

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="43"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="48"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by **Bats EDGX 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)(6)
			<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

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

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

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

The Exchange proposes to modify the Fee Schedule applicable to the Exchange's equity options platform to adopt fees for its recently adopted functionality for the handling of complex orders on EDGX Options.

**Contact Information**

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

First Name * <input type="text" value="Anders"/>	Last Name * <input type="text" value="Franzon"/>
Title * <input type="text" value="SVP, Associate General Counsel"/>	
E-mail * <input type="text" value="afranzon@cboe.com"/>	
Telephone * <input type="text" value="(913) 815-7154"/>	Fax <input type="text"/>

**Signature**

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

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

(Title \*)

Date <input type="text" value="10/31/2017"/>	<input type="text" value="SVP, Associate General Counsel"/>
By <input type="text" value="Anders Franzon"/>	<input type="text"/>
(Name *)	

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> Cboe EDGX Exchange, Inc. (formerly known as Bats EDGX Exchange, Inc.) (the “Exchange” or “EDGX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend the Fee Schedule applicable to Members<sup>3</sup> and non-Members of the Exchange pursuant to EDGX Rules 15.1(a) and (c) (“Fee Schedule”).

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on October 16, 2017.

(b) Please refer questions and comments on the proposed rule change to Joanne Moffic-Silver, Executive Vice President, General Counsel and Corporate Secretary, (312) 786-7462, or Anders Franzon, (913) 815-7154, SVP, Associate General Counsel.

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

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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> The term “Member” is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

(a) Purpose

The Exchange proposes to modify the Fee Schedule applicable to the Exchange's equity options platform ("EDGX Options") to adopt fees for its recently adopted functionality for the handling of complex orders on EDGX Options.<sup>4</sup>

The Exchange proposes to adopt twelve new fee codes in connection with this new complex order functionality, which would be added to the Fee Codes and Associated Fees table of the Fee Schedule. These fee codes represent the fees applicable to complex orders, as described below. In addition, the Exchange proposes to adopt new footnote 8, which would again summarize complex order fees and rebates in a table form and would provide additional details regarding the applicability of such fees and rebates. In particular, the proposed tables for footnote 8 highlight that the proposed fees and rebates for complex orders vary depending on the contra-party for each transaction. Finally, the Exchange proposes a change to the Marketing Fees section of the Fee Schedule in connection with this proposal.

*Customer Pricing for Transactions on Complex Order Book*

The Exchange proposes to adopt three fee codes for Customer<sup>5</sup> complex orders that trade on the EDGX Options complex order book ("COB"), fee codes ZA, ZB, and ZC. As proposed, the Exchange would apply fee code ZA to Customer complex orders

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<sup>4</sup> See Securities Exchange Act Release No. 81891 (October 17, 2017) (SR-BatsEDGX-2017-29) (order approving rules for EDGX complex order book).

<sup>5</sup> "Customer" applies to any transaction identified by a Member for clearing in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a "Professional" as defined in Exchange Rule 16.1. See the Exchange's Fee Schedule available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/).

that are executed on the COB with a non-Customer<sup>6</sup> as the contra-party in Penny Pilot Securities<sup>7</sup> and would provide such orders a rebate of \$0.47 per contract. The Exchange would apply fee code ZB to Customer complex orders that are executed on the COB with a non-Customer as the contra-party in Non-Penny Pilot Securities<sup>8</sup> and would provide such orders a rebate of \$0.97 per contract. The Exchange would apply fee code ZC to Customer complex orders that are executed on the COB with another Customer as the contra-party and would not assess a fee or provide any rebate for such orders. There is no proposed distinction between pricing for such orders in Penny Pilot Securities and Non-Penny Pilot Securities.

*Market Maker Pricing – Customer as Contra-Party*

The Exchange proposes to adopt two fee codes for Market Maker<sup>9</sup> complex orders that trade on the COB against Customer orders, fee codes ZM and ZN. As proposed, the Exchange would apply fee code ZM to Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Penny Pilot Securities and would charge such orders a fee of \$0.50 per contract. The Exchange would apply fee code ZN to Market Maker complex orders that are executed on the COB with a Customer

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<sup>6</sup> “Non-Customer” applies to any transaction that is not a Customer order. Id.

<sup>7</sup> “Penny Pilot Securities” are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01. Id.

<sup>8</sup> The term “Non-Penny Pilot Security” applies to those issues that are not Penny Pilot Securities quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

<sup>9</sup> “Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37). See the Exchange’s Fee Schedule available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/).

as the contra-party in Non-Penny Pilot Securities and would charge such orders a fee of \$1.10 per contract.

*Other Non-Customer Pricing – Customer as Contra-Party*

Next, the Exchange proposes to adopt two fee codes for non-Customer / non-Market Maker complex orders that trade on the COB against Customer orders, fee codes ZT and ZR. The origin codes included in the category of non-Customer / non-Market Maker include: Professional,<sup>10</sup> Firm,<sup>11</sup> Broker Dealer,<sup>12</sup> Joint Back Office,<sup>13</sup> and Away Market Maker.<sup>14</sup>

As proposed, the Exchange would apply fee code ZT to non-Customer / non-Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Penny Pilot Securities and would charge such orders a fee of \$0.50 per contract. The Exchange would apply fee code ZR to non-Customer / non-Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Non-Penny Pilot Securities and would charge such orders a fee of \$1.10 per contract.

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<sup>10</sup> “Professional” applies to any transaction identified by a Member as such pursuant to Exchange Rule 16.1. Id.

<sup>11</sup> “Firm” applies to any transaction identified by a Member for clearing in the Firm range at the OCC, excluding any Joint Back Office transaction. Id.

<sup>12</sup> “Broker Dealer” applies to any order for the account of a broker dealer, including a foreign broker dealer, that clears in the Customer range at the Options Clearing Corporation (“OCC”). Id.

<sup>13</sup> “Joint Back Office” applies to any transaction identified by a Member for clearing in the Firm range at the OCC that is identified with an origin code as Joint Back Office. A Joint Back Office participant is a Member that maintains a Joint Back Office arrangement with a clearing broker-dealer. Id.

<sup>14</sup> “Away Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is not registered with the Exchange as a Market Maker, but is registered as a market maker on another options exchange. Id.

