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of “last priority” to other BAM participants (“Last Priority”), which will result in the Initiating Member forfeiting priority and trade allocation privileges to which it is otherwise entitled pursuant to the proposed Rule.[9] If Last Priority is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the Agency Order at prices which are equal to or improve upon the stop price. Last Priority will not be applied if both the Initiating Order and Agency Order are

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[8] See proposed Rule 21.19(b)(1)(A).

[9] The Chicago Board Options Exchange, Incorporated’s (“CBOE”) has a process whereby initiating participants may elect to receive last priority in an allocation. See CBOE Rule 6.74A(b)(3)(J) (Automated Improvement Mechanism (“AIM”)). See also Miami International Securities Exchange, LLC (“MIAX”) Rule 5.15(A)(a)(2)(iii)(J); BX Options Chapter VI, Section 9(ii)(A)(1).

Priority Customer Orders.[10] Last Priority cannot be designated on an Agency Order specified as auto-match, and thus, is only compatible with single-price submissions. Finally, Last Priority information will not be available to other market participants and may not be modified.

Auction Notification Messages

When the Exchange receives an Agency Order for Auction processing, an auction notification message detailing the side, size, price, and options series of the Agency Order will be sent over the Exchange's Multicast PITCH Feed and Auction Feed.[11] Agency Orders will not be included in the Exchange's disseminated best bid or offer and will not be disseminated to OPRA.

Auction Period

The Auction will last for a period of time, as determined by the Exchange and announced on the Exchange's website. The Auction period will be no less than one hundred milliseconds and no more than one second.[12]

As set forth in the original Proposal, the Exchange based this time frame on filings made by NASDAQ OMX PHLX LLC ("PHLX") and BX Options,[13] citing

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10 As described below, a Priority Customer order that is entered to BAM paired with another Priority Customer order will immediately execute if received by the Exchange instead of commencing a BAM Auction. See proposed Rule 21.19(c)(2).

11 Both data feeds are currently provided free of charge.

12 CBOE's AIM auction is a duration of one second. See CBOE Rule 6.74A(b)(1)(C).

13 See, e.g., Securities Exchange Act Release No. 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-Phlx-2016-40) (the "PHLX PIXL Amendment"); Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347

surveys previously conducted by PHLX staff. As additional support, the Exchange conducted a survey of active EDGX market maker firms and other active liquidity providers inquiring as to the timeframe within which these market participants respond to an auction with a duration time ranging from less than fifty (50) milliseconds to more than one (1) second. In the Exchange's most recent survey, similar to the prior survey described by PHLX, an overwhelming number of the market maker firms and active liquidity providers on EDGX Options that responded to the survey indicated that they were capable of responding to auctions with a duration time of at least 50 milliseconds.[14] Based on the results of the survey, the Exchange believes that allowing for an auction period of no less than one hundred (100) milliseconds and no more than one (1) second would provide a meaningful opportunity for Members to respond to the BAM Auction while at the same time facilitating the prompt execution of orders. The Exchange believes that Members will have sufficient time to ensure competition for Agency Orders, and could provide orders within the Auction additional opportunities for price improvement.

The Exchange believes the proposed rule change could provide orders within

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(November 4, 2015) (SR-BX-2015-032) (the "BX Options Prism Approval," and together with the PHLX PIXL Amendment, the "Filings").

14 Of the ten (10) active EDGX market maker firms that were surveyed, eight (8) of these market makers responded to the survey. In addition, because EDGX is a relatively new options exchange and is still encouraging market makers to register and participate on the Exchange as such, and to increase the sample size, the Exchange included six (6) additional liquidity providers that are not active EDGX market makers but are active participants on EDGX Options. Thirteen (13) of the fourteen (14) respondents, or 93% indicated that that their firm could respond to auctions with a duration time of at least 50 milliseconds, though one of these firms indicated a preference of auctions with a duration of 100 milliseconds. The remaining firm indicated that it could respond to auctions with a duration of at least 100 milliseconds. This survey was conducted in September of 2016.

BAM an opportunity for price improvement. Also, the shorter duration of time for the auction reduces the market risk for all Members executing trades in BAM. Initiating Members are required to guarantee an execution at the NBBO or at a better price, and are subject to market risk while their Agency Order is exposed to other Options Members. While other Members are also subject to market risk, those providing responses in BAM may cancel or modify their orders while the Initiating Member cannot. The Exchange believes that the Initiating Member acts in a critical role within the BAM Auction. Their willingness to guarantee the orders entered into BAM an execution at the NBBO or a better price is the keystone to an order gaining the opportunity for price improvement. The Exchange believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit Members trading in BAM. EDGX believes it is in these Members' best interests to minimize the auction time while continuing to allow Members adequate time to electronically respond. Both the order being exposed and the responding orders are subject to market risk during the auction.

While some Members may wait to respond until later in the auction, presumably to minimize their market risk, the Exchange believes that a majority of BAM participants will respond early in an Auction. BAM Auctions are intended to provide all market participants with sufficient time to respond, compete, and provide price improvement for orders while also providing investors and other market participants with timely executions, thereby reducing their market risk. The proposed rule to cap the Auction time at one second will allow participants to respond quickly at the most favorable price while reducing the risk that the market will move against the response.

As set forth in the original Proposal and based on the additional survey conducted by the Exchange, EDGX believes that its Members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. EDGX believes that its Members will be able to compete within 100 milliseconds and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Auction Responses

As proposed, any person or entity other than the Initiating Member may submit responses to an Auction, provided such responses are properly marked specifying price, size, side of the market and information identifying the Auction to which the response is targeted. BAM responses will not be visible to Auction participants, and will not be disseminated to OPRA. The minimum price increment for BAM responses and for the Initiating Member's submission shall be $0.01 increment, regardless if the class trades in another increment. A BAM response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).

Multiple BAM responses from the same User may be submitted during the Auction. Multiple orders at a particular price point submitted by a User in response to an Auction or resting on the EDGX Options Book will be aggregated together and will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).[15]

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[15] See proposed Rule 21.19(b)(1)(I).

BAM responses may be modified or cancelled during the Auction. BAM responses on the same side of the market as the Agency Order or with a Time in Force of IOC or FOK are considered invalid and will be immediately cancelled. BAM responses cannot cross the price of the Initial NBBO but will be executed, if possible, at the most aggressive permissible price within such Initial NBBO. The Exchange also proposes to limit the use of Match Trade Prevention ("MTP") functionality, set forth in Rule 21.1(g), in the context of BAM responses to the MTP Cancel Newest option. A BAM response with any other MTP modifier will be rejected.

Finally, with respect to the impact of this proposal on System[16] capacity, EDGX has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with BAM Auctions. Because neither BAM notification messages nor responses will be published to OPRA, the Exchange does not expect any additional capacity necessary with respect to OPRA and the operation of BAM on the Exchange. Additionally, in terms of overall capacity, the Exchange represents that its Systems will be able to sufficiently maintain an audit trail for order and trade information with the BAM Auction.

Conclusion of an Auction

The BAM Auction would conclude at the earliest of: the end of the Auction period, upon receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book, upon receipt by the Exchange of an unrelated order or quote that is not a

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16 The term "System" is defined in Rule 16.1(a)(59).

Priority Customer order that is on the same side of the market as the Agency Order that would cause the Agency Order's stop price to be outside of the EDGX BBO, at the close of trading, or any time there is a trading halt on the Exchange in the affected series.[17] The Exchange notes that it has proposed a distinction between same-side Priority Customer orders, which will cause early termination of the Auction when *at the stop price* of an Auction, and same-side orders or quotes that are not Priority Customer orders, which will cause early termination of the Auction when *better than the stop price* of an Auction. This is because the Exchange believes a Priority Customer order received by the Exchange and placed on the Exchange's order book should have certainty that it will be the first order executed on the Exchange at that price when contra-side liquidity is received by the Exchange. In contrast, because all other orders and quotes necessarily relinquish priority to Priority Customer orders on the Exchange, such orders and quotes are not necessarily first to execute once placed on the Exchange's order book (i.e., a Priority Customer order could still be entered later and yet trade before such order or quote). Accordingly, the Exchange does not believe it necessary to terminate an Auction simply because the Auction could execute at the stop price of an unrelated order or quote that is not a Priority Customer order. However, the Exchange does believe it necessary to terminate an Auction if such Auction could execute at a price that is through the price of the unrelated order or quote.

If the Auction concludes for any of the reasons set forth above other than a trading halt, then the Auction will be processed pursuant to the order allocation process

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[17] See proposed Rule 21.19(b)(2).

set forth in proposed Rule 21.19(d), which is described in further detail below. As noted below and set forth in proposed Rule 21.19(b)(5), any unexecuted BAM responses at the conclusion of an Auction will be cancelled, and thus, will not execute against orders or quotes outside of the Auction, including an order or quote that caused an Auction to terminate early. In the event of a trading halt on the Exchange in the affected series, the Auction will be cancelled without execution.

An unrelated market or marketable limit order (against the EDGX BBO) on the opposite side of the market from the Agency Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction.[18] If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described below. The Exchange notes that it also proposes to make clear that all unrelated orders submitted to the Exchange with contracts remaining at the time the Auction ends, including orders marked as Post Only Orders pursuant to Rule 21.1(d)(8), will be considered for participation as described below.[19] In other words, as proposed, Post Only Orders will participate in an Auction in the same manner as any other unrelated order even if the Post Only Order would be considered to be removing liquidity from the Auction (see Example No. 3 below).

Order Allocation

Allocations

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[18] See proposed Rule 21.19(b)(3).

[19] Id.

At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) as follows. First, Priority Customer Orders would have priority at each price level. Next, the Initiating Member would be allocated after Priority Customer Orders.

If the Initiating Member selected the single-price submission option of the Auction, BAM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the initial Agency Order allocated to the Initiating Member.[20] However, if only one other quote, order or BAM response matches the stop price, then the Initiating Member may be allocated up to 50% of the initial Agency Order when executed at such price. Remaining contracts would be allocated, pursuant to proposed sub-paragraphs (iii) and (iv) to Rule 21.19(b)(4)(B), among remaining quotes, orders and BAM responses at the stop price. Thereafter, remaining contracts, if any, would be allocated to the Initiating Member. The allocation will account for Last Priority, if applicable.

