

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 38

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

File No.\* SR - 2017 - \* 24

Amendment No. (req. for Amendments \*)

Filing by Bats BYX 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) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>			Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input checked="" type="checkbox"/> 19b-4(f)(6)		

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

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

Section 806(e)(1) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>

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 \*).

The Exchange proposes a rule change to Rule 11.9, Orders and Modifiers, to add new optional functionality to Minimum Quantity Orders.

### 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 *	Chris	Last Name *	Solgan
Title *	Assistant General Counsel		
E-mail *	csolgan@bats.com		
Telephone *	(646) 856-8723	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.

(Title \*)

Date 09/26/2017

By Chris Solgan

(Name \*)

Assistant 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.

csolgan@bats.com

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549	
For complete Form 19b-4 instructions please refer to the EFFT website.	
<div>Form 19b-4 Information *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	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.
<div>Exhibit 1 - Notice of Proposed Rule Change *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	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)
<div>Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	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)
<div>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</div> <div><div>Add</div><div>Remove</div><div>View</div></div> <div>Exhibit Sent As Paper Document <input type="checkbox"/></div>	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.
<div>Exhibit 3 - Form, Report, or Questionnaire</div> <div><div>Add</div><div>Remove</div><div>View</div></div> <div>Exhibit Sent As Paper Document <input type="checkbox"/></div>	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.
<div>Exhibit 4 - Marked Copies</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	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.
<div>Exhibit 5 - Proposed Rule Text</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	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.
<div>Partial Amendment</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	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 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> Bats BYX Exchange, Inc. (“BYX” or the “Exchange”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change to add new optional functionality to Minimum Quantity Orders by amending paragraph (c)(5) of Exchange Rule 11.9, Orders and Modifiers. The Exchange also proposes to amend paragraph (e)(3) of Exchange Rule 11.9 to make certain clarifying, non-substantive changes. The proposed amendments are identical changes its affiliate, Bats EDGX Exchange, Inc. (“EDGX”), recently filed with and were published by the Commission for immediate effectiveness.<sup>3</sup> The Exchange also proposes to add language to the description of Minimum Quantity Orders to further describe their current operation on BYX and to harmonize the rule with that of EDGX.<sup>4</sup> The Exchange does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes that the proposed rule text is based on BYX rules and is different only to the extent necessary to conform to the Exchange’s current rules. Therefore, the Exchange has designated this proposal as “non-controversial” and provided the Commission with the

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See EDGX Rules 11.6(h), 11.8(b)(3), and 11.10(e)(3). See also Securities Exchange Act Release No. 81457 (August 22, 2017), 82 FR 40812 (August 28, 2017) (SR-BatsEDGX-2017-34).

<sup>4</sup> See EDGX Rule 11.9(h) (describing the operation of the Minimum Execution Quantity order instructions, which is functionally identical to the BYX Minimum Quantity Order).

notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>5</sup>

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

(b) The Exchange does not believe that the proposed rule change will have any direct or significant indirect effect on any other Exchange rule in effect at the time of this filing.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Exchange submits the proposed rule change pursuant to authority delegated by the Board of Directors of the Exchange on February 11, 2014. Exchange staff will advise the Exchange's Board of Directors of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change and, therefore, the Exchange's internal procedures with respect to the proposed change are complete.

The persons on the Exchange staff prepared to respond to questions and comments on the proposed rule change are:

Joanne Moffic-Silver  
Executive Vice President, General  
Counsel, and Corporate Secretary  
(312) 786-7462

Chris Solgan  
Assistant General Counsel  
(646) 856-8723

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

(a) Purpose

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<sup>5</sup> 17 CFR 240.19b-4(f)(6)(iii).

The Exchange proposes to add new optional functionality to Minimum Quantity Orders by amending paragraph (c)(5) of Exchange Rule 11.9, Orders and Modifiers. The Exchange also proposes to amend paragraph (e)(3) of Exchange Rule 11.9 to make certain clarifying, non-substantive changes. The proposed amendments are identical to changes recently filed by Exchange's affiliate EDGX and were published by the Commission for immediate effectiveness.<sup>6</sup> The Exchange also proposes to add language to the description of Minimum Quantity Orders to further describe their current operation on BYX and to harmonize the rule with that of EDGX.<sup>7</sup> The Exchange does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes that the proposed rule text is based on BYX rules and is different only to the extent necessary to conform to the Exchange's current rules. Each of these changes are described in detail below.

Exchange Rule 11.9(c)(5), Proposed Individual Minimum Size and Harmonization with EDGX Rule 11.6(h)

A Minimum Quantity Order enables a User<sup>8</sup> to specify a minimum share amount at which the order will execute. A Minimum Quantity Order will not execute unless the volume of contra-side liquidity available to execute against the order meets or exceeds the designated minimum. Specifically, a Minimum Quantity Order is a limit order to buy or sell that will only execute if a specified minimum quantity of shares can be obtained.

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<sup>6</sup> See supra note 3.

<sup>7</sup> See EDGX Rule 11.9(h) (describing the operation of the Minimum Execution Quantity order instructions, which is functionally identical to the BYX Minimum Quantity Order).

<sup>8</sup> The term "User" is defined as "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3." See Exchange Rule 1.5(cc).

Orders with a specified minimum quantity will only execute against multiple, aggregated orders if such executions would occur simultaneously.<sup>9</sup> The Exchange will only honor a specified minimum quantity on BYX Only Orders<sup>10</sup> that are non-displayed or Immediate-or-Cancel (“IOC”) Orders<sup>11</sup> and will disregard a minimum quantity on any other order.

First, the Exchange proposes to add new optional functionality that would enhance the utility of Minimum Quantity Orders by amending paragraph (c)(5) of Exchange Rule 11.9. In sum, the proposal would permit an incoming Minimum Quantity Order to forego executions where multiple resting orders could otherwise be aggregated to satisfy the order’s minimum quantity.