The Exchange notes that while the pricing for non-Customer / non-Market Maker orders executed on the COB with Customer orders as contra-party is the same as that proposed for Market Maker orders executed on the COB with Customer orders as contra-party, the Exchange believes it is necessary to create different fee codes in order to maintain the ability to later differentiate such pricing, for instance to encourage Market Maker participate on the COB.

*Non-Customer Pricing – Non-Customer as Contra-Party*

Finally, the Exchange proposes to adopt four fee codes to cover all transactions between non-Customers (including Market Makers) on the COB, fee codes ZF, ZG, ZH, and ZJ. In contrast to the fee codes described above, all of which involve a Customer on one side of the transaction occurring on the COB, for non-Customer to non-Customer transactions (including transactions involving Market Makers), the Exchange proposes to vary fees depending on which party to the transaction added liquidity and which party to the transaction removed liquidity. As proposed, the Exchange would apply fee code ZF to non-Customer complex orders executed on the COB that add liquidity in Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.10 per contract. The Exchange would apply fee code ZG to non-Customer complex orders executed on the COB that remove liquidity in Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.47 per contract. The Exchange would apply fee code ZH to non-Customer complex orders executed on the COB that add liquidity in Non-Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.10 per contract. Last, the Exchange would apply fee code ZJ to non-Customer complex orders executed on the

COB that remove liquidity in Non-Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.75 per contract.

*Pricing for “Leg” Transactions*

As described in Rule 21.20, in addition to complex orders executing against other complex orders on the COB, complex orders will, in certain circumstances instead “leg” into the EDGX Options Simple Book<sup>15</sup> and execute against interest resting on the Simple Book. In addition to the pricing proposed above, the Exchange proposes to adopt fee code ZD, which would be applicable to Customer complex orders that are not executed on the COB but instead leg into the Simple Book. The Exchange does not propose to assess a fee or provide any rebate for such orders. The Exchange notes that a Customer order on the Simple Book is currently provided a standard rebate of \$0.05 per contract, subject to pricing incentives that may result in higher rebates.

Other than the proposed fee code specific to Customer complex orders that leg into the Simple Book, fee code ZD, as described above, the Exchange does not propose to adopt any specific pricing for complex orders that leg into the Simple Book. Instead, the Exchange proposes to apply standard pricing applicable to transactions on the Simple Book for complex orders that leg into the Simple Book. For instance, the Exchange currently applies fee code PT to Market Maker orders that remove liquidity from EDGX Options in Penny Pilot Securities and charges a standard fee of \$0.19 per contract for such orders, subject to tiered pricing incentives offered by the Exchange as described in footnote 3 of the Fee Schedule. The Exchange proposes to apply fee code PT to Market

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<sup>15</sup> As defined in Rule 21.20, the Simple Book is the Exchange’s regular electronic book of orders. The Exchange notes that it proposes to include this definition in proposed footnote 8 for clarity.



Maker complex orders that leg into the Simple Book and remove liquidity and does not propose to change the pricing with respect to fee code PT. Accordingly, the Exchange proposes to state in proposed footnote 8 that with the exception of fee code ZD, standard fee codes shall apply for orders that leg into the Simple Book.

*Other Changes*

As discussed above, in addition to setting forth the proposed fees and rebates in the Fee Codes and Associated Fees table, the Exchange proposes to adopt footnote 8 to again summarize fees and rebates for complex orders in a table form that is organized differently in order to provide clarity to market participants. Footnote 8 would be organized similar to existing footnotes on the Fee Schedule and would first make clear that the footnote is applicable to the following twelve fee codes: ZA, ZB, ZC, ZD, ZM, ZN, ZT, ZR, ZF, ZG, ZH, and ZJ, and that the rates provided in the tables apply to executions on the Exchange's complex order book. The footnote would then re-state the fees applicable to complex orders, including the statement described above that other than fee code ZD, standard fee codes shall apply for orders that leg into the Simple Book as well as the proposed inclusion of the definition of the term "Simple Book" from Rule 21.20.

The first proposed table would represent fees for an order that interacts with a Customer order with three rows for each origin code or set of origin codes that yields a different fee code when interacting with a Customer Order: (i) Customer; (ii) Market Maker; and (iii) Professional Customer (or "Pro"), Firm, Broker Dealer (or "BD"), Joint Back Office (or "JBO"), and Away Market Maker. The table would then have four columns, first a pair of columns to provide the fee code and rate for Penny Pilot

Securities and second a pair of columns to provide the fee code and rate for Non-Penny Pilot Securities.

The second proposed table would represent fees for an order that interacts with a Non-Customer order with three rows for each origin code or set of origin codes that yields a different fee code when interacting with a Non-Customer Order, with the additional detail that for the two Non-Customer groupings the distinction is between an order that adds liquidity and an order that removes liquidity. Thus, the table would have the following rows: (i) Customer; (ii) Non-Customer Add; and (iii) Non-Customer Remove. The table would then again have four columns, first a pair of columns to provide the fee code and rate for Penny Pilot Securities and second a pair of columns to provide the fee code and rate for Non-Penny Pilot Securities.

The fee codes and rates included in each table of proposed footnote 8 are the same as proposed and described above but the Exchange believes that presenting them in a table format will assist market participants in understanding the rates applicable to executions on the COB.

#### Marketing Fees

The Fee Schedule currently contains a section entitled “Marketing Fees” that specifies that marketing fees are charged to all Market Makers who are counterparties to a trade with a Customer. In connection with the adoption of fees applicable to complex orders, the Exchange proposes to specify that marketing fees shall not apply to executions of complex orders on the COB.

#### Implementation Date

The Exchange proposes to implement the proposed changes immediately.<sup>16</sup>

(b) Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>17</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>18</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's proposal establishes fees and rebates regarding complex orders, which is new functionality adopted by the Exchange.<sup>19</sup> The Exchange's launch of a complex order book is a competitive offering, and believes that its proposed pricing will allow the Exchange to recoup the costs associated with developing the COB while also incentivizing its use.

In sum, the Exchange believes that the proposed fee and rebate structure is designed to promote the entry of complex orders to the Exchange and, in particular, to attract Customer liquidity, which benefits all market participants by providing additional trading opportunities. This attracts liquidity providers and an increase in the activity of

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<sup>16</sup> The Exchange initially filed the proposed rule changes on October 23, 2017 (SR-BatsEDGX-2017-42). On October 31, 2017 the Exchange withdrew SR-BatsEDGX-2017-42 and then subsequently submitted this filing (SR-BatsEDGX-2017-48).

