

Required fields are shown with yellow backgrounds and asterisks.

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| Page 1 of * 29 | SECURITIES AND EXCHANGE COMMISSION<br>WASHINGTON, D.C. 20549<br>Form 19b-4 | File No.* SR - 2017 - * 05 | Amendment No. (req. for Amendments *) |
|----------------|--|----------------------------|---------------------------------------|

Filing by Bats BZX Exchange, Inc.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

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

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

The Exchange proposes a rule change to adopt a new type of logical port known as a Purge Port.

**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 <input type="text"/> |

**Signature**

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

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

(Title \*)

|                 |   |
|-----------------|---|
| Date 01/20/2017 | Assistant General Counsel                 |
| By Chris Solgan | <input style="width: 100%;" type="text"/> |
| (Name *)        |   |

csolgan@bats.com

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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 \***

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) Pursuant to 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 BZX Exchange, Inc. (“BZX” or the “Exchange”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change to modify its fee schedule applicable to the Exchange’s options platform (“BZX Options”) to identify and to set fees for Purge Ports and to make a ministerial change. The Exchange also proposes to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>3</sup>

The text of the proposed changes to Exchange Rule 22.11 is attached as Exhibit 5A. The proposed changes to the fee schedule are attached as Exhibit 5B. 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

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

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:

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

Chris Solgan  
Assistant General Counsel  
(646) 856-8723

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

(a) Purpose

The Exchange proposes to modify the Options Logical Port Fee section of the BZX Options fee schedule to identify and adopt fees for Purge Ports and to make a ministerial change. The Exchange also proposes to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality. The purpose of the proposed rule change is to offer Members,<sup>4</sup> including Market Makers,<sup>5</sup> with an additional tool to manage risk and exercise additional control over their quotations.

Background

A logical port represents a port established by the Exchange within the

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<sup>4</sup> A Member is defined as "any registered broker or dealer that has been admitted to membership in the Exchange." See Exchange Rule 1.5(n).

<sup>5</sup> Market Maker is defined as "an Options Member registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter XXII of these Rules." See Exchange Rule 16.1(a)(37).

Exchange's system for trading and billing purposes. Each logical port established is specific to a Member or non-Member and grants that Member or non-Member the ability to accomplish a specific Member function, such as order entry, order cancellation, or data receipt. In addition, logical ports enable Users,<sup>6</sup> including Market Makers, to access information such as execution reports, execution report messages, auction notifications, and administrative data through a single feed. The Exchange also offers a bulk-quoting interface which allows Users of BZX Options to submit and update multiple bids and offers in one message through logical ports enabled for bulk-quoting.

#### Purge Ports

The Exchange now proposes to modify the BZX Options fee schedule to identify fees for Purge Ports, a new type of logical port which would enable Options Members<sup>7</sup> to cancel/purge all open orders, or a subset thereof, across multiple logical ports through a single cancel/purge message. The Exchange also proposes to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality. The proposed ports are designed to assist Options Members, including Market Makers, in the management of, and risk control over, their quotes, particularly if the Options Member is dealing with a large number of options. For example, if an Options Member detects market indications that may influence the direction or bias of his or her quotes the Options Member may use the proposed Purge Port(s) to reduce

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<sup>6</sup> A User on BZX Options is either a member of BZX Options or a sponsored participant who is authorized to obtain access to the Exchange's system pursuant to BZX Rule 11.3. See Exchange Rule 16.1(a)(63).

<sup>7</sup> "Options Member" is defined as "a firm, or organization that is registered with the Exchange pursuant to Chapter XVII of these Rules for purposes of participating in options trading on EDGX Options as an 'Options Order Entry Firm' or 'Options Market Maker.'" See Exchange Rule 16.1(a)(38).

uncertainty and to manage risk by purging all quotes in a number of options seamlessly to avoid unintended executions, while continuing to evaluate the direction of the market. While Purge Ports will be available to all Options Members, the Exchange anticipates they will be used primarily by Market Makers.