The Exchange has observed that some market participants avoid sending large Minimum Quantity Orders to the Exchange out of concern that such orders may interact with small orders entered by professional traders, possibly adversely impacting the execution of their larger order. Institutional orders are often much larger in size than the average order in the marketplace. To facilitate the liquidation or acquisition of a large position, market participants tend to submit multiple orders into the market that may only represent a fraction of the overall institutional position to be executed. Various strategies used by institutional market participants to execute large orders are intended to limit price movement of the security at issue. Executing in small sizes, even if in the aggregate it meets the order’s minimum quantity, may impact the market for that security such that the additional orders the market participant has yet to enter into the market may be more

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<sup>9</sup> Today, the System will aggregate multiple resting orders to satisfy the incoming order’s minimum quantity and a User cannot elect for the incoming order to execute against a single resting contra-side order.

<sup>10</sup> See Exchange Rule 11.9(c)(4).

<sup>11</sup> See Exchange Rule 11.9(b)(1).

costly to execute. If an institution is able to execute in larger sizes, the contra-party to the execution is less likely to be a participant that reacts to short term changes in the stock price, and as such, the price impact to the stock may be less acute when larger individual executions are obtained.<sup>12</sup> As a result, these orders are often executed away from the Exchange in dark pools or other exchanges that offer the same functionality as proposed herein,<sup>13</sup> or via broker-dealer internalization.

To attract larger Minimum Quantity Orders, the Exchange proposes to add new optional functionality that would enhance the utility of Minimum Quantity Orders. In sum, the proposal would permit a User to elect that its incoming Minimum Quantity Order execute solely against one or more resting individual orders, each of which must satisfy the order's minimum quantity condition. In such case, the order would forego executions where multiple resting orders could otherwise be aggregated to satisfy the order's minimum quantity, but do not individually satisfy the minimum quantity condition.<sup>14</sup> As discussed above, under the current rule a Minimum Quantity Order will execute upon entry against any number of smaller contra-side orders that, in aggregate, meet the minimum quantity set by the User. This default behavior will remain. For

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<sup>12</sup> The Commission has long recognized this concern: “[a]nother type of implicit transaction cost reflected in the price of a security is short-term price volatility caused by temporary imbalances in trading interest. For example, a significant implicit cost for large investors (who often represent the consolidated investments of many individuals) is the price impact that their large trades can have on the market. Indeed, disclosure of these large orders can reduce the likelihood of their being filled.” See Securities Exchange Act Release No. 42450 (February 23, 2000), 65 FR 10577, 10581 (February 28, 2000) (SR-NYSE-99-48).

<sup>13</sup> See supra note 3.

<sup>14</sup> If no election is made, the System will aggregate multiple resting orders to satisfy the incoming order's minimum quantity.

example, assume there are two orders to sell resting on the BYX Book<sup>15</sup> – the first for 300 shares and a second for 400 shares, with the 300 share order having time priority ahead of the 400 share order. If a User entered a Minimum Quantity Order to buy 1,000 shares at \$10.00 with a minimum quantity of 500 shares, and the order was marketable against the two resting sell orders for 300 and 400 shares, the System<sup>16</sup> would aggregate both sell orders for purposes of meeting the minimum quantity, thus resulting in executions of 300 shares and then 400 shares respectively with the remaining 300 shares of the Minimum Quantity Order being posted to the BYX Book with a minimum quantity restriction of 300 shares.

The proposed new optional functionality will not allow aggregation of smaller executions to satisfy the minimum quantity of an incoming Minimum Quantity Order. Using the same scenario as above, but with the proposed new functionality and a minimum quantity requirement of 400 shares selected by the User, the Minimum Quantity Order would not execute against the two sell orders because the 300 share order with time priority at the top of the BYX Book is less than the incoming order's 400 share Minimum Execution Quantity. The new functionality will cause the Minimum Quantity Order to be cancelled or posted to the BYX Book, non-displayed, in accordance with the characteristics of the underlying order type<sup>17</sup> when encountering an order with time

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<sup>15</sup> The term “BYX Book” is defined as “the System’s electronic file of orders.” See Exchange Rule 1.5(e).

<sup>16</sup> The term “System” is defined as “the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away. See Exchange Rule 1.5(aa).

<sup>17</sup> See supra notes 10 and 11 for a description of the functionality associated with orders that may also be Minimum Quantity Orders.



priority that is of insufficient size to satisfy the minimum execution requirement. If posted, the Minimum Quantity Order will operate as it does currently and will only execute against individual orders that satisfy its minimum quantity as proposed herein. The Exchange notes that the User entering the Minimum Quantity Order has expressed its intention not to execute against liquidity below a certain minimum size, and therefore, cedes execution priority when it would lock an order against which it would otherwise execute if it were not for the minimum execution size restriction. The Exchange proposes to add language to paragraph (c)(5) of Rule 11.9 to make clear that the order would cede execution priority in such in scenario.

As amended, the description of a Minimum Quantity Order under paragraph (c)(5) of Exchange Rule 11.9 would set forth the default behavior of Minimum Quantity Orders that execute upon entry against a single order or multiple aggregated orders simultaneously. Amended Rule 11.9(c)(5) would set forth the proposed optional functionality where a User may alternatively specify that the incoming order's minimum quantity condition be satisfied by each order resting on the BYX Book that would execute against the order with the minimum quantity condition. If there are such orders, but there are also orders that do not satisfy the minimum quantity condition, the incoming Minimum Quantity Order will execute against orders resting on the BYX Book in accordance with Rule 11.12, Priority of Orders, until it reaches an order that does not satisfy the minimum quantity condition at which point it would be posted to the BYX Book or cancelled in accordance with the terms of the order. If, upon entry, there are no orders that satisfy the minimum quantity condition resting on the BYX Book, the order

will either be posted to the BYX Book or cancelled in accordance with the terms of the order.