<sup>17</sup> 15 U.S.C. 78f.

<sup>18</sup> 15 U.S.C. 78f(b)(4).

<sup>19</sup> See supra, note 4.

these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow originating from other market participants.

Moreover, the Exchange believes that charging market participants, other than Customers, a higher effective rate for complex order transactions is reasonable, equitable, and not unfairly discriminatory because these types of market participants are more sophisticated and have higher levels of order flow activity and system usage. Facilitating this level of trading activity requires a greater amount of system resources than that of Customers, and thus, generates greater ongoing operational costs for the Exchange. The proposed fees and rebates, which are further discussed below, will allow the Exchange to promote and maintain the COB, which is beneficial to market participants.

With respect to the proposal to adopt a rebate for Customer orders that interact with non-Customer orders on the COB, the Exchange believes this is reasonable because it encourages participation on the COB by entry of Customer orders to the Exchange. The rebate for Customer complex orders is designed to encourage Customer orders entered into the Exchange, which is reasonable for the reasons further discussed below. The proposed fees for Market Maker orders and other non-Customer complex orders that trade with Customer orders are also reasonable because the associated revenue will allow the Exchange to promote and maintain the COB, and continue to enhance its services.

Providing Customers a rebate for complex orders, while assessing Non-Customers a fee for complex orders, is reasonable because of the desirability of Customer activity. The proposed new fees and rebates for complex orders are generally intended to encourage greater Customer trade volume to the Exchange. Customer activity enhances liquidity on the Exchange for the benefit of all market participants and benefits all market

participants by providing more trading opportunities, which attracts market makers and other liquidity providers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. The practice of incentivizing increased Customer order flow through a fee and rebate schedule in order to attract professional liquidity providers is, and has been, commonly practiced in the options markets, and the Exchange.<sup>20</sup> The proposed fee and rebate schedule similarly attracts Customer order flow. Other competing exchanges offer different fees and rebates for orders executed on behalf of different market participants (i.e., orders with different origin codes).<sup>21</sup> Other competing exchanges also charge different rates for transactions on their complex order books for customers versus their non-customers in a manner similar to the proposal, including the provision of rebates to customers.<sup>22</sup>

The fee and rebate schedule as proposed continues to reflect differentiation among different market participants typically found in options fee and rebate schedules.<sup>23</sup> The Exchange believes that the differentiation is reasonable and notes that unlike others (e.g., Customers) some market participants like EDGX Options Market Makers commit to various obligations. For example, transactions of an EDGX Options Market Maker must constitute a course of dealings reasonably calculated to contribute to the

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<sup>20</sup> See the Exchange's Fee Schedule, available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/); see also, e.g., MIA X Fee Schedule, NYSE Amex Options Fee Schedule.

<sup>21</sup> Id.

<sup>22</sup> Id.

<sup>23</sup> Id.; see also, e.g., MIA X Fee Schedule, NYSE Amex Options Fee Schedule, BX Options Fee Schedule and Nasdaq Options Market Fee Schedule.

maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings.<sup>24</sup>

Further, all Market Makers are designated as specialists on EDGX Options for all purposes under the Act or rules thereunder.<sup>25</sup>

Establishing a rebate for Customer orders and a fee for Non-Customer Orders is also equitable and not unfairly discriminatory. This is because the Exchange's proposal to provide rebates and assess fees will apply the same to all similarly situated participants. Moreover, all similarly situated complex orders are subject to the same proposed Fee Schedule, and access to the Exchange is offered on terms that are not unfairly discriminatory. In addition, the proposed fee for complex orders is equitable and not unfairly discriminatory because, while other market participants (Non-Customers) will be assessed a fee, Customers will receive a rebate because an increase in Customer order flow will bring greater volume and liquidity, which benefits all market participants by providing more trading opportunities and tighter spreads.

Similarly, the Exchange believes that fees include different rates for Penny Pilot Securities and Non-Penny Pilot Securities is well-established in the options industry, including on the Exchange's current fee schedule.<sup>26</sup> The Exchange believes it is reasonable, equitably allocated and non-discriminatory to impose higher fees and provide

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<sup>24</sup> See Exchange Rule 22.5, entitled "Obligations of Market Makers".

<sup>25</sup> See Exchange Rule 22.2, entitled "Options Market Maker Registration and Appointment".

<sup>26</sup> See the Exchange's Fee Schedule, available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/); see also, e.g., MIAX Fee Schedule, NYSE Amex Options Fee Schedule.

higher rebates in Non-Penny Pilot Securities than Penny Pilot Securities because Penny Pilot Securities and Non-Penny Pilot Securities have different liquidity, spread and trading characteristics. In particular, spreads in Penny Pilot Securities are tighter than those in Non-Penny Pilot Securities (which trade in increments of \$0.05 or greater). The wider spreads in Non-Penny Pilot Securities allow for greater profit potential.

With respect to the fees applicable to non-Customer complex orders, the Exchange believes the proposed fees are reasonable and equitably allocated as they are similar to fees charged on the Exchange for certain other orders executed, such as orders executed through the Bats Auction Mechanism (“BAM”), and on other options exchanges, and because the associated revenue will allow the Exchange to maintain and enhance its services. The proposed fees are not unreasonably discriminatory as compared to Customer orders for the reasons described above, and vis-à-vis other non-Customers because all types of non-Customers will be charged identical fees as proposed.

The Exchange also believes the proposed fees are reasonable, equitably allocated and not unreasonably discriminatory despite a proposed distinction between fees for non-Customer complex orders that add liquidity and those that remove liquidity. The Exchange currently applies this distinction to Market Maker orders on the Simple Book, and this pricing structure, the “make-take” pricing structure, is common on other options exchanges as well.<sup>27</sup> The make-take pricing structure is designed to incentivize market participants to provide liquidity on an exchange, and such liquidity in turn, benefits all

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<sup>27</sup> See the Exchange’s Fee Schedule, available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/); see also, e.g., MIAX Fee Schedule, BX Options Fee Schedule and Nasdaq Options Market Fee Schedule.

market participants. Thus, the proposal to charge a higher rate to Non-Customer orders that remove liquidity than those that add liquidity is reasonable, equitably allocated and not unreasonably discriminatory despite a proposed distinction between orders that add liquidity and those that remove liquidity.