If the Initiating Member selected the auto-match option of the Auction the Initiating Member would be allocated an equal number of contracts as the aggregate size of all other quotes, orders and BAM responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member would be entitled to receive up to 40% (multiple competing quotes, orders or BAM responses) or 50% (one competing quote, order or BAM response) of the initial Agency Order at the final price point (including situations where the stop price is the

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[20] The Exchange notes that the International Securities Exchange ("ISE") bases the percentage-based allocations to an initiating member on the initial or original size of an agency order before other interest is executed. See ISE Rule 723(d)(3).

final price) after Priority Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and BAM responses at the final price point the contracts will be allocated to such interest pursuant to proposed sub-paragraphs (iii) and (iv) to Rule 21.19(b)(4)(B). Any remaining contracts would be allocated to the Initiating Member.

Next, for classes designated by the Exchange as eligible for "Priority Order" status, Users with resting quotes and orders that were at a price that is equal to the Initial NBBO on the opposite side of the market from the Agency Order ("Priority Orders") would have priority up to their size in the Initial NBBO at each price level at or better than such Initial NBBO after Priority Customer and the Initiating Member have received allocations.[21] Priority Orders and BAM responses submitted by Users with Priority Order Status will be allocated pursuant to the algorithm set forth in Rule 21.8(c).[22] Priority Order status is only valid for the duration of the particular Auction.

Finally, after Priority Customers, the Initiating Member and Users with Priority Orders, if applicable, have received allocations, all other interest will be allocated

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21 MIAX allocates executions first to Priority Customer interest and second to priority Market Maker quotes and responses with priority status ahead of other interest. See MIAX Rule 515A(a)(2)(iii)(A) and (B). MIAX's system may designate Market Maker quotes as either priority quotes or non-priority quotes in accordance with the provisions in MIAX Rule 517(b). Although not limited to EDGX Market Makers, the Exchange is prioritizing Priority Order allocations in the proposed EDGX BAM Auction in a similar manner, after Priority Customer orders and the Initiating Member allocation but ahead of other interest. See also, BX Options Chapter VI, Section 9(ii)(E)(3).

22 See proposed Rule 21.19(b)(4)(B)(iii).

pursuant to Rule 21.8(c).[23]

Additional Details

Any unexecuted BAM responses will be cancelled.[24] With respect to "Intermarket Sweep Orders" or "ISO" Orders,[25] if an Auction is initiated for an Agency Order designated as an ISO Order, responses and executions will be permitted at a price inferior to the Initial NBBO.[26] Specifically, a BAM ISO is the transmission of two orders for crossing without regard for better priced Protected Bids or Protected Offers because the Member transmitting the BAM ISO to the Exchange has, simultaneous with the routing of the BAM ISO, routed one or more ISOs, as necessary, to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price. The Exchange will accept a BAM ISO provided the order adheres to the Agency Order acceptance requirements, but without regard to the NBBO, including interest on the Exchange's order book. The Exchange will execute the BAM ISO in the same manner as other Agency Orders, except that it will not protect prices away. Instead, an Initiating Member will bear the responsibility to clear all better priced interest away simultaneously with submitting the BAM ISO Order. The Exchange reiterates that an

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23 See proposed Rule 21.19(b)(4)(B)(iv).

24 See proposed Rule 21.19(b)(5).

25 "Intermarket Sweep Orders" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by EDGX and are executed within the System at one or multiple price levels without regard to Protected Quotations of other Eligible Exchanges as defined in Rule 27.1. ISOs are not eligible for routing pursuant to Rule 21.9.

26 See proposed Rule 21.19(b)(6).

Initiating Member must also sweep any better priced interest on the Exchange's order book when sending a BAM ISO. However, it is possible for an Initiating Member to properly route a BAM ISO to the Exchange including sweeping any better priced interest on the Exchange, but for other interest to arrive that would be on the Exchange's order book when the Auction commences. In such circumstance, any better priced interest in the order book at the time of the BAM Auction would be executed pursuant to the proposed Auction functionality (see Example No. 12B below).

There is no other impact to BAM functionality. Specifically, liquidity present at the end of the BAM Auction will continue to be included in the BAM Auction as it is with Agency Orders not marked as ISOs. This order type is offered by other options exchanges.[27]

Crossing and Agency Orders

In lieu of the procedures in proposed paragraphs (a) - (b) to Rule 21.19, an Initiating Member may enter an Agency Order for the account of a Priority Customer paired with an order for the account of a Priority Customer and such paired orders will be automatically executed without an Auction ("Customer-to-Customer Immediate Cross"), subject to the following proposed conditions. A Customer-to-Customer Immediate Cross must be priced at or between the EDGX BBO and cannot trade through the NBBO. Further, a Customer-to-Customer Immediate Cross will not be initiated but will instead be cancelled if there is a resting Priority Customer order on the same side of the market

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27 See PHLX Rules at 1080(n), which indicates that PIXL ISO Orders are permissible. See also CBOE Rule 6.53(q); BX Options Chapter VI, Section 9(ii)(K).

and at the same price as the Agency Order. Finally, a Customer-to-Customer Immediate Cross will not be initiated if there is a resting Priority Customer order on the opposite side of the market from, and at the same price as, the Agency Order. Instead, the Agency Order will be subject to the Auction process set forth above, and the resting Priority Customer order will participate in such process.[28]

Regulatory Provisions

Bona Fide Transactions; Disrupting or Manipulating Auctions

Under the proposed Rule, the Auction may be used only where there is a genuine intention to execute a bona fide transaction.[29] Also, under the proposed Rule, a pattern or practice of submitting orders or quotes for the purpose of disrupting or manipulating BAM Auctions would be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1. It would also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1 to engage in a pattern of conduct where the Initiating Member breaks up an Agency Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in sub-paragraph (b)(4) of the proposed Rule.[30]

Order Exposure

EDGX Rule 22.12 prevents an Options Member from executing agency orders to increase its economic gain from trading against the order without first giving other

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[28] See proposed Rule 21.19(c).

[29] See proposed Interpretation and Policy .01 of Rule 21.19.

[30] See proposed Interpretation and Policy .02 of Rule 21.19.

trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Options Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Member to establish a relationship with a Priority Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. Under the proposed Rule, it would be a violation of Rule 22.12 for an Options Member to circumvent such rule by providing an opportunity for (i) a Priority Customer affiliated with the Options Member, or (ii) a Priority Customer with whom the Options Member has an arrangement that allows the Options Member to realize similar economic benefits from the transaction as the Options Member would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as BAM Priority Customer-to-Priority Customer immediate crosses pursuant to paragraph (c) of the proposed Rule.[31] In addition to the proposed Interpretation and Policy described above, the Exchange proposes to amend Rule 22.12 to add reference to BAM as an exception to the general restriction on the execution of orders as principal against orders they represent as agent.

Overlapping Auctions for 50 Contracts or More

As noted above, the Exchange has proposed to allow BAM Auctions for 50 contracts or more to occur concurrently with other BAM Auctions. Although Auctions for larger Agency Orders will be allowed to overlap, the Exchange does not believe that

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[31] See proposed Interpretation and Policy .03 to Rule 21.19.

this raises any issues that are not addressed through the proposal as described above. The Exchange proposes to provide additional information regarding overlapping Auctions in Interpretation and Policy .04 to Rule 21.19.

The Exchange notes at the outset that based on how Exchange Systems operate (and computer processes generally), it is impossible for Auctions to occur "simultaneously", meaning that they would commence and conclude at exactly the same time. Thus, although it is possible as proposed for one or more Auctions for 50 contracts or more to overlap, each Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two Auctions that commence and conclude at nearly the same time each Auction will have a distinct conclusion at which time the Auction will be allocated. In turn, when the first Auction concludes, unrelated orders that then exist will be considered for participation in the Auction.[32] If unrelated orders are fully executed in such Auction, then there will be no unrelated orders for consideration when the subsequent Auction is processed (unless new unrelated order interest has arrived). If instead there is remaining unrelated order interest after the first Auction has been allocated, then such unrelated order interest will be considered for allocation when the subsequent Auction is processed. In the event there are multiple Auctions underway that are each terminated early pursuant to proposed Rule 21.19(b)(2)(B) or (C), the Auctions will be processed sequentially based on the order in which they commenced.[33] As another example, each BAM response is required to

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32 See proposed Rule 21.19(b)(3).

33 The Exchange notes, however, that it is possible for multiple Auctions to be underway with different stop prices in the same series. Thus, it is possible for one

specifically identify the Auction for which it is targeted[34] and if not fully executed will be cancelled back at the conclusion of the Auction.[35] Thus, BAM responses will be specifically considered only in the specified Auction.

Pilot Program Information to the Commission

Subject to a Pilot expiring January 18, 2017, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any raw data which is submitted to the Commission will be provided on a confidential basis.[36]

The Exchange will provide the following additional information on a monthly basis:

(1) the number of contracts (of orders of 50 contracts or greater) entered into BAM Auctions;

(2) the number of contracts (of orders of fewer than 50 contracts) entered into BAM Auctions;

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or more of such Auctions to be terminated early based on receipt of an unrelated order while other Auctions to continue to their scheduled termination time to the extent the early termination provision is not triggered. See Example No. 18 below.

34 See proposed Rule 21.19(b)(1)(E).

35 See proposed Rule 21.19(b)(5).

36 See proposed Interpretation and Policy .05 to Rule 21.19.

(3) the number of orders of 50 contracts or greater entered into BAM Auctions; and

(4) the number of orders of fewer than 50 contracts entered into BAM Auctions.

Implementation

If the Commission approves this proposed rule change, the Exchange anticipates that it will deploy BAM within 45 days of approval. Members will be notified of the deployment date through a Trade Desk Notice.