The Exchange also proposes to re-price incoming Minimum Quantity Orders where that order may cross an order posted on the BYX Book. Specifically, where there is insufficient size to satisfy an incoming order's minimum quantity condition and that incoming order, if posted at its limit price, would cross an order(s) resting on the BYX Book, the order with the minimum quantity condition will be re-priced to and ranked at the locking price. For example, an order to buy at \$11.00 with a minimum quantity condition of 500 shares is entered and there is an order resting on the BYX Book to sell 200 shares at \$10.99. The resting order to sell does not contain sufficient size to satisfy the incoming order's minimum quantity condition of 500 shares. The price of the incoming buy order, if posted to the BYX Book, would cross the price of the resting sell order. In such case, to avoid an internally crossed book, the System will re-price the incoming buy order to \$10.99, the locking price. This behavior is similar to how the Exchange currently reprices non-displayed orders that cross the Protected Quotation of an external market.<sup>18</sup> In addition, both the Investors Exchange, Inc. ("IEX") and the Nasdaq Stock Market LLC ("Nasdaq") also re-price similar orders to avoid an internally crossed book.<sup>19</sup>

Second, the Exchange proposes to add language to the description of Minimum Quantity Orders to further describe their current operation on BZX and to harmonize the

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<sup>18</sup> See Exchange Rule 11.9(g)(4).

<sup>19</sup> See Nasdaq Rule 4703(e). See IEX Rule 11.190(h)(2).

rule with that of its affiliate, EDGX, as described in EDGX Rule 11.6(h).<sup>20</sup> The Exchange does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes that the proposed rule text is based on BYX rules and is different only to the extent necessary to conform to the Exchange's current rules. The Exchange notes that, but for the proposed changes discussed above, the current operation of Minimum Quantity Orders on the Exchange and the Minimum Execution Quantity instruction on EDGX is identical.

The Exchange, therefore, proposes to amend the description of the Minimum Execution Quantity instruction to clarify its operation upon order entry and when the order is posted to the BYX Book. The Exchange proposes to clarify that upon entry, and by default, an order with a Minimum Execution Quantity will execute against a single order or multiple aggregated orders simultaneously. A User may also specify that the order only against orders that individually satisfy the order's minimum quantity condition, as proposed herein. Once posted to the BYX Book,<sup>21</sup> the order may only execute against individual incoming orders with a size that satisfies the minimum quantity condition. Any shares remaining after a partial execution will continue to be executed at a size that is equal to or exceeds the quantity provided in the instruction. Where the number of shares remaining after a partial execution are less than the quantity provided in the order, the Minimum Quantity Order shall be equal to the number of

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<sup>20</sup> See EDGX Rule 11.9(h) describing the operation of the Minimum Execution Quantity order instructions, which is functionally identical to the BYX Minimum Quantity Order.

<sup>21</sup> Orders will only post to the BYX Book if they are designated with a TIF instruction that allows for posting. For example, an order with a TIF of IOC or FOK will never post to the BYX Book.

shares remaining. The Exchange also proposed to clarify that a Minimum Quantity Order is not eligible to be routed to another Trading Center in accordance with Exchange Rule 11.13, Order Execution and Routing. These proposed changes would provide additional specificity to the operation of Minimum Quantity Orders and would harmonize the rule with the description of the Minimum Execution Quantity instruction under EDX Rule 11.6(h).

Exchange Rule 11.9(e)(3), Replace Messages

The Exchange also proposes to amend paragraph (e)(3) of Rule 11.9 to make certain clarifying, non-substantive changes. The proposed change would harmonize the description of Replace messages under Exchange Rule 11.9(e)(3) with EDGX Rule 11.10(e)(3). Exchange Rule 11.9(e)(3) currently states that other than changing a limit order to a market order, only the price, stop price, the sell long or sell short indicator, Max Floor<sup>22</sup> of a Reserve Order, and quantity terms of the order may be changed with a Replace message. If a User desires to change any other terms of an existing order, the existing order must be cancelled and a new order must be entered. As amended, paragraph (e)(3) of Rule 11.9 would specify that the Max Floor is associated with a Reserve Order and to replace the phrase “and quantity terms” with the word “size”. The Exchange believes these changes will provide additional specificity to the rule and ensure the rule uses terminology consistent with the description of Replace messages and their impact on an order’s priority under Exchange Rule 11.12(a)(4).

(b) Statutory Basis

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<sup>22</sup> See Exchange Rule 11.9(c)(1).

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>23</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>24</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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.

Exchange Rule 11.6(h), Proposed Individual Minimum Size

The proposed rule change would remove impediments to and promote just and equitable principles of trade because it would provide Users with optional functionality that enhances the use of the Minimum Execution Quantity instruction. These proposed amendments are identical to changes recently proposed by EDGX that were published by the Commission for immediate effectiveness.<sup>25</sup> The proposed change to the functioning of Minimum Quantity Orders will provide market participants, including institutional firms who ultimately represent individual retail investors in many cases, with better control over their orders, thereby providing them with greater potential to improve the quality of their order executions. Currently, the rule allows Users to designate a minimum acceptable quantity on an order that may aggregate multiple executions to meet the minimum quantity requirement. Once posted to the book, however, the minimum quantity requirement is equivalent to a minimum execution size requirement. The Exchange is now proposing to provide Users with control over the execution of their

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<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

<sup>25</sup> See supra note 3.

Minimum Quantity Orders by allowing them an option to designate the minimum individual execution size upon entry. The control offered by the proposed change is consistent with the various types of control currently provided by exchange order types. For example, the Exchange and other exchanges offer limit orders, which allow a market participant control over the price it will pay or receive for a stock.<sup>26</sup> Similarly, exchanges offer order types that allow market participants to structure their trading activity in a manner that is more likely to avoid certain transaction cost related economic outcomes.<sup>27</sup>

As discussed above, the functionality proposed herein would enable Users to avoid transacting with smaller orders that they believe ultimately increases the cost of the transaction. Because the Exchange does not have this functionality, market participants, such as large institutions that transact a large number of orders on behalf of retail investors, have avoided sending large orders to the Exchange to avoid potentially more expensive transactions.<sup>28</sup> In this regard, the Exchange notes that the proposed new optional functionality may improve the Exchange's market by attracting more order flow. Such new order flow will further enhance the depth and liquidity on the Exchange, which supports just and equitable principals of trade. Furthermore, the proposed modification to Minimum Quantity Orders is consistent with providing market participants with greater control over the nature of their executions so that they may achieve their trading goals and improve the quality of their executions. Moreover, the proposed optional

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<sup>26</sup> See Exchange Rule 11.9(a)(1).