With respect to the Customer against Customer transactions, establishing no Customer fee or rebate for either side of the transaction is also reasonable, equitably allocated and not unreasonably discriminatory because it still encourages the entry of Customer orders to the Exchange while treating, from the Exchange's perspective, each side of the order neutrally rather than providing one Customer a rebate but charging another Customer a fee. Similarly, providing that Customer orders that leg into the Simple Book will be executed without application of any fee and rebate is reasonable, equitably allocated, and not unreasonably discriminatory because it provides fee certainty to Customer orders, as such orders are guaranteed to either pay no fee or to receive a rebate, again encouraging the entry of Customer orders to the Exchange.

In connection with the adoption of fees applicable to complex orders, the Exchange proposes to modify the description of Marketing Fees applicable on the Exchange to make clear that such fees do not apply to complex orders. The Exchange believes this proposal is a reasonable and equitable allocation of fees and dues and is not unreasonably discriminatory because the proposed initial rates for Market Makers on the complex order book are designed to be consistent with pricing with other non-Customers and adding an additional marketing fee to Market Maker transactions would instead increase such rates to a level higher than that paid by other non-Customers.

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



The Exchange believes the proposed rebate would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed pricing for complex orders represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Rather, the Exchange believes the proposal will enhance competition as it is a competitive proposal that seeks to further the growth of the Exchange by encouraging Members to enter complex orders.

The Exchange's proposal to adopt complex order functionality was a competitive response to complex order books operated by other options exchanges. The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges. The Exchange anticipates that the COB will create new opportunities for EDGX to attract new business to the Exchange. While the proposed fees and rebates are intended to attract participation on the Exchange, particularly complex orders, the Exchange does not believe that its proposed pricing significantly departs from pricing in place on other options exchanges that accept complex orders. Accordingly, the Exchange does not believe that the proposal creates an undue burden on inter-market competition.

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the Exchange does not believe that its proposal to establish fees and rebates for complex orders will impose any burden on competition, as discussed below.

The Exchange operates in a highly competitive market in which many sophisticated and knowledgeable market participants can readily and do send order flow to competing exchanges if they deem fee levels or rebate incentives at a particular

exchange to be excessive or inadequate. Additionally, new competitors have entered the market consistently in recent years. These market forces ensure that the Exchange's fees and rebates remain competitive with the fee structures at other trading platforms. In that sense, the Exchange's proposal is actually pro-competitive because the Exchange is simply establishing rebates and fees in order to remain competitive in the current environment.

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed charges assessed and credits available to member firms in respect of complex orders do not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition. If the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result and/or will be unable to attract participants to the COB. Accordingly, the Exchange does not believe that the proposed

changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets. Additionally, the changes proposed herein are pro-competitive to the extent that they allow the Exchange to promote and maintain the COB, which has the potential to result in efficient executions to the benefit of market participants.

The Exchange believes that the proposed change would increase both inter-market and intra-market competition by incentivizing members to direct their orders, and particularly Customer orders, to the Exchange, which benefits all market participants by providing more trading opportunities, which attracts Market Makers. To the extent that there is a differentiation between proposed fees assessed and rebates offered to Customers as opposed to other market participants, the Exchange believes that this is appropriate because the fees and rebates should incentivize Members to direct additional order flow to the Exchange and thus provide additional liquidity that enhances the quality of its markets and increases the volume of contracts traded on the Exchange. To the extent that this purpose is achieved, all the Exchange's market participants should benefit from the improved market liquidity. Enhanced market quality and increased transaction volume that results from the anticipated increase in order flow directed to the Exchange will benefit all market participants and improve competition on the Exchange. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive.

As noted above, while the Exchange has proposed to establish different fee codes for Market Maker complex orders that interact with Customer orders on the COB and

other non-Customer complex orders that interact with Customer orders on the COB, the Exchange has not proposed to differentiate the pricing applicable to these fee codes at this time.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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)

Pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>28</sup> and Rule 19b-4(f)(2) thereunder,<sup>29</sup> the Exchange has designated this proposal as establishing or changing a due, fee, or other charge applicable to the Exchange's Members and non-members, which renders the proposed rule change effective upon filing.

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

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

Not applicable.

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>29</sup> 17 CFR 240.19b-4(f)(2).

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

Not applicable.

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

Not applicable.

11. Exhibits

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

Exhibit 2 – 4: Not applicable.

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BatsEDGX-2017-48)

Self-Regulatory Organizations; Cboe EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Fees for its Recently Adopted Functionality for the Handling of Complex Orders on its Equity Options Platform

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, Cboe EDGX Exchange, Inc. (formerly known as Bats EDGX Exchange, Inc.) (“EDGX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change 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 the fee schedule applicable to Members<sup>5</sup>

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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)(ii).

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

<sup>5</sup> The term “Member” is defined as “any registered broker or dealer that has been admitted to membership in the Exchange.” See Exchange Rule 1.5(n).

and non-Members of the Exchange pursuant to EDGX Rules 15.1(a) and (c).

The text of the proposed rule change is available at the Exchange's website at [www.markets.cboe.com](http://www.markets.cboe.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 modify the Fee Schedule applicable to the Exchange's equity options platform ("EDGX Options") to adopt fees for its recently adopted functionality for the handling of complex orders on EDGX Options.<sup>6</sup>

The Exchange proposes to adopt twelve new fee codes in connection with this new complex order functionality, which would be added to the Fee Codes and Associated Fees table of the Fee Schedule. These fee codes represent the fees applicable to complex orders, as described below. In addition, the Exchange proposes to adopt new footnote 8, which would again summarize complex order fees and rebates in a table form and would

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<sup>6</sup> See Securities Exchange Act Release No. 81891 (October 17, 2017) (SR-BatsEDGX-2017-29) (order approving rules for EDGX complex order book).

provide additional details regarding the applicability of such fees and rebates. In particular, the proposed tables for footnote 8 highlight that the proposed fees and rebates for complex orders vary depending on the contra-party for each transaction. Finally, the Exchange proposes a change to the Marketing Fees section of the Fee Schedule in connection with this proposal.