Examples of Agency Order Executions

Example No. 1

Summary:

Initiating Member & Priority Order interest fully satisfies Agency Order; all participants eligible for Priority Order status.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Member Firm 1 (non-Market Maker) offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 30 contracts at 1.02 (Priority Order status);
  - Market Maker B responds to sell 20 contracts at 1.02; and

    - Member Firm 1 responds to sell 30 contracts at 1.02 (Priority Order status).

- Auction ends:

    - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);

    - Market Maker A and Member Firm 1 each trades 30 contracts since each maintained Priority Orders for 30 contracts; and

    - Market Maker B's response is cancelled since there were no contracts open after Priority Orders were filled at that price.

<u>Example No. 2</u>

Summary:

Initiating Member & Priority Order interest fully satisfies Agency Order with Priority Order interest exceeding remainder; Pro-Rata Amongst Priority Order interest

Assumptions:

- NBBO = .97 – 1.03

- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each

- Class is designated as eligible for Priority Orders

- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins

- During Auction:

    - Market Maker A responds to sell 30 contracts at 1.02 (Priority Order status);

    - Market Maker B responds to sell 30 contracts at 1.02 (Priority Order status);

    - Market Maker C responds to sell 10 at 1.01; and

  - Market Maker D responds to sell 10 contracts at 1.02.

- Auction ends:

  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price;

  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);

  - Market Maker A and Market Maker B each trades 25 contracts (pro rata among Priority Orders).

  - Market Maker D's response is cancelled since there were no contracts open after Priority Orders were filled at that price.

Example No. 3

Summary:

Market Makers improve upon the price and receive both Priority Order status and non-Priority Order status based on their size at initial NBBO; unrelated Post Only Order on the contra-side of Agency Order is received during Auction; Initiating Member does not receive an allocation.

Assumptions:

- NBBO = .97 – 1.03

- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each

- Class is designated as eligible for Priority Orders

- Agency Order to buy 90 contracts stopped at 1.03 is received

BAM Process:

- Auction begins

- During Auction:

  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);

- Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
- Market Maker C responds to sell 10 at 1.01; and
- Member Firm 1 submits a limit order to sell 50 contracts at 1.02 that is marked Post Only.

- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price;
  - Market Maker A and Market Maker B each trades 30 contracts at 1.02 since each has priority up to their size at the NBBO when the Auction started;
  - Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance of 20 contracts at 1.02 based on their remaining interest size with Market Maker A being allocated 4 contracts (=20/90*20), Market Maker B being allocated 4 (=20/90*20) contracts, and Member Firm 1 being allocated 11 contracts (=50/90*20);
    - Note that the fact that the unrelated order submitted by Member Firm 1 was marked Post Only does not alter the result of the Auction, and that the result would be the same if the order was not marked Post Only or was instead a response directly to the Auction.
  - The residual 1 contract will be allocated to Market Maker A based on the Exchange's pro-rata priority methodology described in Rule 21.8(c);
  - Initiating Member does not participate as entirety of order was price improved.

<u>Example No. 4</u>

Summary:

Initiating Member utilizes Auto-Match feature with specified price and Market Makers with Priority Orders participate; Initiating Member & Priority Order interest fully satisfies Agency Order.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 90 contracts stopped at 1.03 with Auto-Match feature to 1.02 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price; note that the Initiating Member specified a limit of 1.02 so such Initiating Member does not receive an Auto-Match execution at 1.01;
  - Initiating Member is allocated 40% or 36 contracts at 1.02 since it will be the final price point and Auto-Match is enabled;
  - Market Maker A and Market Maker B each trades 22 contracts at 1.02 since each has Priority Order status ahead of Market Maker D up to their size at the NBBO when the Auction started; and
  - Market Maker D's response is cancelled.

<u>Example No. 5</u>

Summary:

Initiating Member utilizes Auto-Match feature with specified price and Market Makers with Priority Order status and non-Priority Order status participate; Agency Order exceeds size of Initiating Member execution and Priority Orders.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 150 contracts stopped at 1.03 with Auto-Match feature to 1.02 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price; note that the Initiating Member specified a limit of 1.02 so such Initiating Member does not receive an Auto-Match execution at 1.01;
  - Initiating Member is allocated 40% or 60 contracts at 1.02 since it will be the final price point;
  - Market Maker A and Market Maker B each trades 30 contracts at 1.02 since each has Priority Order status up to their size at the NBBO when the Auction started;
  - Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance with Market Maker A and Market Maker B each trading

4 additional contracts at 1.02 (20/90*20) and Market Maker D trading 11 contracts at 1.02 (50/90*20);

- The residual 1 contract will be allocated to Market Maker A based on the Exchange's pro-rata priority methodology described in Rule 21.8(c).

Example No. 6

Summary:

Initiating Member utilizes Auto-Match feature without specified price and Market Makers with Priority Order status and non-Priority Order status participate; Agency Order exceeds size of Initiating Member allocation plus Priority Orders.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Orders
- Agency Order to buy 150 contracts stopped at 1.03 with Auto-Match feature is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker A responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
    - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
    - Market Maker C responds to sell 10 at 1.01; and
    - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
    - Market Maker C trades 10 at 1.01;

- Initiating Member auto-matches and trades 10 at 1.01;
- Initiating Member is allocated 40% or 60 contracts at 1.02 since it will be the final price point;
- Market Maker A and Market Maker B each trades 30 contracts at 1.02 since each has Priority Order status up to their size at the NBBO when the Auction started;
- Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance with Market Maker A and Market Maker B each trading 2 contracts at 1.02 (20/90*10) and Market Maker D trading 6 contracts at 1.02 (50/90*10).

<u>Example No. 7</u>

Summary:

All executions occurring at initial NBBO price and Priority Customer order received.

Assumptions:

- NBBO = .97 – 1.03
- Class is designated as eligible for Priority Orders
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 100 contracts stopped at 1.03 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker C responds to sell 20 at 1.03; and
  - Priority Customer offers 2 contracts at 1.03.
- Auction ends:
  - Priority Customer trades 2 contracts at 1.03;

  - Initiating Member is allocated 40% or 40 contracts at 1.03;
  - Remaining allocation is pro-rata among Priority Order interest with Market Maker A trading 29 contracts (30/60*58) and Market Maker B trading 29 contracts (30/60*58).
    - Note that in this example the Priority Order interest from Market Maker A and Market Maker B is from quotations published on the Exchange's order book and not from BAM responses received from such Market Makers.
  - Market Maker C's response is cancelled since there were no contracts open after Priority Orders were filled at that price.

<u>Example No. 8</u>

Summary:

Initiating Member specifying Auto-Match feature without specified price, Market Maker with Priority Orders has multiple price levels of interest, and executions occur at initial NBBO price.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 300 contracts stopped at 1.03 with Auto-Match feature is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 10 contracts at 1.02 (Priority Order status);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Order status for 30 contracts and non-Priority Order status for 20 contracts);
  - Market Maker C responds to sell 5 at 1.01; and

  - Market Maker D responds to sell 40 contracts at 1.02.

- Next, during Auction:
  - Market Maker A responds with 30 additional contracts at 1.03 (Priority Order status).

- Next, during Auction:
  - Market Maker A moves his quote (maintains Priority Order status) and EDGX BBO becomes .95 – 1.02 for 10 contracts; and
  - An order from Member Firm 1 arrives offering 10 contracts at 1.02 such that the EDGX BBO becomes .95 – 1.02 for 20 contracts.

- Auction ends:
  - Market Maker C trades 5 at 1.01;
  - Initiating Member auto-matches and trades 5 at 1.01;
  - Next, interest is then allocated at 1.02 as follows:
    - Market Maker A response (Priority Order status) trades 10 contracts;
    - Market Maker B response (Priority Order status) trades 30 contracts;
    - Market Maker A quote trades 10 contracts;
    - Market Maker B response (non-Priority Order status) trades 20 contracts;
    - Market Maker D's response (non-Priority Order status) trades 40 contracts;
    - Member Firm 1's quote (non-Priority Order status) trades 10 contracts.
  - Next, the Initiating Member order matches the full volume trading at 1.02 (because of Auto-Match feature) which is 120 contracts.
  - The remaining 50 contracts are traded by the Initiating Member at 1.03 since it will be the final price point (40% carve out; 0.4*300=75).

Example No. 9

Summary:

Initiating Member utilizing Last Priority.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 100 contracts stopped at 1.02 marked with Last Priority is received

BAM Process:

Auction begins

- During Auction:
  - Market Maker C responds to sell 5 at 1.01;
  - Market Maker A responds to sell 5 contracts at 1.02;
  - Market Maker B responds to sell 40 contracts at 1.02; and
  - Market Maker D responds to sell 20 contracts at 1.02.
- Next, during Auction:
  - Market Maker A adjusts his quote by moving 5 contracts to 1.02 (maintains Priority Order status);
  - EDGX BBO becomes .95 – 1.02 for 5 contracts; and
  - NBBO becomes .97 – 1.02.
- Auction ends:
  - Market Maker C trades 5 contracts at 1.01;
  - Market Maker A response with Priority Order status executes 5 contracts at 1.02;

- Market Maker B response with Priority Order status executes 30 contracts at 1.02;
- Market Maker A quote with Priority Order status executes 5 contracts at 1.02;
- Non-Priority Order interest at 1.02 then executes with Market Maker B trading 10 contracts and Market Maker D trading 20 contracts.
- The Initiating Member then executes the remaining 25 contracts at 1.02 since there is no other interest to satisfy the Agency Order at a price equal to or better than the stop price of 1.02.

<u>Example No. 10</u>

Summary:

Initiating Member utilizing Last Priority and no responders.

Assumptions:

- EDGX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 20 contracts stopped at 1.02 marked with Last Priority is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker C quotes .95 – 1.02 for 10 contracts and EDGX BBO becomes .95 – 1.02 for 10 contracts; and
    - NBBO becomes .97 – 1.02.
- Next, during Auction:
    - Market Maker A moves his quote (maintains Priority Order status) and joins the EDGX BBO at .95 – 1.02 for 10 contracts; and
    - NBBO remains .97 – 1.02.

