Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 53	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2016 - * 26

Amendment No. (req. for Amendments *)

Filing by   Bats EDGX Exchange, Inc.

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

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

Rule

Pilot ☐	Extension of Time Period for Commission Action * ☐	Date Expires *

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * ☐ Section 806(e)(2) * ☐	Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document 🔘	Exhibit 3 Sent As Paper Document 🔘

Description

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

The Exchange proposed a rule change to adopt paragraph (c) to Exchange Rule 11.22 to describe changes to system functionality necessary to implement the Regulation NMS Plan to implement a Tick Size Pilot Program.

Contact Information

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

First Name * Chris	Last Name * Solgan

Title *   Assistant General Counsel

E-mail *   csolgan@bats.com

Telephone *   (646) 856-8723   Fax

Signature

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

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

(Title *)

Date   06/29/2016

By   Chris Solgan

Assistant General Counsel

(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.

csolgan@bats.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add   Remove   View

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

Exhibit 1 - Notice of Proposed Rule Change *

Add   Remove   View

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

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

Add   Remove   View

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

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

Add   Remove   View

Exhibit Sent As Paper Document
☐

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

Exhibit 3 - Form, Report, or Questionnaire

Add   Remove   View

Exhibit Sent As Paper Document
☐

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

Exhibit 4 - Marked Copies

Add   Remove   View

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

Exhibit 5 - Proposed Rule Text

Add   Remove   View

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

Partial Amendment

Add   Remove   View

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

1.   Text of the Proposed Rule Change

        (a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act

of 1934 ("Act"),[1] Bats EDGX Exchange, Inc. ("EDGX" or "Exchange") is filing with the

Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change

to adopt paragraph (c) to Exchange Rule 11.22 to describe changes to System[2]

functionality necessary to implement the Regulation NMS Plan to Implement a Tick Size

Pilot Program ("Plan" or "Pilot").[3] In determining the scope of the proposed changes to

implement the Pilot,[4] the Exchange carefully weighed the impact on the Pilot, System

complexity, and the usage of such order types in Pilot Securities.

        The text of the proposed rule change is attached as Exhibit 5.

        (b) Not applicable.

        (c) Not applicable.

2.   Procedures of the Self-Regulatory Organization

        The proposed rule change was approved by senior management of the Exchange

pursuant to authority delegated by the Board of Directors of the Exchange on February

11, 2014. Exchange staff will advise the Board of Directors of the Exchange of any

action taken pursuant to delegated authority. No other action is necessary for the filing of

---

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

[2]   The term "System" is defined as the "electronic communications and trading
        facility designated by the Board through which securities orders of Users are
        consolidated for ranking, execution and, when applicable, routing away." See
        Exchange Rule 1.5(cc).

[3]   See Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27513
        (May 13, 2015) ("Approval Order").

[4]   Unless otherwise specified, capitalized terms used in this rule filing are defined as
        set forth in the Plan.

the rule change.

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

comments on the proposed rule change are:

Eric Swanson	Chris Solgan
EVP, General Counsel	Assistant General Counsel
(913) 815-7000	(646) 856-8723

If the Commission approves the proposed rule change, the proposed rule change

will be effective upon Commission approval, and shall become operative upon

commencement of the Pilot Period.

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

        (a)   Purpose

        Background

        On August 25, 2014, NYSE Group, Inc., on behalf of the Exchange, Bats BYX

Exchange, Inc. ("BYX"), Chicago Stock Exchange, Inc., Bats BZX Exchange, Inc.

("BZX"), Bats EDGA Exchange, Inc. ("EDGA"), Financial Industry Regulatory

Authority, Inc. ("FINRA"), NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, the

Nasdaq Stock Market LLC, New York Stock Exchange LLC ("NYSE"), NYSE MKT

LLC, and NYSE Arca, Inc. (collectively "Participants"), filed with the Commission,

pursuant to Section 11A of the Act[5] and Rule 608 of Regulation NMS thereunder, the

Plan to implement a tick size pilot program.[6] The Participants filed the Plan to comply

---

5   15 U.S.C. 78k-1.

6   See Letter from Brendon J. Weiss, Vice President, Intercontinental Exchange,
        Inc., to Secretary, Commission, dated August 25, 2014.

with an order issued by the Commission on June 24, 2014.[7] The Plan was published for

comment in the Federal Register on November 7, 2014, and approved by the

Commission, as modified, on May 6, 2015.[8]

The Plan is designed to allow the Commission, market participants, and the public

to study and assess the impact of increment conventions on the liquidity and trading of

the common stocks of small-capitalization companies. Each Participant is required to

comply, and to enforce compliance by its member organizations, as applicable, with the

provisions of the Plan.