*Customer Pricing for Transactions on Complex Order Book*

The Exchange proposes to adopt three fee codes for Customer<sup>7</sup> complex orders that trade on the EDGX Options complex order book (“COB”), fee codes ZA, ZB, and ZC. As proposed, the Exchange would apply fee code ZA to Customer complex orders that are executed on the COB with a non-Customer<sup>8</sup> as the contra-party in Penny Pilot Securities<sup>9</sup> and would provide such orders a rebate of \$0.47 per contract. The Exchange would apply fee code ZB to Customer complex orders that are executed on the COB with a non-Customer as the contra-party in Non-Penny Pilot Securities<sup>10</sup> and would provide such orders a rebate of \$0.97 per contract. The Exchange would apply fee code ZC to Customer complex orders that are executed on the COB with another Customer as the contra-party and would not assess a fee or provide any rebate for such orders. There is no

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<sup>7</sup> “Customer” applies to any transaction identified by a Member for clearing in the Customer range at the OCC, excluding any transaction for a Broker Dealer or a “Professional” as defined in Exchange Rule 16.1. See the Exchange’s Fee Schedule available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/).

<sup>8</sup> “Non-Customer” applies to any transaction that is not a Customer order. *Id.*

<sup>9</sup> “Penny Pilot Securities” are those issues quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01. *Id.*

<sup>10</sup> The term “Non-Penny Pilot Security” applies to those issues that are not Penny Pilot Securities quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.



proposed distinction between pricing for such orders in Penny Pilot Securities and Non-Penny Pilot Securities.

*Market Maker Pricing – Customer as Contra-Party*

The Exchange proposes to adopt two fee codes for Market Maker<sup>11</sup> complex orders that trade on the COB against Customer orders, fee codes ZM and ZN. As proposed, the Exchange would apply fee code ZM to Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Penny Pilot Securities and would charge such orders a fee of \$0.50 per contract. The Exchange would apply fee code ZN to Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Non-Penny Pilot Securities and would charge such orders a fee of \$1.10 per contract.

*Other Non-Customer Pricing – Customer as Contra-Party*

Next, the Exchange proposes to adopt two fee codes for non-Customer / non-Market Maker complex orders that trade on the COB against Customer orders, fee codes ZT and ZR. The origin codes included in the category of non-Customer / non-Market Maker include: Professional,<sup>12</sup> Firm,<sup>13</sup> Broker Dealer,<sup>14</sup> Joint Back Office,<sup>15</sup> and Away

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<sup>11</sup> “Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is registered with the Exchange as a Market Maker as defined in Rule 16.1(a)(37). See the Exchange’s Fee Schedule available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/).

<sup>12</sup> “Professional” applies to any transaction identified by a Member as such pursuant to Exchange Rule 16.1. Id.

<sup>13</sup> “Firm” applies to any transaction identified by a Member for clearing in the Firm range at the OCC, excluding any Joint Back Office transaction. Id.

Market Maker.<sup>16</sup>

As proposed, the Exchange would apply fee code ZT to non-Customer / non-Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Penny Pilot Securities and would charge such orders a fee of \$0.50 per contract. The Exchange would apply fee code ZR to non-Customer / non-Market Maker complex orders that are executed on the COB with a Customer as the contra-party in Non-Penny Pilot Securities and would charge such orders a fee of \$1.10 per contract. The Exchange notes that while the pricing for non-Customer / non-Market Maker orders executed on the COB with Customer orders as contra-party is the same as that proposed for Market Maker orders executed on the COB with Customer orders as contra-party, the Exchange believes it is necessary to create different fee codes in order to maintain the ability to later differentiate such pricing, for instance to encourage Market Maker participate on the COB.

*Non-Customer Pricing – Non-Customer as Contra-Party*

Finally, the Exchange proposes to adopt four fee codes to cover all transactions between non-Customers (including Market Makers) on the COB, fee codes ZF, ZG, ZH,

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- <sup>14</sup> “Broker Dealer” applies to any order for the account of a broker dealer, including a foreign broker dealer, that clears in the Customer range at the Options Clearing Corporation (“OCC”). Id.
- <sup>15</sup> “Joint Back Office” applies to any transaction identified by a Member for clearing in the Firm range at the OCC that is identified with an origin code as Joint Back Office. A Joint Back Office participant is a Member that maintains a Joint Back Office arrangement with a clearing broker-dealer. Id.
- <sup>16</sup> “Away Market Maker” applies to any transaction identified by a Member for clearing in the Market Maker range at the OCC, where such Member is not registered with the Exchange as a Market Maker, but is registered as a market maker on another options exchange. Id.

and ZJ. In contrast to the fee codes described above, all of which involve a Customer on one side of the transaction occurring on the COB, for non-Customer to non-Customer transactions (including transactions involving Market Makers), the Exchange proposes to vary fees depending on which party to the transaction added liquidity and which party to the transaction removed liquidity. As proposed, the Exchange would apply fee code ZF to non-Customer complex orders executed on the COB that add liquidity in Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.10 per contract. The Exchange would apply fee code ZG to non-Customer complex orders executed on the COB that remove liquidity in Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.47 per contract. The Exchange would apply fee code ZH to non-Customer complex orders executed on the COB that add liquidity in Non-Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.10 per contract. Last, the Exchange would apply fee code ZJ to non-Customer complex orders executed on the COB that remove liquidity in Non-Penny Pilot Securities and do not have a Customer contra-party, and would charge such orders a fee of \$0.75 per contract.

*Pricing for “Leg” Transactions*

As described in Rule 21.20, in addition to complex orders executing against other complex orders on the COB, complex orders will, in certain circumstances instead “leg” into the EDGX Options Simple Book<sup>17</sup> and execute against interest resting on the Simple Book. In addition to the pricing proposed above, the Exchange proposes to adopt fee

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<sup>17</sup> As defined in Rule 21.20, the Simple Book is the Exchange’s regular electronic book of orders. The Exchange notes that it proposes to include this definition in proposed footnote 8 for clarity.

code ZD, which would be applicable to Customer complex orders that are not executed on the COB but instead leg into the Simple Book. The Exchange does not propose to assess a fee or provide any rebate for such orders. The Exchange notes that a Customer order on the Simple Book is currently provided a standard rebate of \$0.05 per contract, subject to pricing incentives that may result in higher rebates.