- Auction ends:
  - Priority Order interest trades first: Market Maker A gets allocated 10 contracts of Agency Order.
  - Non-Priority Order interest trades next: Market Maker C gets allocated 10 contracts.
  - Neither the Initiating Member nor Market Maker B receives any execution in this example.

Example No. 11

Summary:

Initiating Member utilizing an ISO Order priced through NBBO.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.04
- Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 20 at 1.02; and
  - Market Maker B responds to sell 20 at 1.02.
- Auction ends:
  - Market Maker A gets allocated 20 contracts of Agency Order at 1.02.
  - Market Maker B gets allocated 20 contracts of Agency Order at 1.02.
  - The Initiating Member gets allocated the remaining 10 contracts at 1.04.

<u>Example No. 12A</u>

Summary:

Initiating Member utilizing an ISO Order priced through EDGX BBO; Initiating Member effectively sweeps all better priced interest on the Exchange.[37]

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Market Maker A offering 20 contracts
- Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received; at the same time an ISO is received from the Initiating Member, removing Market Maker A's offer at 1.03 for 20 contracts
- EDGX BBO updates to .95 – 1.05

BAM Process:

- Auction begins
- During Auction:
  - Market Maker B responds to sell 20 at 1.02; and
  - Market Maker C responds to sell 20 at 1.02.
- Auction ends:
  - Market Maker B gets allocated 20 contracts of Agency Order at 1.02.
  - Market Maker C gets allocated 20 contracts of Agency Order at 1.02.
  - The Initiating Member gets allocated the remaining 10 contracts at 1.04.

<u>Example No. 12B</u>

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[37] The Exchange notes that, as described above, the Member transmitting the BAM ISO to the Exchange must, simultaneous with the routing of the BAM ISO, route one or more ISOs, as necessary, to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price.

Summary:

Initiating Member utilizing an ISO Order priced through EDGX BBO; Initiating Member attempts to sweep all better priced interest on the Exchange but other interest is received by the Exchange while Agency Order and ISO are in flight.[38]

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Market Maker A offering 20 contracts
- Market Maker D submits to the Exchange a quotation to sell 20 contracts at 1.03. Before Market Maker D's quotation is received by the Exchange, the Initiating Member submits to the Exchange an Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag as well as an ISO to buy 20 contracts at 1.03. The quotation from Market Maker D for 20 contracts at 1.03 is then received by the Exchange, updating the EDGX BBO to .95 – 1.03(40). Subsequently, the Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received; at the same time the ISO is received from the Initiating Member, removing Market Maker A's offer at 1.03 for 20 contracts.
- EDGX BBO updates to .95 – 1.03(20) with Market Maker D offering 20 contracts

BAM Process:

- Auction begins
- During Auction:
    - Market Maker B responds to sell 10 at 1.02; and
    - Market Maker C responds to sell 10 at 1.02.
- Auction ends:
    - Market Maker B gets allocated 10 contracts of Agency Order at 1.02.
    - Market Maker C gets allocated 10 contracts of Agency Order at 1.02.

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38 This example demonstrates that it is possible for an Initiating Member to properly route ISOs to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price but for better priced interest to nonetheless exist on the Exchange's order book when an Auction commences.

  - Market Maker D gets allocated 20 contracts of Agency Order at 1.03.
  - The Initiating Member gets allocated the remaining 10 contracts at 1.04.

Example No. 13

Summary:

Initiating Member submits an order that is ineligible to commence an Auction due to insufficient price improvement when the difference between the NBB and NBO is $0.01.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.00 – 1.04
- Agency Order to buy 30 contracts stopped at 1.03 is received
- Agency Order is rejected.
  - Note: if the Agency Order were instead stopped at 1.02, the Auction would commence based on guaranteed price improvement of $0.01 as compared to the NBO of 1.03.

Example No. 14

Summary:

Auction ends early based on receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book.

Assumptions:

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Member Firm 1 offering 20 contracts
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins
- During Auction:
    - Market Maker A responds to sell 30 contracts at 1.02.
- Next, during Auction:
    - Member Firm 2 submits a limit order to buy 30 contracts at 1.02 that is a Priority Customer order and is designated to be posted to the EDGX Book (i.e., non-routable, Time in Force other than IOC or FOK); and
    - Auction terminates early.
- Auction ends:
    - Initiating Member is allocated 50 contracts at 1.02 (50% carve out with only one other response);
    - Market Maker A trades 30 contracts at 1.02, Initiating Member trades remaining 20 contracts at 1.02, fully satisfying the Agency Order; and
    - Member Firm 2's incoming order to buy is posted to the EDGX Book at 1.02, updating the NBBO and the EDGX BBO to 1.02 – 1.03.

<u>Example No. 15</u>

Summary:

Auction ends early based on receipt by the Exchange of an unrelated order on the same side of the market as the Agency Order that would cause the Agency Order's stop price to be outside of the EDGX BBO.

- NBBO = .97 – 1.03
- EDGX BBO = .95 – 1.03(20) with Member Firm 1 offering 20 contracts
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02;
  - Market Maker B responds to sell 50 contracts at 1.02; and
  - Market Maker C responds to sell 50 at 1.02.
- Next, during Auction:
  - NBBO becomes 1.02 – 1.04; and
  - Member Firm 2 submits a limit order to buy 30 contracts at 1.03 that is eligible to be posted to the EDGX Book (i.e., non-routable, Time in Force other than IOC or FOK); and
  - Auction terminates early.
- Auction ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A, Market Maker B, and Market Maker C each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
  - Member Firm 2's incoming order to buy executes 20 contracts against Member Firm 1's resting offer at 1.03;
  - Remaining 10 contracts from Member Firm 2's incoming order to buy is posted to the EDGX Book at 1.03, updating the NBBO and the EDGX BBO to 1.03 – 1.04.

<u>Example No. 16</u>

Summary:

Multiple Auctions for Agency Orders with a size of 50 contracts or greater are initiated; unrelated order participates in Auctions.

Assumptions:

- NBBO = .97 – 1.04

- EDGX BBO = .97 – 1.04
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received (Agency Order 1)

BAM Process:

- Auction #1 begins
- During Auction:
  - Market Maker A responds to sell 50 contracts at 1.02;
  - Market Maker B responds to sell 50 contracts at 1.02; and
  - Member Firm 1 submits a limit order to sell 50 contracts at 1.02, which posts to the EDGX Book, updating the NBBO and the EDGX BBO to 0.97 – 1.02; and
  - The Exchange receives an Agency Order to buy 100 contracts stopped at 1.02 (Agency Order 2).
- Auction #2 begins
- Next, during Auctions:
  - Market Maker A responds to Auction #2 to sell 30 contracts at 1.02; and
  - Market Maker C responds to Auction #2 to sell 30 contracts at 1.02.
- Auction #1 ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A, Market Maker B, and Member Firm 1 each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
  - The remainder from the responses from Market Maker A and Market Maker B (30 contracts each) are cancelled and Member Firm 1's displayed order is reduced to 30 contracts.
- Auction #2 ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);

- Market Maker A, Market Maker C, and Member Firm 1 each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
- The remainder from the responses from Market Maker A and Market Maker C (10 contracts each) are cancelled and Member Firm 1's displayed order is reduced to 10 contracts.

Example No. 17

Summary:

Multiple Auctions for Agency Orders with a size of 50 contracts or greater are initiated at different prices; unrelated order priced through the price of the second Auction, but not the first, is received; second Auction terminates prior to first Auction.

Assumptions:

- NBBO = .97 – 1.04
- EDGX BBO = .97 – 1.04
- Class is not designated as eligible for Priority Orders
- Agency Order to buy 100 contracts stopped at 1.02 is received (Agency Order 1)

BAM Process:

- Auction #1 begins
- During Auction:
    - Market Maker A responds to sell 50 contracts at 1.02;
    - Market Maker B responds to sell 50 contracts at 1.02; and
    - The Exchange receives an Agency Order to buy 100 contracts stopped at 1.00 (Agency Order 2), which commences Auction #2 below.
- Auction #2 begins
- Next, during Auctions:
    - Market Maker A responds to Auction #2 to sell 50 contracts at 1.00;

    - Market Maker C responds to Auction #2 to sell 50 contracts at 1.00; and
    - Member Firm 1 submits a limit order to buy 50 contracts at 1.02.
- Auction #2 ends early based on the receipt of Member Firm 1's order:
    - Initiating Member is allocated 40 contracts at 1.00 (40% carve out);
    - Market Maker A and Market Maker B each trades 30 contracts at 1.00 (pro rata among orders of equal size), fully satisfying the Agency Order;
    - The remainder from the responses from Market Maker A and Market Maker B (20 contracts each) are cancelled; and
    - Member Firm 1's order is posted to the EDGX Book, updating the NBBO and the EDGX BBO to 1.02 – 1.04
- Auction #1 ends:
    - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
    - Market Maker A, Market Maker C, and Member Firm 1 each trades 20 contracts at 1.02 (pro rata among orders of equal size), fully satisfying the Agency Order;
    - The remainder from the responses from Market Maker A and Market Maker C (30 contracts each) are cancelled and Member Firm 1's displayed order is reduced to 30 contracts.

<u>Example No. 18</u>

Summary:

NBBO moves through stop price of an Agency Order after Auction has commenced.