<sup>27</sup> For example, the BYX Post Only Order. See Exchange Rule 11.9(c)(6).

<sup>28</sup> As noted, the proposal is designed to attract liquidity to the Exchange by allowing market participants to designate a minimum size of a contra-side order to interact with, thus providing them with functionality available to them on dark markets.

functionality for Minimum Quantity Orders is also substantially similar to that offered by Nasdaq and IEX, both of which have been recently approved by the Commission.<sup>29</sup>

The Exchange also believes that re-pricing incoming Minimum Quantity Orders where they may cross an order posted on the BYX Book promotes just and equitable principles of trade because it enables the Exchange to avoid an internally crossed book. The proposed re-pricing is identical to how EDGX reprices orders with a Minimum Quantity instruction<sup>30</sup> and is similar to how BYX reprices non-displayed orders that cross an external market.<sup>31</sup> In addition, both IEX and Nasdaq also re-price minimum quantity orders to avoid an internally crossed book. In certain circumstances, Nasdaq re-prices buy (sell) orders to one minimum price increment below (above) the lowest (highest) price of such orders.<sup>32</sup> IEX re-prices non-displayed orders, such as minimum quantity orders, that include a limit price more aggressive than the midpoint of the NBBO to the midpoint of the NBBO.<sup>33</sup>

In addition, the additional proposed changes to the description of Minimum Quantity Orders would better align Exchange rules and system functionality with

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<sup>29</sup> See Nasdaq Rule 4703(e) (defining Minimum Quantity). See also Securities Exchange Act Release No. 73959 (December 30, 2014), 80 FR 582 (January 6, 2015) (order approving new optional functionality for Minimum Quantity Orders). See IEX Rule 11.190(b)(11) and Supplementary Material .03 (defining Minimum Quantity Orders and MinExec with Cancel Remaining and MinExec with AON Remaining). See also Securities Exchange Act Release No. 78101 (June 17, 2016), 81 FR 41141 (June 23, 2016) (order approving the IEX exchange application, which included IEX's Minimum Quantity Orders). See also IEX Rule 11.190(d)(3) (allowing the minimum quantity size of an order to be changed via a replace message).

<sup>30</sup> See supra note 3.

<sup>31</sup> See BYX Rule 11.9(g)(4).

<sup>32</sup> See Nasdaq Rule 4703(e).

<sup>33</sup> See IEX Rule 11.190(h)(2).

identical functionality and rules on its affiliate, EDGX. Consistent descriptions of identical functionality between the Exchange and EDGX will reduce complexity and avoid potential investor confusion. The proposed rule changes do not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes that the proposed rule text is based on applicable BYX rules; the proposed language of the Exchange's Rules differs only to extent necessary to conform to existing Exchange rule text or to account for details or descriptions included in the Exchange's Rules.

Clarification to Exchange Rule 11.9(e)(3)

The Exchange believes the proposed amendments to paragraph (e)(3) of Rule 11.9 are also consistent with the Act in that they will provide additional specificity to the rules. In particular, the amendments to paragraph (e)(3) of Rule 11.10 will ensure the rule uses terminology consistent with the description of Replace messages and their impact on an order's priority under Exchange Rule 11.12(a)(4). Also, the Exchange notes that the proposed change would harmonize the description of Replace messages under Exchange Rule 11.9(e)(3) with EDGX Rule 11.10(e)(3).

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, as amended. On the contrary, the Exchange believes the proposed rule change promotes competition because it will enable the Exchange to offer functionality substantially similar to that offered by Nasdaq and IEX.<sup>34</sup> In addition, the proposed

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<sup>34</sup> See supra note 29.



amendments to paragraph (e)(3) of Rule 11.10 would not have any impact on competition as they simply provide additional details to the rule and do not alter current System functionality. Therefore, the Exchange does not believe the proposed rule change will result in any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No comments were solicited or received on the proposed rule change.

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 foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>35</sup> of the Act and Rule 19b-4(f)(6)<sup>36</sup> thereunder. The proposed rule change effects a change that (A) does not significantly affect the protection of investors or the public interest; (B) does not impose any significant burden on competition; and (C) by its terms, does not become operative for thirty (30) days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest; provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.<sup>37</sup>

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<sup>35</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>36</sup> 17 CFR 240.19b-4(f)(6).

<sup>37</sup> 17 CFR 240.19b-4(f)(6).

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>38</sup> because it would not significantly affect the protection of investors or the public interest. The proposed rule change does not significantly affect the protection of investors or the public interest because it simply adds optional functionality that enhances the use of the Minimum Execution Quantity instruction. These proposed amendments are identical to changes recently proposed by EDGX that were published by the Commission for immediate effectiveness.<sup>39</sup> In addition, the proposed functionality is substantially similar to that offered by Nasdaq and IEX, both of which have been recently approved by the Commission. Therefore, the proposed rule change presents no novel issues that have not already been addressed.<sup>40</sup> In addition, the proposed rule change does not impose any significant burden on competition for the reasons set forth under Section 4 above. The Exchange has accordingly designated this rule filing as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>41</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>42</sup>

At any time within sixty (60) days of the filing of such proposed rule change, the Commission may summarily temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

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<sup>38</sup> 17 CFR 240.19b-4(f)(6).

<sup>39</sup> See supra note 3.

<sup>40</sup> See supra note 29.

<sup>41</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>42</sup> 17 C.F.R. 240.19b-4(f)(6).

The proposed rule change is based on EDGX Rules 11.6(h) and 11.10(e)(3).<sup>43</sup>

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 – Form of Notice of Proposed Rule Change for Federal Register.