Other than the proposed fee code specific to Customer complex orders that leg into the Simple Book, fee code ZD, as described above, the Exchange does not propose to adopt any specific pricing for complex orders that leg into the Simple Book. Instead, the Exchange proposes to apply standard pricing applicable to transactions on the Simple Book for complex orders that leg into the Simple Book. For instance, the Exchange currently applies fee code PT to Market Maker orders that remove liquidity from EDGX Options in Penny Pilot Securities and charges a standard fee of \$0.19 per contract for such orders, subject to tiered pricing incentives offered by the Exchange as described in footnote 3 of the Fee Schedule. The Exchange proposes to apply fee code PT to Market Maker complex orders that leg into the Simple Book and remove liquidity and does not propose to change the pricing with respect to fee code PT. Accordingly, the Exchange proposes to state in proposed footnote 8 that with the exception of fee code ZD, standard fee codes shall apply for orders that leg into the Simple Book.

#### *Other Changes*

As discussed above, in addition to setting forth the proposed fees and rebates in the Fee Codes and Associated Fees table, the Exchange proposes to adopt footnote 8 to again summarize fees and rebates for complex orders in a table form that is organized differently in order to provide clarity to market participants. Footnote 8 would be

organized similar to existing footnotes on the Fee Schedule and would first make clear that the footnote is applicable to the following twelve fee codes: ZA, ZB, ZC, ZD, ZM, ZN, ZT, ZR, ZF, ZG, ZH, and ZJ, and that the rates provided in the tables apply to executions on the Exchange's complex order book. The footnote would then re-state the fees applicable to complex orders, including the statement described above that other than fee code ZD, standard fee codes shall apply for orders that leg into the Simple Book as well as the proposed inclusion of the definition of the term "Simple Book" from Rule 21.20.

The first proposed table would represent fees for an order that interacts with a Customer order with three rows for each origin code or set of origin codes that yields a different fee code when interacting with a Customer Order: (i) Customer; (ii) Market Maker; and (iii) Professional Customer (or "Pro"), Firm, Broker Dealer (or "BD"), Joint Back Office (or "JBO"), and Away Market Maker. The table would then have four columns, first a pair of columns to provide the fee code and rate for Penny Pilot Securities and second a pair of columns to provide the fee code and rate for Non-Penny Pilot Securities.

The second proposed table would represent fees for an order that interacts with a Non-Customer order with three rows for each origin code or set of origin codes that yields a different fee code when interacting with a Non-Customer Order, with the additional detail that for the two Non-Customer groupings the distinction is between an order that adds liquidity and an order that removes liquidity. Thus, the table would have the following rows: (i) Customer; (ii) Non-Customer Add; and (iii) Non-Customer Remove. The table would then again have four columns, first a pair of columns to

provide the fee code and rate for Penny Pilot Securities and second a pair of columns to provide the fee code and rate for Non-Penny Pilot Securities.

The fee codes and rates included in each table of proposed footnote 8 are the same as proposed and described above but the Exchange believes that presenting them in a table format will assist market participants in understanding the rates applicable to executions on the COB.

#### Marketing Fees

The Fee Schedule currently contains a section entitled “Marketing Fees” that specifies that marketing fees are charged to all Market Makers who are counterparties to a trade with a Customer. In connection with the adoption of fees applicable to complex orders, the Exchange proposes to specify that marketing fees shall not apply to executions of complex orders on the COB.

#### Implementation Date

The Exchange proposes to implement the proposed changes immediately.<sup>18</sup>

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>19</sup> Specifically, the Exchange believes that the proposed rule change is consistent

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<sup>18</sup> The Exchange initially filed the proposed rule changes on October 23, 2017 (SR-BatsEDGX-2017-42). On October 31, 2017 the Exchange withdrew SR-BatsEDGX-2017-42 and then subsequently submitted this filing (SR-BatsEDGX-2017-48).

<sup>19</sup> 15 U.S.C. 78f.

with Section 6(b)(4) of the Act,<sup>20</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's proposal establishes fees and rebates regarding complex orders, which is new functionality adopted by the Exchange.<sup>21</sup> The Exchange's launch of a complex order book is a competitive offering, and believes that its proposed pricing will allow the Exchange to recoup the costs associated with developing the COB while also incentivizing its use.

In sum, the Exchange believes that the proposed fee and rebate structure is designed to promote the entry of complex orders to the Exchange and, in particular, to attract Customer liquidity, which benefits all market participants by providing additional trading opportunities. This attracts liquidity providers and an increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow originating from other market participants.

Moreover, the Exchange believes that charging market participants, other than Customers, a higher effective rate for complex order transactions is reasonable, equitable, and not unfairly discriminatory because these types of market participants are more sophisticated and have higher levels of order flow activity and system usage. Facilitating this level of trading activity requires a greater amount of system resources than that of Customers, and thus, generates greater ongoing operational costs for the Exchange. The proposed fees and rebates, which are further discussed below, will allow the Exchange to

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<sup>20</sup> 15 U.S.C. 78f(b)(4).

<sup>21</sup> See supra, note 6.

promote and maintain the COB, which is beneficial to market participants.

With respect to the proposal to adopt a rebate for Customer orders that interact with non-Customer orders on the COB, the Exchange believes this is reasonable because it encourages participation on the COB by entry of Customer orders to the Exchange. The rebate for Customer complex orders is designed to encourage Customer orders entered into the Exchange, which is reasonable for the reasons further discussed below. The proposed fees for Market Maker orders and other non-Customer complex orders that trade with Customer orders are also reasonable because the associated revenue will allow the Exchange to promote and maintain the COB, and continue to enhance its services.

Providing Customers a rebate for complex orders, while assessing Non-Customers a fee for complex orders, is reasonable because of the desirability of Customer activity. The proposed new fees and rebates for complex orders are generally intended to encourage greater Customer trade volume to the Exchange. Customer activity enhances liquidity on the Exchange for the benefit of all market participants and benefits all market participants by providing more trading opportunities, which attracts market makers and other liquidity providers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. The practice of incentivizing increased Customer order flow through a fee and rebate schedule in order to attract professional liquidity providers is, and has been, commonly practiced in the options markets, and the



Exchange.<sup>22</sup> The proposed fee and rebate schedule similarly attracts Customer order flow. Other competing exchanges offer different fees and rebates for orders executed on behalf of different market participants (i.e., orders with different origin codes).<sup>23</sup> Other competing exchanges also charge different rates for transactions on their complex order books for customers versus their non-customers in a manner similar to the proposal, including the provision of rebates to customers.<sup>24</sup>

The fee and rebate schedule as proposed continues to reflect differentiation among different market participants typically found in options fee and rebate schedules.<sup>25</sup> The Exchange believes that the differentiation is reasonable and notes that unlike others (e.g., Customers) some market participants like EDGX Options Market Makers commit to various obligations. For example, transactions of an EDGX Options Market Maker must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings.<sup>26</sup> Further, all Market Makers are designated as specialists on EDGX Options for all purposes under the Act or rules thereunder.<sup>27</sup>

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<sup>22</sup> See the Exchange's Fee Schedule, available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/); see also, e.g., MIAX Fee Schedule, NYSE Amex Options Fee Schedule.