Assumptions:

- NBBO = 1.00 – 1.01
- EDGX BBO = .99 – 1.02 (note: Market Maker A is quoting 20 contracts at 1.02)
- Agency Order to buy 100 contracts stopped at 1.00 is received

BAM Process:

- Auction begins
- During Auction:
  - Market Maker B responds to sell 30 contracts at 1.00; and
  - Market Maker C responds to sell 30 contracts at 1.00.
- Next, during Auction:
  - NBBO moves to 1.01 – 1.02 (but EDGX BBO remains .99 – 1.02)
  - Member Firm 1 responds to sell 30 contracts at 1.00.
- Auction ends:
  - Initiating Member is allocated 40 contracts at 1.00 (40% carve out);
  - Market Maker B, Market Maker C and Member Firm 1 each trades 20 contracts (pro rata among orders of equal size) at 1.00, fully satisfying the Agency Order;
  - Remaining 10 contracts from Market Maker B, Market Maker C and Member Firm 1's responses are cancelled.
    - Note: although the NBBO moved after the Auction commenced such that the stop price of the Auction is priced below the NBB of 1.01, the Auction does not terminate early in this scenario, later responses priced at the stop price but through the NBB are accepted, and the Auction is permitted to execute at 1.00 based upon the Initial NBBO.[39]

Example No. 19

Summary:

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[39] The Exchange notes that this proposed handling is consistent with auction mechanisms in place on other options exchanges, which similarly focus upon the Initial NBBO. See, e.g., Example #14, Securities Exchange Act Release No. 75827 (September 3, 2015), 80 FR 54601, 54609 (September 10, 2015) (SR-BX-2015-032) (Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto To Establish a New Auction, BX PRISM).

Initiating Member submits an order that is ineligible to commence an Auction due to a resting Priority Customer order.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.02 – 1.03, which includes Priority Customer A's order to buy 10 contracts at 1.02
- Agency Order to buy 30 contracts stopped at 1.02 is received
- Agency Order is rejected. The Exchange believes rejection is the most appropriate handling in such a scenario because it will allow the Initiating Member the opportunity to immediately re-assess how to best handle the order in order to execute it.
    - Note: the result in this example is the same whether the incoming Agency order is a Priority Customer order or is an order for any other type of participant. The resting Priority Customer order will prevent any Auction from commencing at that price.

<u>Example No. 20</u>

Summary:

Initiating Member submits an order that is eligible to commence an Auction despite a resting order from a non-Priority Customer because the Agency Order is a Priority Customer order.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.02 – 1.03, which includes Member Firm 1's order to buy 10 contracts at 1.02
- Agency Order that is a Priority Customer Order to buy 30 contracts stopped at 1.02 is received
- BAM Auction commences and would be processed in accordance with examples set forth above, executing at 1.02 at the conclusion of the Auction.

- Member Firm 1's order to buy 10 contracts at 1.02 would remain on the Exchange's order book, fully executable during the course of the Auction and unaffected by the Auction and any responses thereto.

<u>Example No. 21</u>

Summary:

Initiating Member submits an order that is ineligible to commence an Auction based on a resting order from a non-Priority Customer because the Agency Order is also a non-Priority Customer order.

Assumptions:

- NBBO = 1.02 – 1.03
- EDGX BBO = 1.02 – 1.03, which includes Member Firm 1's order to buy 10 contracts at 1.02
- Agency Order that is a Member Firm order (not a Priority Customer order) to buy 30 contracts stopped at 1.02 is received
- Agency Order is rejected for the reasons described above
- Member Firm 1's order to buy 10 contracts at 1.02 would remain on the Exchange's order book, fully executable and unaffected by the incoming Agency Order.

<u>Example No. 22</u>

Summary:

Post Only Order is received by the Exchange during an Auction on the same side of the market as the Agency Order.

Assumptions:

- NBBO = 2.00 – 2.05
- Agency Order to buy 100 contracts stopped at 2.03 is received

BAM Process:

- Auction begins
- During Auction:
  - Member Firm A submits a limit order to buy 50 contracts at 2.05 that is marked Post Only and subject to the Exchange's Price Adjust functionality.[40]
    - If the series is quoted in minimum increments of .05, the incoming Post Only Order would be ranked and displayed at 2.00, because displaying the order at 2.05 would lock the NBO, and the Auction would continue unaffected.
    - If the series is quoted in minimum increments of .01, the incoming Post Only Order would be ranked and displayed at 2.04, because displaying the order at 2.05 would lock the NBO. In this case, the Auction would terminate early pursuant to proposed Rule 21.19(b)(2)(C) because the incoming order would cause the Agency Order's stop price to be outside of the EDGX BBO.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of the Act,[41] in general, and with Section 6(b)(5) of the Act,[42] in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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[40] See Rule 21.1(i).

[41] 15 U.S.C. 78a et seq.

[42] 15 U.S.C. 78f(b)(5).

The Exchange believes that the proposal will result in increased liquidity available at improved prices, with competitive final pricing out of the Initiating Member's complete control. BAM should promote and foster competition and provide more options contracts with the opportunity for price improvement. As a result of the increased opportunities for price improvement, the Exchange believes that participants will use BAM to increase the number of Priority Customer Orders that are provided with the opportunity to receive price improvement over the NBBO.

The Exchange believes that the BAM Auction will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all Users the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

The Exchange again notes that, as proposed, if the EDGX BBO on the same side of the market as the Agency Order represents a quote or order that is not a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price unless the Agency Order is a Priority Customer order. The Exchange believes this condition is consistent with the operation of the Exchange generally, where

Priority Customer orders receive a priority advantage over all other orders.[43] As such, the Exchange believes it is appropriate to restrict a BAM Auction to commence with a stop price equal to resting Priority Customer interest or non-Priority Customer interest to the extent the Agency Order is not on behalf of a Priority Customer. However, the Exchange does not believe that allowing a BAM Auction to commence for a Priority Customer Agency Order even if there is resting non-Priority Customer interest at that price raises any issues that have not already been approved more generally for the Exchange and other options exchanges that grant first priority to Priority Customers.

As noted above, the Exchange has proposed to allow BAM Auctions for 50 contracts or more to occur concurrently with other BAM Auctions. The Exchange does not believe that allowing multiple auctions to overlap for Agency Orders of 50 contracts or more presents any unique issues that differ from functionality already in place on other exchanges. The Exchange notes that other options exchanges offer auctions for orders 50 contracts or greater (generally referred to as "facilitation auctions") that are permitted to overlap.[44] In contrast, similar to the Exchange's proposal, other options exchanges do prevent overlapping auctions to occur for orders less than 50 contracts (generally referred

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43 As noted above, the proposed provision that would allow a BAM Auction to commence despite resting interest on the Exchange's order book at that price is only applicable when a BAM Order is for a Priority Customer, the resting interest is not on behalf of a Priority Customer, and the Exchange's Customer Overlay is in effect. As also noted above, the Customer Overlay is currently in effect for all options traded on the Exchange.

44 See, e.g., ISE Rule 716(d), which governs ISE's facilitation mechanism and does not restrict such auctions to one auction at a time. See also Boston Options Exchange ("BOX") Rule 7270.

to as "price improvement auctions").[45] Instead of proposing two separate auction processes that are functionally the same with only minor differences, such as the restriction on overlapping or queuing auctions -- which is present in other options exchanges' price improvement auctions but not in their facilitation auctions -- the Exchange is proposing to have a single process that recognizes these specific nuances to avoid introducing new policy issues regarding such topics.

The Exchange represents that it has systems capacity to process multiple overlapping auctions consistent with the proposal, including systems necessary to conduct surveillance of activity occurring in such auctions.

The Exchange does not anticipate overlapping auctions necessarily to be a common occurrence, however, after considerable review, believes that such behavior is more fair and reasonable with respect to the Users of BAM because the alternative presents other issues to such Users. Specifically, if the Exchange does not permit overlapping auctions then an Initiating Member who wishes to submit an Agency Order to BAM but has its order rejected because another BAM Auction is already underway in the series must either wait for such BAM Auction to conclude and re-submit the order to the Exchange (possibly constantly resubmitting the Agency Order to ensure it is received by the Exchange before another BAM Auction commences) or must send the order to an auction mechanism operated by another options exchange. In the latter case, as noted above, because facilitation mechanisms operated by other exchanges do not restrict such functionality to one auction at a time, such Users would have greater certainty of their

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45 See ISE Rule 723, Interpretation and Policy .04. See also BOX IM-7150-3.

order being accepted and auctioned the first time at such exchanges than at the Exchange if the Exchange were to restrict all auctions to one auction at a time. The Exchange also notes that because the functionality is consistent with other facilitation auctions currently in place on other options exchanges, Users of BAM who use such facilitation auctions on other exchanges are familiar with the concept of overlapping auctions.

Further, the new functionality may lead to an increase in Exchange volume and should allow the Exchange to better compete against other markets that already offer an electronic solicitation mechanism, while providing an opportunity for price improvement for agency orders. The Exchange believes that its proposal will allow the Exchange to better compete for solicited transactions, while providing an opportunity for price improvement for agency orders and assuring that Priority Customers on the book are protected. The new auction mechanism should promote and foster competition and provide more options contracts with the opportunity for price improvement, which should benefit market participants, investors, and traders. The Exchange has proposed a range between no less than one hundred milliseconds and no more than one second for the duration of the BAM Auction; therefore the proposed rule change will provide investors with more timely execution of their options orders than a mechanism that has a one second auction, while ensuring that there is an adequate exposure of orders in EDGX BAM. The Exchange preliminary expects to use a default of 100 milliseconds for all symbols, a time period which 100% of the responders to a recent survey conducted by the Exchange indicated would be sufficient to respond to BAM.[46] The time will be

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[46] See supra, note 14.

announced to Members and available on the Exchange's website. The proposed auction response time of no less than one hundred milliseconds and no more than one second should allow investors the opportunity to receive price improvement through BAM while reducing market risk. The Exchange believes a briefer time period reduces the market risk for the Initiating Member, versus an auction with a one second period, as well as for any Member providing orders in response to a broadcast. As such, EDGX believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors' and the public interest. The Exchange believes the proposed rule change is not unfairly discriminatory because the BAM duration would be the same for all Members and symbols. All Members will have an equal opportunity to respond with their best prices during the BAM Auction. Since the Exchange considers all interest present in the System, and not solely BAM responses, for execution against the Agency Order, those participants who are not explicit responders to the Auction will expect executions via BAM as well.

With respect to trading halts, as described herein, in the case of a trading halt on the Exchange in the affected series, the Auction will be cancelled without execution. Cancelling Auctions without execution in this circumstance is consistent with Exchange handling of trading halts in the context of continuous trading on EDGX Options and promotes just and equitable principles of trade and, in general, protects investors and the public interest.[47]

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[47] The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market and other circumstances. See Rule 20.3.