Options Members may currently cancel orders through their existing logical ports and may send a mass cancel message pertaining to multiple contracts cancelling all orders sent through a particular logical port. The Exchange now proposes to expand the ability of Options Members to cancel orders through the proposed Purge Ports, which would enable them to cancel/purge all open orders, or a subset thereof, across multiple logical ports through a single cancel/purge message. The mass cancel request may be limited to a subset of orders by identifying the range of orders to be purged.<sup>8</sup> An Options Member may also request via a Purge Port that the Exchange block all or a subset of its new inbound bids, offers, and orders in all series of options or in all options for a specified underlying security. The block will remain in effect until the Options Member requests the Exchange remove the block. The Exchange proposes to modify the Options Logical Port Fee section of the BZX Options fee schedule to adopt a fee for Purge Ports of \$750 per port/per month.

The Exchange also proposes to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality. Exchange Rule 22.11 currently states that an Options Member may simultaneously cancel all its bids, offers, and orders in all series of options or in all options for a specified underlying security by requesting the Exchange staff to effect such cancellation. First, the Exchange

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<sup>8</sup> The Options Member may identify a subset of orders based on their own risk profile by selecting orders across series, strike price, and/or expiration date.

proposes to amend Rule 22.11 to state that an Options Member may also cancel all or a subset of its bids, offers, and orders in all series of options or in all options for a specified underlying security by requesting the Exchange to effect such cancellation.<sup>9</sup> The Exchange further proposes to amend Rule 22.11 to state that an Options Member may also request that the Exchange block all or a subset of its new inbound bids, offers, and orders in all series of options or in all options for a specified underlying security. Rule 22.11 will further state that the block will remain in effect until the Options Member requests the Exchange remove the block.

#### Ministerial Change

The Exchange proposes to remove language from the Option Logical Port Fees section of its fee schedule regarding the summing of logical ports for billing purposes. The fee schedule currently states that the, “[e]xcept for bulk quoting ports, which will be separately evaluated, BZX Options will sum logical ports across all classifications in order to determine applicable fees.” This language was adopted in October 2015 when the Exchange began charging different rates based on the number of logical ports a User utilized.<sup>10</sup> Thereafter, in June 2016, the Exchange proposed to no longer charge different rates based on the number of logical ports and moved to a single rate for all logical ports, but for ports with bulk quoting capabilities.<sup>11</sup> At that time, the above language should have also been removed from the fee schedule and the Exchange now proposes to remove

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<sup>9</sup> The Exchange also proposes to the remove reference to the Exchange “staff” as such cancellation request may also be through the logical ports or the proposed Purge Ports.

<sup>10</sup> See Securities Exchange Act Release No. 76120 (October 9, 2015), 80 FR 62588 (October 16, 2015) (SR-BATS-2015-83).

<sup>11</sup> See Securities Exchange Act Release No. 77884 (May 23, 2016), 81 FR 33718 (May 27, 2016) (SR-BatsBZX-2016-17).

it in this filing as such language is no longer necessary.

(b) Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>13</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. The Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>14</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among Members and other persons using any facility or system which the Exchange operates or controls. The Exchange believes that the proposed rule change would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market because offering Options Members, including Market Makers, designated Purge Ports would enhance their ability to manage quotes, quote traffic, and their quoting obligations,<sup>15</sup> which would, in turn, improve their risk controls to the benefit of all market participants. The Exchange believes that the Purge Ports would foster cooperation and coordination with persons engaged in facilitating transactions in securities because designating Purge Ports for purges only may encourage better use of such dedicated ports. This may, concurrent with the logical ports

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

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

<sup>14</sup> 15 U.S.C. 78f(b)(4).

<sup>15</sup> See Exchange Rules 22.5 and 22.6.



that carry quote and other information necessary for market making activities, enable more efficient, as well as fair and reasonable, use of Market Makers' resources. Because Purge Ports, as the name suggests, are only available for purging and not for activities such as order or quote entry, the Purge Ports are not designed to permit unfair discrimination but rather are designed to enable Market Makers to manage their quoting risk and meet their heightened quoting obligations that other market participants are not subject to, which, in turn, benefits all market participants. The Exchange also notes that similar connectivity and functionality is offered by other exchanges.<sup>16</sup>

The Exchange notes that the proposed rule change will not relieve Market Makers of their continuous quoting obligations under Exchange Rule 22.6 and under Regulation NMS Rule 602.<sup>17</sup> Specifically, any interest that is executable against an Options Member's or Market Maker's quotes and orders that is received by the Exchange prior to the time the removal of quotes request will automatically execute at that price, up to the quote's size. Market Makers that purge their quotes will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet their continuous quoting obligation each trading day.