<sup>23</sup> Id.

<sup>24</sup> Id.

<sup>25</sup> Id.; see also, e.g., MIAX Fee Schedule, NYSE Amex Options Fee Schedule, BX Options Fee Schedule and Nasdaq Options Market Fee Schedule.

<sup>26</sup> See Exchange Rule 22.5, entitled "Obligations of Market Makers".

<sup>27</sup> See Exchange Rule 22.2, entitled "Options Market Maker Registration and Appointment".

Establishing a rebate for Customer orders and a fee for Non-Customer Orders is also equitable and not unfairly discriminatory. This is because the Exchange's proposal to provide rebates and assess fees will apply the same to all similarly situated participants. Moreover, all similarly situated complex orders are subject to the same proposed Fee Schedule, and access to the Exchange is offered on terms that are not unfairly discriminatory. In addition, the proposed fee for complex orders is equitable and not unfairly discriminatory because, while other market participants (Non-Customers) will be assessed a fee, Customers will receive a rebate because an increase in Customer order flow will bring greater volume and liquidity, which benefits all market participants by providing more trading opportunities and tighter spreads.

Similarly, the Exchange believes that fees include different rates for Penny Pilot Securities and Non-Penny Pilot Securities is well-established in the options industry, including on the Exchange's current fee schedule.<sup>28</sup> The Exchange believes it is reasonable, equitably allocated and non-discriminatory to impose higher fees and provide higher rebates in Non-Penny Pilot Securities than Penny Pilot Securities because Penny Pilot Securities and Non-Penny Pilot Securities have different liquidity, spread and trading characteristics. In particular, spreads in Penny Pilot Securities are tighter than those in Non-Penny Pilot Securities (which trade in increments of \$0.05 or greater). The wider spreads in Non-Penny Pilot Securities allow for greater profit potential.

With respect to the fees applicable to non-Customer complex orders, the

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<sup>28</sup> See the Exchange's Fee Schedule, available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/); see also, e.g., MIAX Fee Schedule, NYSE Amex Options Fee Schedule.

Exchange believes the proposed fees are reasonable and equitably allocated as they are similar to fees charged on the Exchange for certain other orders executed, such as orders executed through the Bats Auction Mechanism (“BAM”), and on other options exchanges, and because the associated revenue will allow the Exchange to maintain and enhance its services. The proposed fees are not unreasonably discriminatory as compared to Customer orders for the reasons described above, and vis-à-vis other non-Customers because all types of non-Customers will be charged identical fees as proposed.

The Exchange also believes the proposed fees are reasonable, equitably allocated and not unreasonably discriminatory despite a proposed distinction between fees for non-Customer complex orders that add liquidity and those that remove liquidity. The Exchange currently applies this distinction to Market Maker orders on the Simple Book, and this pricing structure, the “make-take” pricing structure, is common on other options exchanges as well.<sup>29</sup> The make-take pricing structure is designed to incentivize market participants to provide liquidity on an exchange, and such liquidity in turn, benefits all market participants. Thus, the proposal to charge a higher rate to Non-Customer orders that remove liquidity than those that add liquidity is reasonable, equitably allocated and not unreasonably discriminatory despite a proposed distinction between orders that add liquidity and those that remove liquidity.

With respect to the Customer against Customer transactions, establishing no Customer fee or rebate for either side of the transaction is also reasonable, equitably

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<sup>29</sup> See the Exchange’s Fee Schedule, available at: [https://markets.cboe.com/us/options/membership/fee\\_schedule/edgx/](https://markets.cboe.com/us/options/membership/fee_schedule/edgx/); see also, e.g., MIAX Fee Schedule, BX Options Fee Schedule and Nasdaq Options Market Fee Schedule.

allocated and not unreasonably discriminatory because it still encourages the entry of Customer orders to the Exchange while treating, from the Exchange's perspective, each side of the order neutrally rather than providing one Customer a rebate but charging another Customer a fee. Similarly, providing that Customer orders that leg into the Simple Book will be executed without application of any fee and rebate is reasonable, equitably allocated, and not unreasonably discriminatory because it provides fee certainty to Customer orders, as such orders are guaranteed to either pay no fee or to receive a rebate, again encouraging the entry of Customer orders to the Exchange.

In connection with the adoption of fees applicable to complex orders, the Exchange proposes to modify the description of Marketing Fees applicable on the Exchange to make clear that such fees do not apply to complex orders. The Exchange believes this proposal is a reasonable and equitable allocation of fees and dues and is not unreasonably discriminatory because the proposed initial rates for Market Makers on the complex order book are designed to be consistent with pricing with other non-Customers and adding an additional marketing fee to Market Maker transactions would instead increase such rates to a level higher than that paid by other non-Customers.

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

The Exchange believes the proposed rebate would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed pricing for complex orders represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Rather, the Exchange believes the proposal will enhance competition as it is a competitive proposal that seeks to further the growth of the

Exchange by encouraging Members to enter complex orders.

The Exchange's proposal to adopt complex order functionality was a competitive response to complex order books operated by other options exchanges. The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges. The Exchange anticipates that the COB will create new opportunities for EDGX to attract new business to the Exchange. While the proposed fees and rebates are intended to attract participation on the Exchange, particularly complex orders, the Exchange does not believe that its proposed pricing significantly departs from pricing in place on other options exchanges that accept complex orders. Accordingly, the Exchange does not believe that the proposal creates an undue burden on inter-market competition.

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the Exchange does not believe that its proposal to establish fees and rebates for complex orders will impose any burden on competition, as discussed below.