The Exchange further believes that the proposal is consistent with the requirements of Section 11(a) of the Act[48] and Rule 11a2-2(T)[49] thereunder. Section 11(a) prohibits a member of a national securities exchange from effecting transactions on the exchange for its own account, the account of an associated person, or an account in which it or an associated person exercises investment discretion, unless an exception applies (collectively "Covered Accounts"). Rule 11a2-2(T) under the Act,[50] known as the effect versus execute" rule, provides exchange members with an exemption from the Section 11(a)(1) prohibition. Rule 11a2-2(T) permits an exchange member, subject to certain conditions, to effect transactions for Covered Accounts by arranging for an unaffiliated member to execute transactions on the exchange.[51] To comply with Rule 11a2-2(T)'s conditions, a member: (i) must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;[52] (iii) may not be affiliated with the

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48 15 U.S.C. 78k(a)(1).

49 17 CFR 240.11a2-2(T).

50 CFR 240.11a2-2(T).

51 In enacting this provision, Congress was concerned about members benefiting in their principal transactions from special "time and place" advantages associated with floor trading--such as the ability to "execute decisions faster than public investors." The Commission, however, has adopted a number of exceptions to the general statutory prohibition for situations in which the principal transactions contribute to the fairness and orderliness of exchange markets or do not reflect any time and place trading advantages. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978); Securities Exchange Act Release No. 14713 (April 28, 1978), 43 FR 18557 (May 1, 1978); Securities Exchange Act Release No. 15533 (January 29, 1979), 44 FR 6093 (Jan. 31, 1979). The 1978 and 1979 Releases cite the House Report at 54-57.

52 The member may, however, participate in clearing and settling the transaction.

executing member; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule. For the reasons set forth below, the Exchange believes that Exchange Members entering orders into BAM would satisfy the requirements of Rule 11a2-2(T).

The Exchange does not operate a physical trading floor, rather the Exchange operates an electronic market. Rule 11a2-2(T)'s first condition is that orders for Covered Accounts be transmitted from off the exchange floor. In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a Covered Account order is transmitted from a remote location directly to an exchange's floor by electronic means.[53] EDGX represents that the System and the proposed BAM Auction receive all orders electronically through remote terminals or computer-to-computer interfaces. The Exchange represents that orders for Covered Accounts from Members will be transmitted from a remote location directly to the proposed BAM mechanisms by electronic means.

The second condition of Rule 11a2-2(T) requires that neither a member nor an

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53 See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157 (February 1, 2010) (SR-BATS-2009-031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SRBSE-2008-48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release").

associated person participate in the execution of its order once the order is transmitted to the floor for execution. The Exchange represents that, upon submission to the BAM Auction, an order will be executed automatically pursuant to the rules set forth for BAM. In particular, execution of an order sent to the mechanism depends not on the Initiating Member entering the order, but rather on what other orders are present and the priority of those orders. Thus, at no time following the submission of an order is a Member able to acquire control or influence over the result or timing of order execution.[54] Once the Agency Order has been transmitted, the Exchange Initiating Member that transmitted the order will not participate in the execution of the Agency Order. Initiating Members submitting Agency Orders will relinquish control to modify or cancel their Agency Orders upon transmission to the Exchange's System. Further, no Member, including the Initiating Member, will see a BAM response submitted into BAM and therefore and will not be able to influence or guide the execution of their Agency Orders. Finally, the Last Priority feature will not permit a Member to have any control over an order. The election to Last Priority an order is available prior to the submission of the order and therefore could not be utilized to gain influence or guide the execution of the Agency Order. The information provided with respect to the Last Priority feature by the Initiating Member will not be broadcast and further, the information may not be modified by the Initiating Member during the auction.

Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The

[54] The Exchange notes that a Member may not cancel or modify an order after it has been submitted into BAM.

Commission has stated that the requirement is satisfied when automated exchange facilities, such as the BAM Auction are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.[55] The Exchange represents that the BAM Auction is designed so that no Member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the mechanism.

Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.[56] The Exchange recognizes that Members relying on Rule

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55 In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

56 See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for Covered Accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such

11a2-2(T) for transactions effected through the BAM Auction must comply with this condition of the Rule and the Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange believes that the instant proposal is consistent with Rule 11a2-2(T), and that therefore the exception should apply in this case.

The Exchange also believes that the proposed rule changes would further the objectives of the Act to protect investors by promoting the intermarket price protection goals of the Options Intermarket Linkage Plan.[57] The Exchange believes its proposal would help ensure inter-market competition across all exchanges and facilitate compliance with best execution practices. The Exchange believes that these objectives are consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 11A of the Act.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The competition among the options exchanges is vigorous and this proposal is intended to afford the EDGX Options market the opportunity to compete for order flow by offering an auction mechanism on EDGX similar to that of other exchanges.

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transactions. See also 1978 (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

57 See Rule 27.3 regarding Locked and Crossed Markets.

With respect to intra-market competition, the Auction will be available to all EDGX Options Members. Moreover, as explained above, the proposal should encourage EDGX Options Members to compete amongst each other by responding with their best price and size for a particular auction. With respect to overall market quality, the Exchange believes that the BAM Auction, as proposed herein, will encourage will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all Users the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

The Exchange's proposal is a competitive response to similar provisions in the price improvement auction rules of other options exchanges.[58] The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish more uniform price improvement auction rules on the various options exchanges. The Exchange anticipates that this auction proposal will create new

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[58] Today, the following options markets offer auctions: CBOE, ISE, BOX, MIAX, PHLX and BX Options. See CBOE Rule 6.74A, ISE Rule 723, BOX Rule 7150, MIAX Rule 5.15, PHLX Rule 1080(n), and BX Options Chapter VI, Section 9.

opportunities for EDGX to attract new business and compete on equal footing with those options exchanges with auctions and for this reason the proposal does not create an undue burden on inter-market competition. Rather, the Exchange believes that the proposed rule would bolster inter-market competition by promoting fair competition among individual markets, while at the same time assuring that market participants receive the benefits of markets that are linked together, through facilities and rules, in a unified system, which promotes interaction among the orders of buyers and sellers. The Exchange believes its proposal would help ensure inter-market competition across all exchanges and facilitate compliance with best execution practices. In addition, the Exchange believes that the proposed rule change would help promote fair and orderly markets by helping ensure compliance with Options Order Protection and Locked and Crossed Market Rules.[59] Thus, the Exchange does not believe the proposal creates any significant impact on competition.

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

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) by order approve or

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[59] See Chapter XXVII of the Exchange's Rules.

disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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. Please include File No. SR-BatsEDGX-2016-41 Amendment No. 1 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-BatsEDGX-2016-41 Amendment No. 1. 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-BatsEDGX-2016-41 Amendment No. 1 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.[60]

Robert W. Errett
Deputy Secretary

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[60] 17 CFR 200.30-3(a)(12).

EXHIBIT 4

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

Rules of Bats EDGX Exchange, Inc.

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CHAPTER XXI. TRADING SYSTEMS

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Rule 21.19. Bats Auction Mechanism

This Rule governs the operation of the Bats Auction Mechanism ("BAM"). An Options Member may electronically submit for execution an order it represents as agent on behalf of a Priority Customer, broker dealer, or any other person or entity ("Agency Order") against principal interest or against any other order it represents as agent (an "Initiating Order") provided it submits the Agency Order for electronic execution into the BAM Auction ("Auction") pursuant to this Rule. For purposes of this Rule, the term "NBBO" shall mean the national best bid or national best offer at the particular point in time applicable to the reference and the term "Initial NBBO" shall mean the national best bid or national best offer at the time an Auction is initiated.

(a) Auction Eligibility Requirements. All options traded on the Exchange are eligible for BAM. An Options Member (the "Initiating Member") may initiate an Auction [provided:] subject to the following conditions.

(1) Price. The Initiating Member must stop the entire Agency Order as principal or with a solicited order at a price in an increment of $0.01 such that[is]:

(A) if the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is $0.01, the Initiating Member must stop the entire Agency Order at one minimum price improvement increment better than the NBBO, which increment shall be determined by the Exchange but may not be smaller than $0.01; or

(B) for any other Agency Order, the Initiating Member must stop the entire Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).

(2) Same-Side Orders. If the EDGX BBO on the same side of the market as the Agency Order represents:

(A) a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price; or

(B) a quote or order that is not a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price unless the Agency Order is a Priority Customer order and the Customer Overlay set forth in Rule 21.8(d)(1) above is in effect.

[(2) Agency Orders that do not meet the conditions of paragraph (a)(1) above will be rejected.

(3) Agency Orders submitted at or before the opening of trading or when the NBBO is crossed are not eligible to initiate an Auction and will be rejected.]

[(b) Auction Process.]

(3) Other Auctions in Same Series. With respect to Agency Orders for less than 50 contracts, only one such Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. Auctions for Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions in the same series.

(4) Agency Orders that do not meet the conditions of paragraph (a)(1) through (a)(3) above will be rejected.

(5) Agency Orders submitted at or before the opening of trading or when the NBBO is crossed are not eligible to initiate an Auction and will be rejected.

(6) An Initiating Order may not be a solicited order for the account of any Options Market Maker registered in the applicable series on the Exchange.

(b) Auction Process. Once initiated, an Auction shall proceed as follows:

(1) Auction Period and BAM Auction Notifications.

(A) To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify either:

(i) a single price at which it seeks to execute the Agency Order (a "single-price submission"); or

(ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all BAM responses and other trading interest ("auto-match") as follows:

(a) stopping the entire order at a single stop price and auto-matching BAM responses and other trading interest at all prices that improve the stop price to a specified price; or

(b) stopping the entire order at a single stop price and auto-matching all BAM responses and other trading interest at all prices that improve the stop price.