The Exchange believes that its proposed fees should facilitate the ability of the

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<sup>16</sup> See Chapter VII of the NASDAQ PHLX LLC ("Phlx") pricing schedule (setting forth fees for SQF Purge Ports, which only allow for the mass purging of quotations). See also Securities Exchange Act Release No. 77613 (April 13, 2016), 81 FR 23023 (April 19, 2016) (SR-Phlx-2016-45). See Miami International Securities Exchange LLC ("MIAX") Rule 519C, Mass Cancellation of Trading Interest (allowing members to remove all or a subset of its quotations in and to block new inbound quotations). See also Securities Exchange Act Release No. 78974 (September 29, 2016), 81 FR 69090 (October 5, 2016) (SR-MIAX-2016-34).

<sup>17</sup> 17 CFR 242.602

Exchange to recoup some costs associated with Purge Ports as well as provide, maintain, and improve Purge Ports.<sup>18</sup> The Exchange operates in a highly competitive market in which exchanges offer connectivity services as a means to facilitate the trading activities of Members and other participants. Accordingly, fees charged for connectivity are constrained by the active competition for the order flow of such participants as well as demand for market data from the Exchange. If a particular exchange charges excessive fees for connectivity, affected Members will opt to terminate their connectivity arrangements with that exchange, and adopt a possible range of alternative strategies, including routing to the applicable exchange through another participant or market center or taking that exchange's data indirectly. Accordingly, the exchange charging excessive fees would stand to lose not only connectivity revenues but also revenues associated with the execution of orders routed to it by affected Members, and, to the extent applicable, market data revenues. The Exchange believes that this competitive dynamic imposes powerful restraints on the ability of any exchange to charge unreasonable fees for connectivity.

The Exchange also believes the proposed fee for the Purge Ports is equitable and reasonable as compared to the Exchange's other fees for logical port connectivity. The Exchange currently charges \$650 per port/per month for logical ports, Multicast PITCH Spin Server, and GRP Ports. With regard to ports with bulk quoting capabilities, the Exchange charges \$1,500 per month for the first five ports and \$2,000 per month for each port in excess of five. The Exchange believes it is equitable and reasonable to charge \$750 per month for the proposed Purge Ports as such ports are more similar to ports with

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<sup>18</sup> Purge Ports will be fee liable on a monthly basis (and not only when such ports are active), which will help the Exchange to recoup the cost of these ports.

bulk quoting capabilities than to standard logical ports because both Purge Ports and bulk quoting ports allow for the sending of a single message to impact multiple orders.

Additionally, Purge Port requests may cancel orders submitted over numerous ports and contain added functionality to purge only a subset of these orders. The proposed rate is competitive with that charged by competitor exchanges for similar functionality. For example, Phlx charges a rate of \$500 per month for the first five SQF Purge Ports, which only allow for the mass purging of quotations and not the purging of a subset of orders and the blocking of new orders as proposed herein.<sup>19</sup>

The Exchange also believes that the proposed amendments to its fee schedule are non-discriminatory because they will apply uniformly to all Members. The proposed Purge Ports are completely voluntary and no Member is required or under any regulatory obligation to utilize them. All Members that voluntarily select this service options will be charged the same amount for the same services. All Members have the option to select any connectivity option, and there is no differentiation among Members with regard to the fees charged for the services offered by the Exchange.

Lastly, the Exchange believes the ministerial change to its fee schedule is also equitable, reasonable and not unfairly discriminatory in that it removes unnecessary language to avoid potential investor confusion.