Exhibit 5 – Text of the Proposed Rule Change

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<sup>43</sup> See supra note 3.

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BatsBYX-2017-24)

Self-Regulatory Organizations; Bats BYX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 11.9, Orders and Modifiers, to Add New Optional Functionality to Minimum Quantity Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, Bats BYX Exchange, Inc. (the “Exchange” or “BYX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to add new optional functionality to Minimum Quantity Orders by amending paragraph (c)(5) of Exchange Rule 11.9, Orders and Modifiers. The Exchange also proposes to amend paragraph (e)(3) of Exchange Rule 11.9 to make certain clarifying, non-substantive changes. The proposed amendments are identical changes its affiliate, Bats EDGX Exchange, Inc. (“EDGX”), recently filed with

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

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

and were published by the Commission for immediate effectiveness.<sup>5</sup> The Exchange also proposes to add language to the description of Minimum Quantity Orders to further describe their current operation on BYX and to harmonize the rule with that of EDGX.<sup>6</sup>

The text of the proposed rule change is available at the Exchange's website at [www.bats.com](http://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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add new optional functionality to Minimum Quantity Orders by amending paragraph (c)(5) of Exchange Rule 11.9, Orders and Modifiers. The Exchange also proposes to amend paragraph (e)(3) of Exchange Rule 11.9 to make certain clarifying, non-substantive changes. The proposed amendments are identical to

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<sup>5</sup> See EDGX Rules 11.6(h), 11.8(b)(3), and 11.10(e)(3). See also Securities Exchange Act Release No. 81457 (August 22, 2017), 82 FR 40812 (August 28, 2017) (SR-BatsEDGX-2017-34).

<sup>6</sup> See EDGX Rule 11.9(h) (describing the operation of the Minimum Execution Quantity order instructions, which is functionally identical to the BYX Minimum Quantity Order).

changes recently filed by Exchange's affiliate EDGX and were published by the Commission for immediate effectiveness.<sup>7</sup> The Exchange also proposes to add language to the description of Minimum Quantity Orders to further describe their current operation on BYX and to harmonize the rule with that of EDGX.<sup>8</sup> The Exchange does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes that the proposed rule text is based on BYX rules and is different only to the extent necessary to conform to the Exchange's current rules. Each of these changes are described in detail below.

Exchange Rule 11.9(c)(5), Proposed Individual Minimum Size and Harmonization with EDGX Rule 11.6(h)

A Minimum Quantity Order enables a User<sup>9</sup> to specify a minimum share amount at which the order will execute. A Minimum Quantity Order will not execute unless the volume of contra-side liquidity available to execute against the order meets or exceeds the designated minimum. Specifically, a Minimum Quantity Order is a limit order to buy or sell that will only execute if a specified minimum quantity of shares can be obtained. Orders with a specified minimum quantity will only execute against multiple, aggregated orders if such executions would occur simultaneously.<sup>10</sup> The Exchange will only honor a

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<sup>7</sup> See supra note 5.

<sup>8</sup> See EDGX Rule 11.9(h) (describing the operation of the Minimum Execution Quantity order instructions, which is functionally identical to the BYX Minimum Quantity Order).

<sup>9</sup> The term "User" is defined as "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3." See Exchange Rule 1.5(cc).

<sup>10</sup> Today, the System will aggregate multiple resting orders to satisfy the incoming order's minimum quantity and a User cannot elect for the incoming order to execute against a single resting contra-side order.

specified minimum quantity on BYX Only Orders<sup>11</sup> that are non-displayed or Immediate-or-Cancel (“IOC”) Orders<sup>12</sup> and will disregard a minimum quantity on any other order.

First, the Exchange proposes to add new optional functionality that would enhance the utility of Minimum Quantity Orders by amending paragraph (c)(5) of Exchange Rule 11.9. In sum, the proposal would permit an incoming Minimum Quantity Order to forego executions where multiple resting orders could otherwise be aggregated to satisfy the order’s minimum quantity.

The Exchange has observed that some market participants avoid sending large Minimum Quantity Orders to the Exchange out of concern that such orders may interact with small orders entered by professional traders, possibly adversely impacting the execution of their larger order. Institutional orders are often much larger in size than the average order in the marketplace. To facilitate the liquidation or acquisition of a large position, market participants tend to submit multiple orders into the market that may only represent a fraction of the overall institutional position to be executed. Various strategies used by institutional market participants to execute large orders are intended to limit price movement of the security at issue. Executing in small sizes, even if in the aggregate it meets the order’s minimum quantity, may impact the market for that security such that the additional orders the market participant has yet to enter into the market may be more costly to execute. If an institution is able to execute in larger sizes, the contra-party to the execution is less likely to be a participant that reacts to short term changes in the stock price, and as such, the price impact to the stock may be less acute when larger individual

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<sup>11</sup> See Exchange Rule 11.9(c)(4).

<sup>12</sup> See Exchange Rule 11.9(b)(1).

executions are obtained.<sup>13</sup> As a result, these orders are often executed away from the Exchange in dark pools or other exchanges that offer the same functionality as proposed herein,<sup>14</sup> or via broker-dealer internalization.

To attract larger Minimum Quantity Orders, the Exchange proposes to add new optional functionality that would enhance the utility of Minimum Quantity Orders. In sum, the proposal would permit a User to elect that its incoming Minimum Quantity Order execute solely against one or more resting individual orders, each of which must satisfy the order's minimum quantity condition. In such case, the order would forego executions where multiple resting orders could otherwise be aggregated to satisfy the order's minimum quantity, but do not individually satisfy the minimum quantity condition.<sup>15</sup> As discussed above, under the current rule a Minimum Quantity Order will execute upon entry against any number of smaller contra-side orders that, in aggregate, meet the minimum quantity set by the User. This default behavior will remain. For example, assume there are two orders to sell resting on the BYX Book<sup>16</sup> – the first for 300 shares and a second for 400 shares, with the 300 share order having time priority

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<sup>13</sup> The Commission has long recognized this concern: “[a]nother type of implicit transaction cost reflected in the price of a security is short-term price volatility caused by temporary imbalances in trading interest. For example, a significant implicit cost for large investors (who often represent the consolidated investments of many individuals) is the price impact that their large trades can have on the market. Indeed, disclosure of these large orders can reduce the likelihood of their being filled.” See Securities Exchange Act Release No. 42450 (February 23, 2000), 65 FR 10577, 10581 (February 28, 2000) (SR-NYSE-99-48).