[For both single-price submissions and auto-match, if the EDGX BBO on the same side of the market as the Agency Order represents a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price.] Once the Initiating Member has submitted an Agency Order for processing pursuant to this sub-paragraph, such Agency Order may not be modified or cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% of the initial Agency Order in the event there is one competing quote, order or BAM response or 40% of the initial Agency Order in the event there are multiple competing quotes, orders or BAM responses.

(B) When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "last priority" to the other potential BAM participants ("Last Priority") which will result in the Initiating Member forfeiting the priority and trade allocation privileges to which it is otherwise entitled pursuant to sub-paragraphs (b)(4)(i) and (b)(4)(ii) below.

(i) If Last Priority is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the Agency Order at prices which are equal to or improve upon the stop price.

(ii) Last Priority will not be applied if both the Initiating Order and the Agency Order are Priority Customer orders.

(iii) Last Priority cannot be designated on an Agency Order specified as auto-match, and thus, is only compatible with single-price submissions.

(iv) Last Priority information will not be available to other market participants and may not be modified.

(C) When the Exchange receives an Agency Order for Auction processing, an auction notification message detailing the side, size, price, and options series of the Agency Order will be sent over the Exchange's Multicast PITCH Feed and Auction Feed. This notification message will not be included in the Exchange's disseminated best bid or offer and will not be disseminated through OPRA.

(D) The Auction will last for a period of time, as determined by the Exchange and announced on the Exchange's website. The Auction period will be no less than one hundred milliseconds and no more than one second.

(E) Any person or entity other than the Initiating Member may submit responses to an Auction, provided such responses are properly marked specifying price, size, side of the market and information identifying the Auction to which the response is targeted.

(F) BAM responses will not be visible to Auction participants, and will not be disseminated to OPRA.

(G) The minimum price increment for BAM responses and for the Initiating Member's submission shall be $0.01 increment, regardless if the class trades in another increment.

[(G)](H) A BAM response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).

[(H)](I) Multiple BAM responses from the same User may be submitted during the Auction. Multiple orders at a particular price point submitted by a User in response to an Auction or resting on the EDGX Options Book will be aggregated together and will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).

[(I)](J) BAM responses may be modified or cancelled during the Auction.

[(J)](K) BAM responses on the same side of the market as the Agency Order or with a Time in Force of IOC or FOK are considered invalid and will be immediately cancelled.

[(K)](L) BAM responses cannot cross the price of the Initial NBBO but will be executed, if possible, at the most aggressive permissible price within such Initial NBBO.

(M) BAM responses may be designated with the MTP modifier of MTP Cancel Newest. A BAM response with any other MTP modifier will be rejected.

(2) Conclusion of Auction. Unless otherwise indicated, an Auction shall conclude with execution processing in accordance with sub-paragraph (b)(4) below. The Auction shall conclude at the earliest to occur of the following times:

(A) At the end of the Auction period;

(B) Upon receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book;

(C) Upon receipt by the Exchange of an unrelated order or quote that is not a Priority Customer order on the same side of the market as the Agency Order that would cause the Agency Order's stop price to be outside of the EDGX BBO;

(D) At the close of trading; and

(E) Any time there is a trading halt on the Exchange in the affected series, provided, however, that in such instance the Auction will be cancelled without execution.

(3) An unrelated market or marketable limit order (against the EDGX BBO) on the opposite side of the market from the Agency Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (b)(4) below. This sub-paragraph applies equally to all unrelated orders submitted to the Exchange, including orders marked as Post Only Orders pursuant to Rule 21.1(d)(8).

(4) Order Allocation. At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) with the following priority:

(A) Priority Customer orders shall have[time] priority at each price level.

(B) The Agency Order shall be allocated after Priority Customer orders as follows:

(i) If the Initiating Member selected the single-price submission option of the Auction, BAM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the initial Agency Order allocated to the Initiating Member. However, if only one other quote, order or BAM response matches the stop price, then the Initiating Member may be allocated up to 50% of the initial Agency Order when executed at such price. Remaining contracts shall be allocated, pursuant to sub-paragraphs (iii) and (iv) below, among remaining quotes, orders and BAM responses at the stop price. Any remaining contracts shall be allocated to the Initiating Member. The allocation will account for Last Priority, if applicable.

(ii) If the Initiating Member selected the auto-match option of the Auction, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and BAM responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating

Member shall be entitled to receive up to 40% (multiple competing quotes, orders or BAM responses) or 50% (one competing quote, order or BAM response) of the initial Agency Order at the final price point (including situations where the stop price is the final price) after Priority Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and BAM responses at the final price point the contracts will be allocated to such interest pursuant to sub-paragraphs (iii) and (iv) below. Any remaining contracts shall be allocated to the Initiating Member.

(iii) For classes designated by the Exchange as eligible for Priority [Quote]Order status, Users with resting quotes and orders that were at a price that is equal to the Initial NBBO on the opposite side of the market from the Agency Order ("Priority [Quotes]Orders") shall have priority up to their size in the Initial NBBO at each price level at or better than such Initial NBBO after Priority Customers and the Initiating Member have received allocations. Priority [Quotes]Orders and BAM responses submitted by Users with Priority Order status will be allocated pursuant to Rule 21.8(c). Priority [Quote]Order status is only valid for the duration of the particular Auction.

(iv) After Priority Customers, the Initiating Member and Users with Priority [Quotes]Orders, if applicable, have received allocations, all other interest will be allocated pursuant to Rule 21.8(c).

(5) Any unexecuted BAM responses will be cancelled.

(6) ISO Orders. If an Auction is initiated for an Agency Order designated as an ISO Order, responses and executions will be permitted at a price inferior to the Initial NBBO.

[(7) MTP Modifiers. BAM responses may be designated with the MTP modifier of MTP Cancel Newest. A BAM response with any other MTP modifier will be rejected.]

(c) Customer-to-Customer Immediate Crosses. In lieu of the procedures set forth above, an Initiating Member may enter an Agency Order for the account of a Priority Customer paired with an order for the account of a Priority Customer and such paired orders will be automatically executed without an Auction, subject to the following:

(1) The price of the transaction must be priced at or between the EDGX BBO and cannot trade through the NBBO;

(2) A Customer-to-Customer Immediate Cross will not be initiated but will instead be cancelled if there is a resting Priority Customer order on the same side of the market and at the same price as the Agency Order; and

(3) A Customer-to-Customer Immediate Cross will not be initiated if there is a resting Priority Customer order on the opposite side of the market from, and at the same price as, the Agency Order. Instead, the Agency Order will be subject to the Auction process set forth above, and the resting Priority Customer order will participate in such process.

Interpretations and Policies

.01 The Auction may be used only where there is a genuine intention to execute a bona fide transaction.

.02 A pattern or practice of submitting orders or quotes for the purpose of disrupting or manipulating BAM Auctions will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1 to engage in a pattern of conduct where the Initiating Member breaks up an Agency Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in sub-paragraph (b)(4) above.

.03 Rule 22.12 prevents an Options Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Options Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Member to establish a relationship with a Priority Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 22.12 for an Options Member to circumvent such rule by providing an opportunity for (i) a Priority Customer affiliated with the Options Member, or (ii) a Priority Customer with whom the Options Member has an arrangement that allows the Options Member to realize similar economic benefits from the transaction as the Options Member would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as BAM Priority Customer-to-Priority Customer immediate crosses pursuant to paragraph (c) of this Rule.

<u>.04 Pursuant to paragraph (b) of this Rule, a BAM Auction will be allowed to commence despite an Auction in the same series already underway if such Auction is an Auction for an Agency Order of 50 contracts or more. To the extent there is more than one Auction in a series underway at a time, each Auction will conclude sequentially based on the exact time each Auction commenced, unless terminated early pursuant to (b)(2)(B) or (C) of this Rule. At the time each Auction concludes, such Auction will be allocated pursuant to this Rule and will take into account all responses and unrelated orders in place at the exact time of conclusion. In the</u>

event there are multiple Auctions underway that are each terminated early pursuant to paragraph (b)(2)(B) or (C) of this Rule, the Auctions will be processed sequentially based on the order in which they commenced. Because a BAM response must specifically identify the Auction for which it is targeted, and if not fully executed will be cancelled back at the conclusion of the Auction, BAM responses will only be considered in the specified Auction.

[.04].05 Subject to a Pilot expiring January 18, 2017, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any raw data which is submitted to the Commission will be provided on a confidential basis.

CHAPTER XXII. MARKET PARTICIPANTS

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Rule 22.12. Order Exposure Requirements

With respect to orders routed to EDGX Options, Options Members may not execute as principal orders they represent as agent unless:

(a) agency orders are first exposed on EDGX Options for at least one (1) second;

(b) the Options Member has been bidding or offering on EDGX Options for at least one (1) second prior to receiving an agency order that is executable against such bid or offer; or

(c) such orders are entered into a BAM Auction pursuant to Rule 21.19.

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EXHIBIT 5

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

Rules of Bats EDGX Exchange, Inc.

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CHAPTER XXI. TRADING SYSTEMS

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Rule 21.19. Bats Auction Mechanism

This Rule governs the operation of the Bats Auction Mechanism ("BAM"). An Options Member may electronically submit for execution an order it represents as agent on behalf of a Priority Customer, broker dealer, or any other person or entity ("Agency Order") against principal interest or against any other order it represents as agent (an "Initiating Order") provided it submits the Agency Order for electronic execution into the BAM Auction ("Auction") pursuant to this Rule. For purposes of this Rule, the term "NBBO" shall mean the national best bid or national best offer at the particular point in time applicable to the reference and the term "Initial NBBO" shall mean the national best bid or national best offer at the time an Auction is initiated.

(a) Auction Eligibility Requirements. All options traded on the Exchange are eligible for BAM. An Options Member (the "Initiating Member") may initiate an Auction subject to the following conditions.

(1) Price. The Initiating Member must stop the entire Agency Order as principal or with a solicited order at a price in an increment of $0.01 such that:

(A) if the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is $0.01, the Initiating Member must stop the entire Agency Order at one minimum price improvement increment better than the NBBO, which increment shall be determined by the Exchange but may not be smaller than $0.01; or

(B) for any other Agency Order, the Initiating Member must stop the entire Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order).