The Exchange operates in a highly competitive market in which many sophisticated and knowledgeable market participants can readily and do send order flow to competing exchanges if they deem fee levels or rebate incentives at a particular exchange to be excessive or inadequate. Additionally, new competitors have entered the market consistently in recent years. These market forces ensure that the Exchange's fees and rebates remain competitive with the fee structures at other trading platforms. In that sense, the Exchange's proposal is actually pro-competitive because the Exchange is simply establishing rebates and fees in order to remain competitive in the current environment.

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed charges assessed and credits available to member firms in respect of complex orders do not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition. If the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result and/or will be unable to attract participants to the COB. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets. Additionally, the changes proposed herein are pro-competitive to the extent that they allow the Exchange to promote and maintain the COB, which has the potential to result in efficient executions to the benefit of market participants.

The Exchange believes that the proposed change would increase both inter-market

and intra-market competition by incentivizing members to direct their orders, and particularly Customer orders, to the Exchange, which benefits all market participants by providing more trading opportunities, which attracts Market Makers. To the extent that there is a differentiation between proposed fees assessed and rebates offered to Customers as opposed to other market participants, the Exchange believes that this is appropriate because the fees and rebates should incentivize Members to direct additional order flow to the Exchange and thus provide additional liquidity that enhances the quality of its markets and increases the volume of contracts traded on the Exchange. To the extent that this purpose is achieved, all the Exchange's market participants should benefit from the improved market liquidity. Enhanced market quality and increased transaction volume that results from the anticipated increase in order flow directed to the Exchange will benefit all market participants and improve competition on the Exchange. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive.

As noted above, while the Exchange has proposed to establish different fee codes for Market Maker complex orders that interact with Customer orders on the COB and other non-Customer complex orders that interact with Customer orders on the COB, the Exchange has not proposed to differentiate the pricing applicable to these fee codes at this time.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from

members or other interested parties.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>30</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>31</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-BatsEDGX-2017-48 on the subject line.

Paper Comments:

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

All submissions should refer to File No. SR-BatsEDGX-2017-48. This file number should be included on the subject line if e-mail is used. To help the Commission process

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<sup>30</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>31</sup> 17 CFR 240.19b-4(f).



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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BatsEDGX-2017-48 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>32</sup>

Robert W. Errett  
Deputy Secretary

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<sup>32</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

**Cboe EDGX Options Exchange Fee Schedule**

Effective October [23]31, 2017

\* \* \* \* \*

**Fee Codes and Associated Fees:**

Fee Code	Description	Fee/(Rebate)
BA <sup>6</sup> - RR	(No change).	
<u>ZA<sup>8</sup></u>	<u>Complex order, Customer (contra Non-Customer), Penny</u>	<u>(0.47)</u>
<u>ZB<sup>8</sup></u>	<u>Complex order, Customer (contra Non-Customer), Non-Penny</u>	<u>(0.97)</u>
<u>ZC<sup>8</sup></u>	<u>Complex order, Customer (contra Customer)</u>	<u>FREE</u>
<u>ZD<sup>8</sup></u>	<u>Complex order legs into Simple Book, Customer</u>	<u>FREE</u>
<u>ZF<sup>8</sup></u>	<u>Complex order, adds liquidity, Non-Customer, Penny</u>	<u>0.10</u>
<u>ZG<sup>8</sup></u>	<u>Complex order, removes liquidity, Non-Customer, Penny</u>	<u>0.47</u>
<u>ZH<sup>8</sup></u>	<u>Complex order, adds liquidity, Non-Customer, Non-Penny</u>	<u>0.10</u>
<u>ZJ<sup>8</sup></u>	<u>Complex order, removes liquidity, Non-Customer, Non-Penny</u>	<u>0.75</u>
<u>ZM<sup>8</sup></u>	<u>Complex order, Market Maker (contra Customer), Penny</u>	<u>0.50</u>
<u>ZN<sup>8</sup></u>	<u>Complex order, Market Maker (contra Customer), Non-Penny</u>	<u>1.10</u>
<u>ZR<sup>8</sup></u>	<u>Complex order, Non-Customer/Non-Market Maker (contra Customer), Non-Penny</u>	<u>1.10</u>
<u>ZT<sup>8</sup></u>	<u>Complex order, Non-Customer/Non-Market Maker (contra Customer), Penny</u>	<u>0.50</u>

\* \* \* \* \*

**Footnotes:**

1 – 7 (No change).

**8 Complex Order Types**

Applicable to fee codes ZA, ZB, ZC, ZD, ZF, ZG, ZH, ZJ, ZM, ZN, ZR, and ZT.

The following rates shall apply for executions on the Exchange's complex order book. With the exception of fee code ZD, standard fee codes shall apply for orders that leg into the Simple Book. As defined in Rule 21.20, the Simple Book is the Exchange's regular electronic book of orders.

**Counter Party: Customer**

	<u>Penny Pilot Securities</u>		<u>Non-Penny Pilot Securities</u>	
	<u>Code</u>	<u>Rate</u>	<u>Code</u>	<u>Rate</u>
<u>Customer</u>	<u>ZC</u>	<u>FREE</u>	<u>ZC</u>	<u>FREE</u>
<u>Market Maker</u>	<u>ZM</u>	<u>\$0.50</u>	<u>ZN</u>	<u>\$1.10</u>
<u>Pro/Firm/BD/JBO/ Away MM</u>	<u>ZT</u>	<u>\$0.50</u>	<u>ZR</u>	<u>\$1.10</u>

**Counter Party: Non-Customer**

	<u>Penny Pilot Securities</u>		<u>Non-Penny Pilot Securities</u>	
	<u>Code</u>	<u>Rate</u>	<u>Code</u>	<u>Rate</u>
<u>Customer</u>	<u>ZA</u>	<u>(\$0.47)</u>	<u>ZB</u>	<u>(\$0.97)</u>
<u>Non-Customer Add</u>	<u>ZF</u>	<u>\$0.10</u>	<u>ZH</u>	<u>\$0.10</u>
<u>Non-Customer Remove</u>	<u>ZG</u>	<u>\$0.47</u>	<u>ZJ</u>	<u>\$0.75</u>

**Marketing Fees:**

\* \* \* \* \*

- Marketing fees are charged to all Market Makers who are counterparties to a trade with a Customer. Marketing fees shall not apply to executions of complex orders on the Exchange's complex order book.

\* \* \* \* \*