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

The Exchange believes its proposed amendments to its fee schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of

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<sup>19</sup> See Chapter VII of the Phlx pricing schedule (setting forth fees for SQF Purge Ports). See also Securities Exchange Act Release No. 77613 (April 13, 2016), 81 FR 23023 (April 19, 2016) (SR-Phlx-2016-45).

the purposes of the Act. On the contrary, the Exchange believes the proposed rule change will enhance competition because it will enable it to offer similar connectivity and functionality as its competitor exchanges.<sup>20</sup> In addition, the proposed Purge Ports are completely voluntary and no Member is required or under any regulatory obligation to utilize them. The Exchange does not believe that the proposed change represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Additionally, Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

The Exchange believes that fees for the proposed Purge Ports and connectivity, in general, are constrained by the robust competition for order flow among exchanges and non-exchange markets. Further, excessive fees for connectivity, including Purge Port fees, would serve to impair an exchange's ability to compete for order flow rather than burdening competition. The Exchange also does not believe the proposed rule change would impact intramarket competition as it would apply to all Members and non-Members equally.

Lastly, the ministerial change to its fee schedule will have no impact on competition as it does not change any fee or rate. It simply removes unnecessary language to avoid potential investor confusion.

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.

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<sup>20</sup> See supra note 16.

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>21</sup> of the Act and Rule 19b-4(f)(6)<sup>22</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>23</sup>

The Exchange believes that the proposed rule change meets the criteria of subparagraph (f)(6) of Rule 19b-4<sup>24</sup> because it would not significantly affect the protection of investors or the public interest. The proposed rule change would not significantly affect the protection of investors or the public interest because offering Purge Ports enables Market Makers to continue to manage their risk. In addition, similar functionality is currently offered by other exchanges.<sup>25</sup> The ministerial change to the fee

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

<sup>22</sup> 17 CFR 240.19b-4(f)(6).

<sup>23</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>24</sup> 17 CFR 240.19b-4(f)(6).

<sup>25</sup> See supra note 16.

schedule will not affect investors or the public interest as it simply removes unnecessary language to avoid potential investor confusion. The proposed rule change also does not impose any significant burden on competition for the reasons set forth above. Therefore, the Exchange has accordingly designated this rule filing as “non-controversial” under Section 19(b)(3)(A) of the Act<sup>26</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>27</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

The proposed changes to Exchange Rule 22.11 are based on MIAX Rule 519C.<sup>28</sup> The proposed rule change is also based on Phlx’s SQF Purge Ports proposed in SR-Phlx-2016-45 with the following differences.<sup>29</sup> Phlx’s SQF Purge Ports provide for the purging of all orders in an underlying symbol or a specific range of symbols. The Exchange also proposes to allow for the purging of a subset of orders and the blocking of future orders.

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

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>27</sup> 17 C.F.R. 240.19b-4.

<sup>28</sup> See MIAX Rule 519C, Mass Cancellation of Trading Interest (allowing members to remove all or a subset of its quotations in and to block new inbound quotations). See also Securities Exchange Act Release No. 78974 (September 29, 2016), 81 FR 69090 (October 5, 2016) (SR-MIAX-2016-34).

<sup>29</sup> See Chapter VII of the Phlx pricing schedule (setting forth fees for SQF Purge Ports, which only allow for the mass purging of quotations). See also Securities Exchange Act Release No. 77613 (April 13, 2016), 81 FR 23023 (April 19, 2016) (SR-Phlx-2016-45).

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

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BatsBZX-2017-05)

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt a New Type of Logical Port Known as A Purge Port

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

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

The Exchange filed a proposal to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality.

The text of the proposed changes to Exchange Rule 22.11 is attached as Exhibit 5A. The proposed changes to the fee schedule are attached as Exhibit 5B. The text of the proposed rule change is available at the Exchange’s website at [www.bats.com](http://www.bats.com), at 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> 15 U.S.C. 78s(b)(3)(A).

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



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 also offers a bulk-quoting interface which allows Users of BZX Options to submit and update multiple bids and offers in one message through logical ports enabled for bulk-quoting.