<sup>14</sup> See supra note 5.

<sup>15</sup> If no election is made, the System will aggregate multiple resting orders to satisfy the incoming order's minimum quantity.

<sup>16</sup> The term “BYX Book” is defined as “the System's electronic file of orders.” See Exchange Rule 1.5(e).



ahead of the 400 share order. If a User entered a Minimum Quantity Order to buy 1,000 shares at \$10.00 with a minimum quantity of 500 shares, and the order was marketable against the two resting sell orders for 300 and 400 shares, the System<sup>17</sup> would aggregate both sell orders for purposes of meeting the minimum quantity, thus resulting in executions of 300 shares and then 400 shares respectively with the remaining 300 shares of the Minimum Quantity Order being posted to the BYX Book with a minimum quantity restriction of 300 shares.

The proposed new optional functionality will not allow aggregation of smaller executions to satisfy the minimum quantity of an incoming Minimum Quantity Order. Using the same scenario as above, but with the proposed new functionality and a minimum quantity requirement of 400 shares selected by the User, the Minimum Quantity Order would not execute against the two sell orders because the 300 share order with time priority at the top of the BYX Book is less than the incoming order's 400 share Minimum Execution Quantity. The new functionality will cause the Minimum Quantity Order to be cancelled or posted to the BYX Book, non-displayed, in accordance with the characteristics of the underlying order type<sup>18</sup> when encountering an order with time priority that is of insufficient size to satisfy the minimum execution requirement. If posted, the Minimum Quantity Order will operate as it does currently and will only execute against individual orders that satisfy its minimum quantity as proposed herein.

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<sup>17</sup> The term "System" is defined as "the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away. See Exchange Rule 1.5(aa).

<sup>18</sup> See supra notes 11 and 12 for a description of the functionality associated with orders that may also be Minimum Quantity Orders.

The Exchange notes that the User entering the Minimum Quantity Order has expressed its intention not to execute against liquidity below a certain minimum size, and therefore, cedes execution priority when it would lock an order against which it would otherwise execute if it were not for the minimum execution size restriction. The Exchange proposes to add language to paragraph (c)(5) of Rule 11.9 to make clear that the order would cede execution priority in such in scenario.

As amended, the description of a Minimum Quantity Order under paragraph (c)(5) of Exchange Rule 11.9 would set forth the default behavior of Minimum Quantity Orders that execute upon entry against a single order or multiple aggregated orders simultaneously. Amended Rule 11.9(c)(5) would set forth the proposed optional functionality where a User may alternatively specify that the incoming order's minimum quantity condition be satisfied by each order resting on the BYX Book that would execute against the order with the minimum quantity condition. If there are such orders, but there are also orders that do not satisfy the minimum quantity condition, the incoming Minimum Quantity Order will execute against orders resting on the BYX Book in accordance with Rule 11.12, Priority of Orders, until it reaches an order that does not satisfy the minimum quantity condition at which point it would be posted to the BYX Book or cancelled in accordance with the terms of the order. If, upon entry, there are no orders that satisfy the minimum quantity condition resting on the BYX Book, the order will either be posted to the BYX Book or cancelled in accordance with the terms of the order.

The Exchange also proposes to re-price incoming Minimum Quantity Orders where that order may cross an order posted on the BYX Book. Specifically, where there

is insufficient size to satisfy an incoming order's minimum quantity condition and that incoming order, if posted at its limit price, would cross an order(s) resting on the BYX Book, the order with the minimum quantity condition will be re-priced to and ranked at the locking price. For example, an order to buy at \$11.00 with a minimum quantity condition of 500 shares is entered and there is an order resting on the BYX Book to sell 200 shares at \$10.99. The resting order to sell does not contain sufficient size to satisfy the incoming order's minimum quantity condition of 500 shares. The price of the incoming buy order, if posted to the BYX Book, would cross the price of the resting sell order. In such case, to avoid an internally crossed book, the System will re-price the incoming buy order to \$10.99, the locking price. This behavior is similar to how the Exchange currently reprices non-displayed orders that cross the Protected Quotation of an external market.<sup>19</sup> In addition, both the Investors Exchange, Inc. ("IEX") and the Nasdaq Stock Market LLC ("Nasdaq") also re-price similar orders to avoid an internally crossed book.<sup>20</sup>

Second, the Exchange proposes to add language to the description of Minimum Quantity Orders to further describe their current operation on BZX and to harmonize the rule with that of its affiliate, EDGX, as described in EDGX Rule 11.6(h).<sup>21</sup> The Exchange does not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes

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<sup>19</sup> See Exchange Rule 11.9(g)(4).

<sup>20</sup> See Nasdaq Rule 4703(e). See IEX Rule 11.190(h)(2).

<sup>21</sup> See EDGX Rule 11.9(h) describing the operation of the Minimum Execution Quantity order instructions, which is functionally identical to the BYX Minimum Quantity Order.

that the proposed rule text is based on BYX rules and is different only to the extent necessary to conform to the Exchange's current rules. The Exchange notes that, but for the proposed changes discussed above, the current operation of Minimum Quantity Orders on the Exchange and the Minimum Execution Quantity instruction on EDGX is identical.