(2) Same-Side Orders. If the EDGX BBO on the same side of the market as the Agency Order represents:

(A) a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price; or

(B) a quote or order that is not a Priority Customer order on the book, the stop price must be at least $0.01 better than the booked order's limit price unless the Agency Order is a Priority Customer order and the Customer Overlay set forth in Rule 21.8(d)(1) above is in effect.

(3) Other Auctions in Same Series. With respect to Agency Orders for less than 50 contracts, only one such Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. Auctions for Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions in the same series.

(4) Agency Orders that do not meet the conditions of paragraph (a)(1) through (a)(3) above will be rejected.

(5) Agency Orders submitted at or before the opening of trading or when the NBBO is crossed are not eligible to initiate an Auction and will be rejected.

(6) An Initiating Order may not be a solicited order for the account of any Options Market Maker registered in the applicable series on the Exchange.

(b) Auction Process. Once initiated, an Auction shall proceed as follows:

(1) Auction Period and BAM Auction Notifications.

(A) To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify either:

(i) a single price at which it seeks to execute the Agency Order (a "single-price submission"); or

(ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all BAM responses and other trading interest ("auto-match") as follows:

(a) stopping the entire order at a single stop price and auto-matching BAM responses and other trading interest at all prices that improve the stop price to a specified price; or

(b) stopping the entire order at a single stop price and auto-matching all BAM responses and other trading interest at all prices that improve the stop price.

Once the Initiating Member has submitted an Agency Order for processing pursuant to this sub-paragraph, such Agency Order may not be modified or cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% of the initial Agency Order in the event there is one competing quote, order or BAM response or 40% of the initial Agency Order in the event there are multiple competing quotes, orders or BAM responses.

(B) When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "last priority" to the other potential BAM participants ("Last Priority") which will result in the Initiating Member forfeiting the priority and trade allocation privileges to which it is otherwise entitled pursuant to sub-paragraphs (b)(4)(i) and (b)(4)(ii) below.

(i) If Last Priority is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the Agency Order at prices which are equal to or improve upon the stop price.

(ii) Last Priority will not be applied if both the Initiating Order and the Agency Order are Priority Customer orders.

(iii) Last Priority cannot be designated on an Agency Order specified as auto-match, and thus, is only compatible with single-price submissions.

(iv) Last Priority information will not be available to other market participants and may not be modified.

(C) When the Exchange receives an Agency Order for Auction processing, an auction notification message detailing the side, size, price, and options series of the Agency Order will be sent over the Exchange's Multicast PITCH Feed and Auction Feed. This notification message will not be included in the Exchange's disseminated best bid or offer and will not be disseminated through OPRA.

(D) The Auction will last for a period of time, as determined by the Exchange and announced on the Exchange's website. The Auction period will be no less than one hundred milliseconds and no more than one second.

(E) Any person or entity other than the Initiating Member may submit responses to an Auction, provided such responses are properly marked specifying price, size, side of the market and information identifying the Auction to which the response is targeted.

(F) BAM responses will not be visible to Auction participants, and will not be disseminated to OPRA.

(G) The minimum price increment for BAM responses and for the Initiating Member's submission shall be $0.01 increment, regardless if the class trades in another increment.

(H) A BAM response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).

(I) Multiple BAM responses from the same User may be submitted during the Auction. Multiple orders at a particular price point submitted by a User in response to an Auction or resting on the EDGX Options Book will be aggregated together and will be capped at the size of the Agency Order (i.e., the excess size will be ignored when processing the Auction).

(J) BAM responses may be modified or cancelled during the Auction.

(K) BAM responses on the same side of the market as the Agency Order or with a Time in Force of IOC or FOK are considered invalid and will be immediately cancelled.

(L) BAM responses cannot cross the price of the Initial NBBO but will be executed, if possible, at the most aggressive permissible price within such Initial NBBO.

(M) BAM responses may be designated with the MTP modifier of MTP Cancel Newest. A BAM response with any other MTP modifier will be rejected.

(2) Conclusion of Auction. Unless otherwise indicated, an Auction shall conclude with execution processing in accordance with sub-paragraph (b)(4) below. The Auction shall conclude at the earliest to occur of the following times:

(A) At the end of the Auction period;

(B) Upon receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book;

(C) Upon receipt by the Exchange of an unrelated order or quote that is not a Priority Customer order on the same side of the market as the Agency Order that would cause the Agency Order's stop price to be outside of the EDGX BBO;

(D) At the close of trading; and

(E) Any time there is a trading halt on the Exchange in the affected series, provided, however, that in such instance the Auction will be cancelled without execution.

(3) An unrelated market or marketable limit order (against the EDGX BBO) on the opposite side of the market from the Agency Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (b)(4) below. This sub-paragraph applies equally to all unrelated orders submitted to the Exchange, including orders marked as Post Only Orders pursuant to Rule 21.1(d)(8).

(4) Order Allocation. At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) with the following priority:

(A) Priority Customer orders shall have priority at each price level.

(B) The Agency Order shall be allocated after Priority Customer orders as follows:

(i) If the Initiating Member selected the single-price submission option of the Auction, BAM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the initial Agency Order allocated to the Initiating Member. However, if only one other quote, order or BAM response matches the stop price, then the Initiating Member may be allocated up to 50% of the initial Agency Order when executed at such price. Remaining contracts shall be allocated, pursuant to sub-paragraphs (iii) and (iv) below, among remaining quotes, orders and BAM responses at the stop price. Any remaining contracts shall be allocated to the Initiating Member. The allocation will account for Last Priority, if applicable.

(ii) If the Initiating Member selected the auto-match option of the Auction, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and BAM responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to receive up to 40% (multiple competing quotes, orders or BAM responses) or 50% (one competing quote, order or BAM response) of the initial Agency Order at the final price point (including situations where the stop price is the final price) after Priority Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and BAM responses at the final price point the contracts will be allocated to such interest pursuant to sub-paragraphs (iii) and (iv) below. Any remaining contracts shall be allocated to the Initiating Member.

(iii) For classes designated by the Exchange as eligible for Priority Order status, Users with resting quotes and orders that were at a price that is equal to the Initial NBBO on the opposite side of the market from the Agency Order ("Priority Orders") shall have priority up to their size in the Initial NBBO at each price level at or better than such Initial NBBO after Priority Customers and the Initiating Member have received allocations. Priority Orders and BAM responses submitted by Users with Priority Order status will be allocated pursuant to Rule 21.8(c). Priority Order status is only valid for the duration of the particular Auction.

(iv) After Priority Customers, the Initiating Member and Users with Priority Orders, if applicable, have received allocations, all other interest will be allocated pursuant to Rule 21.8(c).

(5) Any unexecuted BAM responses will be cancelled.

(6) ISO Orders. If an Auction is initiated for an Agency Order designated as an ISO Order, responses and executions will be permitted at a price inferior to the Initial NBBO.

(c) Customer-to-Customer Immediate Crosses. In lieu of the procedures set forth above, an Initiating Member may enter an Agency Order for the account of a Priority Customer paired with an order for the account of a Priority Customer and such paired orders will be automatically executed without an Auction, subject to the following:

(1) The price of the transaction must be priced at or between the EDGX BBO and cannot trade through the NBBO;

(2) A Customer-to-Customer Immediate Cross will not be initiated but will instead be cancelled if there is a resting Priority Customer order on the same side of the market and at the same price as the Agency Order; and

(3) A Customer-to-Customer Immediate Cross will not be initiated if there is a resting Priority Customer order on the opposite side of the market from, and at the same price as, the Agency Order. Instead, the Agency Order will be subject to the Auction process set forth above, and the resting Priority Customer order will participate in such process.

Interpretations and Policies

.01 The Auction may be used only where there is a genuine intention to execute a bona fide transaction.

.02 A pattern or practice of submitting orders or quotes for the purpose of disrupting or manipulating BAM Auctions will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1 to engage in a pattern of conduct where the Initiating Member breaks up an Agency Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in sub-paragraph (b)(4) above.

.03 Rule 22.12 prevents an Options Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Options Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Member to establish a relationship with a Priority Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 22.12 for an Options Member to circumvent such rule by providing an opportunity for (i) a Priority Customer affiliated with the Options Member, or (ii) a Priority Customer with whom the Options Member has an arrangement that allows the Options Member to realize similar economic benefits from the transaction as the Options Member would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as BAM Priority Customer-to-Priority Customer immediate crosses pursuant to paragraph (c) of this Rule.

.04 Pursuant to paragraph (b) of this Rule, a BAM Auction will be allowed to commence despite an Auction in the same series already underway if such Auction is an Auction for an Agency Order of 50 contracts or more. To the extent there is more than one Auction in a series underway at a time, each Auction will conclude sequentially based on the exact time each Auction commenced, unless terminated early pursuant to (b)(2)(B) or (C) of this Rule. At the time each Auction concludes, such Auction will be allocated pursuant to this Rule and will take into account all responses and unrelated orders in place at the exact time of conclusion. In the event there are multiple Auctions underway that are each terminated early pursuant to paragraph (b)(2)(B) or (C) of this Rule, the Auctions will be processed sequentially based on the order in which they commenced. Because a BAM response must specifically identify the Auction for which it is targeted, and if not fully executed will be cancelled back at the conclusion of the Auction, BAM responses will only be considered in the specified Auction.

.05 Subject to a Pilot expiring January 18, 2017, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any raw data which is submitted to the Commission will be provided on a confidential basis.

CHAPTER XXII. MARKET PARTICIPANTS

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Rule 22.12. Order Exposure Requirements

With respect to orders routed to EDGX Options, Options Members may not execute as principal orders they represent as agent unless:

(a) agency orders are first exposed on EDGX Options for at least one (1) second; [or]

(b) the Options Member has been bidding or offering on EDGX Options for at least one (1) second prior to receiving an agency order that is executable against such bid or offer[.]; or

(c) such orders are entered into a BAM Auction pursuant to Rule 21.19.

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