Purge Ports

The Exchange now proposes to modify the BZX Options fee schedule to identify fees for Purge Ports, a new type of logical port which would enable Options Members<sup>5</sup> to cancel/purge all open orders, or a subset thereof, across multiple logical ports through a single cancel/purge message. The Exchange also proposes to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality. The proposed ports are designed to assist Options Members, including

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<sup>5</sup> "Options Member" is defined as "a firm, or organization that is registered with the Exchange pursuant to Chapter XVII of these Rules for purposes of participating in options trading on EDGX Options as an 'Options Order Entry Firm' or 'Options Market Maker.'" See Exchange Rule 16.1(a)(38).

Market Makers, in the management of, and risk control over, their quotes, particularly if the Options Member is dealing with a large number of options. For example, if an Options Member detects market indications that may influence the direction or bias of his or her quotes the Options Member may use the proposed Purge Port(s) to reduce uncertainty and to manage risk by purging all quotes in a number of options seamlessly to avoid unintended executions, while continuing to evaluate the direction of the market. While Purge Ports will be available to all Options Members, the Exchange anticipates they will be used primarily by Market Makers.

Options Members may currently cancel orders through their existing logical ports and may send a mass cancel message pertaining to multiple contracts cancelling all orders sent through a particular logical port. The Exchange now proposes to expand the ability of Options Members to cancel orders through the proposed Purge Ports, which would enable them to cancel/purge all open orders, or a subset thereof, across multiple logical ports through a single cancel/purge message. The mass cancel request may be limited to a subset of orders by identifying the range of orders to be purged.<sup>6</sup> An Options Member may also request via a Purge Port that the Exchange block all or a subset of its new inbound bids, offers, and orders in all series of options or in all options for a specified underlying security. The block will remain in effect until the Options Member requests the Exchange remove the block. The Exchange proposes to modify the Options Logical Port Fee section of the BZX Options fee schedule to adopt a fee for Purge Ports of \$750 per port/per month.

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<sup>6</sup> The Options Member may identify a subset of orders based on their own risk profile by selecting orders across series, strike price, and/or expiration date.

The Exchange also proposes to amend Exchange Rule 22.11, Mass Cancellation of Trading Interest, to reflect the proposed Purge Port functionality. Exchange Rule 22.11 currently states that an Options Member may simultaneously cancel all its bids, offers, and orders in all series of options or in all options for a specified underlying security by requesting the Exchange staff to effect such cancellation. First, the Exchange proposes to amend Rule 22.11 to state that an Options Member may also cancel all or a subset of its bids, offers, and orders in all series of options or in all options for a specified underlying security by requesting the Exchange to effect such cancellation.<sup>7</sup> The Exchange further proposes to amend Rule 22.11 to state that an Options Member may also request that the Exchange block all or a subset of its new inbound bids, offers, and orders in all series of options or in all options for a specified underlying security. Rule 22.11 will further state that the block will remain in effect until the Options Member requests the Exchange remove the block.

#### Ministerial Change

The Exchange proposes to remove language from the Option Logical Port Fees section of its fee schedule regarding the summing of logical ports for billing purposes. The fee schedule currently states that the, “[e]xcept for bulk quoting ports, which will be separately evaluated, BZX Options will sum logical ports across all classifications in order to determine applicable fees.” This language was adopted in October 2015 when the Exchange began charging different rates based on the number of logical ports a User

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<sup>7</sup> The Exchange also proposes to the remove reference to the Exchange “staff” as such cancellation request may also be through the logical ports or the proposed Purge Ports.

utilized.<sup>8</sup> Thereafter, in June 2016, the Exchange proposed to no longer charge different rates based on the number of logical ports and moved to a single rate for all logical ports, but for ports with bulk quoting capabilities.<sup>9</sup> At that time, the above language should have also been removed from the fee schedule and the Exchange now proposes to remove it in this filing as such language is no longer necessary.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>11</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. The Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>12</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among Members and other persons using any facility or system which the Exchange operates or controls. The Exchange believes that the proposed rule change would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market because offering Options Members,

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<sup>8</sup> See Securities Exchange Act Release No. 76120 (October 9, 2015), 80 FR 62588 (October 16, 2015) (SR-BATS-2015-83).

<sup>9</sup> See Securities Exchange Act Release No. 77884 (May 23, 2016), 81 FR 33718 (May 27, 2016) (SR-BatsBZX-2016-17).