The Exchange, therefore, proposes to amend the description of the Minimum Execution Quantity instruction to clarify its operation upon order entry and when the order is posted to the BYX Book. The Exchange proposes to clarify that upon entry, and by default, an order with a Minimum Execution Quantity will execute against a single order or multiple aggregated orders simultaneously. A User may also specify that the order only against orders that individually satisfy the order's minimum quantity condition, as proposed herein. Once posted to the BYX Book,<sup>22</sup> the order may only execute against individual incoming orders with a size that satisfies the minimum quantity condition. Any shares remaining after a partial execution will continue to be executed at a size that is equal to or exceeds the quantity provided in the instruction. Where the number of shares remaining after a partial execution are less than the quantity provided in the order, the Minimum Quantity Order shall be equal to the number of shares remaining. The Exchange also proposed to clarify that a Minimum Quantity Order is not eligible to be routed to another Trading Center in accordance with Exchange Rule 11.13, Order Execution and Routing. These proposed changes would provide additional specificity to the operation of Minimum Quantity Orders and would harmonize the rule

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<sup>22</sup> Orders will only post to the BYX Book if they are designated with a TIF instruction that allows for posting. For example, an order with a TIF of IOC or FOK will never post to the BYX Book.

with the description of the Minimum Execution Quantity instruction under EDX Rule 11.6(h).

Exchange Rule 11.9(e)(3), Replace Messages

The Exchange also proposes to amend paragraph (e)(3) of Rule 11.9 to make certain clarifying, non-substantive changes. The proposed change would harmonize the description of Replace messages under Exchange Rule 11.9(e)(3) with EDGX Rule 11.10(e)(3). Exchange Rule 11.9(e)(3) currently states that other than changing a limit order to a market order, only the price, stop price, the sell long or sell short indicator, Max Floor<sup>23</sup> of a Reserve Order, and quantity terms of the order may be changed with a Replace message. If a User desires to change any other terms of an existing order, the existing order must be cancelled and a new order must be entered. As amended, paragraph (e)(3) of Rule 11.9 would specify that the Max Floor is associated with a Reserve Order and to replace the phrase “and quantity terms” with the word “size”. The Exchange believes these changes will provide additional specificity to the rule and ensure the rule uses terminology consistent with the description of Replace messages and their impact on an order’s priority under Exchange Rule 11.12(a)(4).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>24</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>25</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster

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<sup>23</sup> See Exchange Rule 11.9(c)(1).

<sup>24</sup> 15 U.S.C. 78f(b).

<sup>25</sup> 15 U.S.C. 78f(b)(5).

cooperation and coordination with persons engaged in 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.

Exchange Rule 11.6(h), Proposed Individual Minimum Size

The proposed rule change would remove impediments to and promote just and equitable principles of trade because it would provide Users with optional functionality that enhances the use of the Minimum Execution Quantity instruction. These proposed amendments are identical to changes recently proposed by EDGX that were published by the Commission for immediate effectiveness.<sup>26</sup> The proposed change to the functioning of Minimum Quantity Orders will provide market participants, including institutional firms who ultimately represent individual retail investors in many cases, with better control over their orders, thereby providing them with greater potential to improve the quality of their order executions. Currently, the rule allows Users to designate a minimum acceptable quantity on an order that may aggregate multiple executions to meet the minimum quantity requirement. Once posted to the book, however, the minimum quantity requirement is equivalent to a minimum execution size requirement. The Exchange is now proposing to provide Users with control over the execution of their Minimum Quantity Orders by allowing them an option to designate the minimum individual execution size upon entry. The control offered by the proposed change is consistent with the various types of control currently provided by exchange order types. For example, the Exchange and other exchanges offer limit orders, which allow a market

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<sup>26</sup> See supra note 5.

participant control over the price it will pay or receive for a stock.<sup>27</sup> Similarly, exchanges offer order types that allow market participants to structure their trading activity in a manner that is more likely to avoid certain transaction cost related economic outcomes.<sup>28</sup>

As discussed above, the functionality proposed herein would enable Users to avoid transacting with smaller orders that they believe ultimately increases the cost of the transaction. Because the Exchange does not have this functionality, market participants, such as large institutions that transact a large number of orders on behalf of retail investors, have avoided sending large orders to the Exchange to avoid potentially more expensive transactions.<sup>29</sup> In this regard, the Exchange notes that the proposed new optional functionality may improve the Exchange's market by attracting more order flow. Such new order flow will further enhance the depth and liquidity on the Exchange, which supports just and equitable principals of trade. Furthermore, the proposed modification to Minimum Quantity Orders is consistent with providing market participants with greater control over the nature of their executions so that they may achieve their trading goals and improve the quality of their executions. Moreover, the proposed optional functionality for Minimum Quantity Orders is also substantially similar to that offered by Nasdaq and IEX, both of which have been recently approved by the Commission.<sup>30</sup>

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<sup>27</sup> See Exchange Rule 11.9(a)(1).

<sup>28</sup> For example, the BYX Post Only Order. See Exchange Rule 11.9(c)(6).

<sup>29</sup> As noted, the proposal is designed to attract liquidity to the Exchange by allowing market participants to designate a minimum size of a contra-side order to interact with, thus providing them with functionality available to them on dark markets.

<sup>30</sup> See Nasdaq Rule 4703(e) (defining Minimum Quantity). See also Securities Exchange Act Release No. 73959 (December 30, 2014), 80 FR 582 (January 6, 2015) (order approving new optional functionality for Minimum Quantity Orders). See IEX Rule 11.190(b)(11) and Supplementary Material .03 (defining

The Exchange also believes that re-pricing incoming Minimum Quantity Orders where they may cross an order posted on the BYX Book promotes just and equitable principles of trade because it enables the Exchange to avoid an internally crossed book. The proposed re-pricing is identical to how EDGX reprices orders with a Minimum Quantity instruction<sup>31</sup> and is similar to how BYX reprices non-displayed orders that cross an external market.<sup>32</sup> In addition, both IEX and Nasdaq also re-price minimum quantity orders to avoid an internally crossed book. In certain circumstances, Nasdaq re-prices buy (sell) orders to one minimum price increment below (above) the lowest (highest) price of such orders.<sup>33</sup> IEX re-prices non-displayed orders, such as minimum quantity orders, that include a limit price more aggressive than the midpoint of the NBBO to the midpoint of the NBBO.<sup>34</sup>

In addition, the additional proposed changes to the description of Minimum Quantity Orders would better align Exchange rules and system functionality with identical functionality and rules on its affiliate, EDGX. Consistent descriptions of identical functionality between the Exchange and EDGX will reduce complexity and avoid potential investor confusion. The proposed rule changes do not propose to

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Minimum Quantity Orders and MinExec with Cancel Remaining and MinExec with AON Remaining). See also Securities Exchange Act Release No. 78101 (June 17, 2016), 81 FR 41141 (June 23, 2016) (order approving the IEX exchange application, which included IEX's Minimum Quantity Orders). See also IEX Rule 11.190(d)(3) (allowing the minimum quantity size of an order to be changed via a replace message).