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

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> 15 U.S.C. 78f(b)(4).

including Market Makers, designated Purge Ports would enhance their ability to manage quotes, quote traffic, and their quoting obligations,<sup>13</sup> which would, in turn, improve their risk controls to the benefit of all market participants. The Exchange believes that the Purge Ports would foster cooperation and coordination with persons engaged in facilitating transactions in securities because designating Purge Ports for purges only may encourage better use of such dedicated ports. This may, concurrent with the logical ports that carry quote and other information necessary for market making activities, enable more efficient, as well as fair and reasonable, use of Market Makers' resources. Because Purge Ports, as the name suggests, are only available for purging and not for activities such as order or quote entry, the Purge Ports are not designed to permit unfair discrimination but rather are designed to enable Market Makers to manage their quoting risk and meet their heightened quoting obligations that other market participants are not subject to, which, in turn, benefits all market participants. The Exchange also notes that similar connectivity and functionality is offered by other exchanges.<sup>14</sup>

The Exchange notes that the proposed rule change will not relieve Market Makers of their continuous quoting obligations under Exchange Rule 22.6 and under Regulation

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<sup>13</sup> See Exchange Rules 22.5 and 22.6.

<sup>14</sup> See Chapter VII of the NASDAQ PHLX LLC (“Phlx”) pricing schedule (setting forth fees for SQF Purge Ports, which only allow for the mass purging of quotations). See also Securities Exchange Act Release No. 77613 (April 13, 2016), 81 FR 23023 (April 19, 2016) (SR-Phlx-2016-45). See Miami International Securities Exchange LLC (“MIAX”) Rule 519C, Mass Cancellation of Trading Interest (allowing members to remove all or a subset of its quotations in and to block new inbound quotations). See also Securities Exchange Act Release No. 78974 (September 29, 2016), 81 FR 69090 (October 5, 2016) (SR-MIAX-2016-34).

NMS Rule 602.<sup>15</sup> Specifically, any interest that is executable against an Options Member's or Market Maker's quotes and orders that is received by the Exchange prior to the time the removal of quotes request will automatically execute at that price, up to the quote's size. Market Makers that purge their quotes will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet their continuous quoting obligation each trading day.

The Exchange believes that its proposed fees should facilitate the ability of the Exchange to recoup some costs associated with Purge Ports as well as provide, maintain, and improve Purge Ports.<sup>16</sup> The Exchange operates in a highly competitive market in which exchanges offer connectivity services as a means to facilitate the trading activities of Members and other participants. Accordingly, fees charged for connectivity are constrained by the active competition for the order flow of such participants as well as demand for market data from the Exchange. If a particular exchange charges excessive fees for connectivity, affected Members will opt to terminate their connectivity arrangements with that exchange, and adopt a possible range of alternative strategies, including routing to the applicable exchange through another participant or market center or taking that exchange's data indirectly. Accordingly, the exchange charging excessive fees would stand to lose not only connectivity revenues but also revenues associated with the execution of orders routed to it by affected Members, and, to the extent applicable,

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<sup>15</sup> 17 CFR 242.602

<sup>16</sup> Purge Ports will be fee liable on a monthly basis (and not only when such ports are active), which will help the Exchange to recoup the cost of these ports.

market data revenues. The Exchange believes that this competitive dynamic imposes powerful restraints on the ability of any exchange to charge unreasonable fees for connectivity.

The Exchange also believes the proposed fee for the Purge Ports is equitable and reasonable as compared to the Exchange's other fees for logical port connectivity. The Exchange currently charges \$650 per port/per month for logical ports, Multicast PITCH Spin Server, and GRP Ports. With regard to ports with bulk quoting capabilities, the Exchange charges \$1,500 per month for the first five ports and \$2,000 per month for each port in excess of five. The Exchange believes it is equitable and reasonable to charge \$750 per month for the proposed Purge Ports as such ports are more similar to ports with bulk quoting capabilities than to standard logical ports because both Purge Ports and bulk quoting ports allow for the sending of a single message to impact multiple orders. Additionally, Purge Port requests may cancel orders submitted over numerous ports and contain added functionality to purge only a subset of these orders. The proposed rate is competitive with that charged by competitor exchanges for similar functionality. For example, Phlx charges a rate of \$500 per month for the first five SQF Purge Ports, which only allow for the mass purging of quotations and not the purging of a subset of orders and the blocking of new orders as proposed herein.<sup>17</sup>