<sup>31</sup> See supra note 5.

<sup>32</sup> See BYX Rule 11.9(g)(4).

<sup>33</sup> See Nasdaq Rule 4703(e).

<sup>34</sup> See IEX Rule 11.190(h)(2).



implement new or unique functionality that has not been previously filed with the Commission or is not available on EDGX. The Exchange notes that the proposed rule text is based on applicable BYX rules; the proposed language of the Exchange's Rules differs only to extent necessary to conform to existing Exchange rule text or to account for details or descriptions included in the Exchange's Rules.

Clarification to Exchange Rule 11.9(e)(3)

The Exchange believes the proposed amendments to paragraph (e)(3) of Rule 11.9 are also consistent with the Act in that they will provide additional specificity to the rules. In particular, the amendments to paragraph (e)(3) of Rule 11.10 will ensure the rule uses terminology consistent with the description of Replace messages and their impact on an order's priority under Exchange Rule 11.12(a)(4). Also, the Exchange notes that the proposed change would harmonize the description of Replace messages under Exchange Rule 11.9(e)(3) with EDGX Rule 11.10(e)(3).

(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, as amended. On the contrary, the Exchange believes the proposed rule change promotes competition because it will enable the Exchange to offer functionality substantially similar to that offered by Nasdaq and IEX.<sup>35</sup> In addition, the proposed amendments to paragraph (e)(3) of Rule 11.10 would not have any impact on competition as they simply provide additional details to the rule and do not alter current System functionality. Therefore, the Exchange does not believe the proposed rule change will

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<sup>35</sup> See supra note 30.

result in any burden on intermarket competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No comments were solicited or received on the proposed rule change.

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

Because the foregoing proposed rule change does not: (A) significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designate it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>36</sup> and paragraph (f)(6) of Rule 19b-4 thereunder,<sup>37</sup> the Exchange has designated this rule filing as non-controversial. The Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (1) necessary or appropriate in the public interest; (2) for the protection of investors; or (3) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to

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<sup>36</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>37</sup> 17 CFR 240.19b-4.

determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act.

Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-BatsBYX-2017-24 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-BatsBYX-2017-24. 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-BatsBYX-2017-24 and should be submitted on or before [\_\_\_\_\_21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>38</sup>

Robert W. Errett  
Deputy Secretary

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<sup>38</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Proposed new language is underlined; proposed deletions are marked by [brackets].

Rules of BYX Exchange, Inc.

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## CHAPTER XI. TRADING RULES

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## Rule 11.9. Orders and Modifiers

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(a) – (b) (No change).

(c) Other Types of Orders

(1) – (4) (No change).

(5) Minimum Quantity Order. A limit order to buy or sell that will only execute if a specified minimum quantity of shares can be obtained. [Orders with a specified minimum quantity will only execute against multiple, aggregated orders if such executions would occur simultaneously. ]By default, a Minimum Quantity Order will execute upon entry against a single order or multiple aggregated orders simultaneously. A User may alternatively specify the order not execute against multiple aggregated orders simultaneously and that the minimum quantity condition be satisfied by each individual order resting on the BYX Book. If there are such orders, but there are also orders that do not satisfy the minimum quantity condition, the Minimum Quantity Order will execute against orders resting on the BYX Book in accordance with Rule 11.12, Priority of Orders, until it reaches an order that does not satisfy the minimum quantity condition, and then the remainder of the order will be posted to the BYX Book or cancelled in accordance with the terms of the order. If, upon entry, there are no orders that satisfy the minimum quantity condition resting on the BYX Book, the order will either be posted to the BYX Book or cancelled in accordance with the terms of the order. Where there is insufficient size to satisfy an incoming order's minimum quantity condition and that incoming order, if posted at its limit price, would cross an order(s) resting on the BYX Book, the order with the minimum quantity condition will be re-priced to and ranked at the locking price. A Minimum Quantity Order may be partially executed so long as the execution size of the individual order or aggregate size of multiple orders, as applicable, is equal to or exceeds the quantity provided in the instruction. Any shares remaining after a partial execution will continue to be executed at a size that is equal to or exceeds the quantity provided in the instruction. If posted to the BYX Book, the order may only execute against individual incoming orders with a size that satisfies the minimum quantity condition. A Minimum Quantity Order cedes execution priority when it would lock an order against which it would otherwise execute if it were not for

the minimum execution size restriction. Where the number of shares remaining after a partial execution are less than the quantity provided in the instruction, the Minimum Quantity Order shall be equal to the number of shares remaining. The Exchange will only honor a specified minimum quantity on BYX Only Orders that are non-displayed or IOCs and will disregard a minimum quantity on any other order. Minimum Quantity Orders are not eligible to be routed to another Trading Center in accordance with Rule 11.13.

\* \* \* \* \*

(d) (No change).

(e) Cancel/Replace Messages. A User may, by appropriate entry in the System, cancel or replace an existing order entered by the User, subject to the following limitations.

(1) – (2) (No change).

(3) Other than changing a limit order to a market order, only the price, stop price, the sell long or sell short indicator, Max Floor of a Reserve Order, and [quantity terms]size of the order may be changed by a Replace Message. If a User desires to change any other terms of an existing order the existing order must be cancelled and a new order must be entered.

(4) (No change).

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