The Exchange also believes that the proposed amendments to its fee schedule are non-discriminatory because they will apply uniformly to all Members. The proposed Purge Ports are completely voluntary and no Member is required or under any regulatory

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<sup>17</sup> See Chapter VII of the Phlx pricing schedule (setting forth fees for SQF Purge Ports). See also Securities Exchange Act Release No. 77613 (April 13, 2016), 81 FR 23023 (April 19, 2016) (SR-Phlx-2016-45).

obligation to utilize them. All Members that voluntarily select this service options will be charged the same amount for the same services. All Members have the option to select any connectivity option, and there is no differentiation among Members with regard to the fees charged for the services offered by the Exchange.

Lastly, the Exchange believes the ministerial change to its fee schedule is also equitable, reasonable and not unfairly discriminatory in that it removes unnecessary language to avoid potential investor confusion.

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

The Exchange believes its proposed amendments to its fee schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. On the contrary, the Exchange believes the proposed rule change will enhance competition because it will enable it to offer similar connectivity and functionality as its competitor exchanges.<sup>18</sup> In addition, the proposed Purge Ports are completely voluntary and no Member is required or under any regulatory obligation to utilize them. The Exchange does not believe that the proposed change represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Additionally, Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

The Exchange believes that fees for the proposed Purge Ports and connectivity, in general, are constrained by the robust competition for order flow among exchanges and

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<sup>18</sup> See supra note 14.



non-exchange markets. Further, excessive fees for connectivity, including Purge Port fees, would serve to impair an exchange's ability to compete for order flow rather than burdening competition. The Exchange also does not believe the proposed rule change would impact intramarket competition as it would apply to all Members and non-Members equally.

Lastly, the ministerial change to its fee schedule will have no impact on competition as it does not change any fee or rate. It simply removes unnecessary language to avoid potential investor confusion.

(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>19</sup> and paragraph (f)(6) of Rule 19b-4 thereunder,<sup>20</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

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<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4.

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 determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

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

Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-BatsBZX-2017-05 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BatsBZX-2017-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed

with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BatsBZX-2017-05 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>21</sup>

Robert W. Errett  
Deputy Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 5A

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

**Bats BZX Exchange Rulebook**

## CHAPTER XXII. MARKET PARTICIPANTS

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## Rule 22.11. Mass Cancellation of Trading Interest

An Options Member may simultaneously cancel all or a subset of its bids, offers, and orders in all series of options or in all options for a specified underlying security by requesting the Exchange [staff] to effect such cancellation. An Options Member may also request that the Exchange block all or a subset of its new inbound bids, offers, and orders in all series of options or in all options for a specified underlying security. The block will remain in effect until the Options Member requests the Exchange remove the block.

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EXHIBIT 5B

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

**Bats BZX Options Exchange Fee Schedule**

Effective [~~January 3~~]March 1, 2017

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**Options Logical Port Fees**

| Service  | Fee                     |
|--|-------------------------|
| Logical Ports (excluding <u>Purge Port</u> , Multicast PITCH Spin Server Port or GRP Port) | (No change).            |
| <u>Purge Ports</u>   | <u>\$750/port/month</u> |
| Multicast PITCH Spin Server  | (No change).            |
| GRP Ports  | (No change).            |
| Ports with Bulk Quoting Capabilities   | (No change).            |

- Logical port fees are limited to logical ports within the primary data center. No logical port fees will be assessed for redundant secondary data center ports.
- Multicast PITCH is available through one of two primary feeds, either the A or C feed. All secondary feed Multicast PITCH Spin Server and GRP Ports are provided for redundancy at no additional cost.[
- Except for bulk quoting ports, which will be separately evaluated, BZX Options will sum logical ports across all classifications in order to determine applicable fees.]
- New requests will be prorated for the first month of service. Cancellation requests are billed in full month increments as firms are required to pay for the service for the remainder of the month, unless the session is terminated within the first month of service.

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