The Pilot will include stocks of companies with $3 billion or less in market

capitalization, an average daily trading volume of one million shares or less, and a

volume weighted average price of at least $2.00 for every trading day. The Pilot will

consist of a Control Group of approximately 1400 Pilot Securities and three Test Groups

with 400 Pilot Securities in each Test Group selected by a stratified sampling.[9] During

the Pilot, Pilot Securities in the Control Group will be quoted and traded at the currently

permissible increments. Pilot Securities in the first Test Group ("Test Group One") will

be quoted in $0.05 minimum increments but will continue to trade at any price increment

that is currently permitted.[10] Pilot Securities in the second Test Group ("Test Group

Two") will be quoted in $0.05 minimum increments and will trade at $0.05 minimum

---

[7]   See Securities Exchange Act Release No. 72460 (June 24, 2014), 79 FR 36840
        (June 30, 2014).

[8]   See Approval Order, supra note 3.

[9]   See Section V of the Plan for identification of Pilot Securities, including criteria
        for selection and grouping.

[10]   See Section VI(B) of the Plan.

increments subject to a midpoint exception, a retail investor order exception, and a

negotiated trade exception.[11] Pilot Securities in the third Test Group ("Test Group

Three") will be subject to the same restrictions as Test Group Two and also will be

subject to the "Trade-at" requirement to prevent price matching by a market participant

that is not displaying at a price of a Trading Center's[12] "Best Protected Bid" or "Best

Protected Offer," unless an enumerated exception applies.[13] The same exceptions

provided under Test Group Two will also be available under the Trade-at Prohibition,

with an additional exception for Block Size orders and exceptions that mirror those under

Rule 611 of Regulation NMS.[14]

The Plan requires the Exchange to establish, maintain, and enforce written

policies and procedures that are reasonably designed to comply with applicable quoting

and trading requirements specified in the Plan. Accordingly, the Exchange adopted

paragraph (a) of Rule 11.22 to require Members[15] to comply with the quoting and trading

provisions of the Plan.[16] The Exchange also adopted paragraph (b) of Rule 11.22 to

---

[11]   See Section VI(C) of the Plan.

[12]   The Plan incorporates the definition of "Trading Center" from Rule 600(b)(78) of Regulation NMS. Regulation NMS defines a Trading Center as "a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent."

[13]   See Section VI(D) of the Plan.

[14]   17 CFR 242.611.

[15]   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).

[16]   See Securities Exchange Act Release No. 77791 (May 10, 2016), 81 FR 30375 (May 16, 2016) (SR-BatsEDGX-2016-14).

require Members to comply with the data collection provisions under Appendix B and C

of the Plan.[17]

Proposed System Changes

The Exchange proposes to adopt paragraph (c) of Exchange Rule 11.22 to

describe changes to System functionality necessary to implement the Plan. Paragraph (c)

of Rule 11.22 would set forth the Exchange's specific procedures for handling, executing,

re-pricing and displaying of certain order types and order type instructions applicable to

Pilot Securities. Unless otherwise indicated, paragraph (c) of Rule 11.22 would apply to

order types and order type instructions in Pilot Securities in Test Groups One, Two, and

Three and not to orders in Pilot Securities included in the Control Group. The proposed

changes include select and discrete amendments to the operation of: (i) Market Orders;

(ii) orders with a Market Peg instruction; (iii) MidPoint Peg Orders; (iii) orders with a

Discretionary Range; (iv) orders with a Non-Displayed instruction; (v) Market Maker

Peg Orders; (vi) Supplemental Peg Orders; and (vii) orders subject to the Display-Price

Sliding process.

In determining the scope of these proposed changes to implement the Plan, the

Exchange carefully weighed the impact on the Pilot, System complexity, and the usage of

such order types in Pilot Securities. These proposed changes are designed to directly

comply with the Plan and to assist the Exchange in meeting its regulatory obligations

pursuant to the Plan. As discussed below, certain of these changes are also intended to

reduce risk in the System by eliminating unnecessary complexity based on infrequent

---

17   See Securities Exchange Act Release No. 77416 (March 22, 2016), 81 FR 17225
        (March 28, 2016) (SR-BatsEDGX-2016-01).

current usage of certain order types in Pilot Securities and/or their limited ability to

execute under the Trade-at Prohibition. Therefore, the Exchange firmly believes that

these changes will have little or no impact on the operation and data collection elements

of the Plan. The Exchange further believes that the proposed rule changes are reasonably

designed to comply with applicable quoting and trading requirements specified in the

Plan.

Market Orders

A Market Order is an order to buy or sell a stated amount of a security that is to

be executed at the NBBO when the order reaches the Exchange.[18] Market Orders shall

not trade through Protected Quotations. Any portion of a Market Order that would

execute at a price more than $0.50 or 5 percent worse than the NBBO at the time the

order initially reaches the Exchange, whichever is greater, will be cancelled.[19] In order to

comply with the minimum quoting increments set forth in the Plan, the Exchange

proposes to state under proposed Rule 11.22(c)(1) that for purposes of determining

whether a Market Order's execution price is more than 5 percent worse than the NBBO

under Rule 11.8(a)(7), the execution price for a buy (sell) order will be rounded down

(up) to the nearest $0.05 increment.

Market Peg Instruction

The Exchange proposes to amend the operation of orders with a Market Peg

instruction to reduce risk in its System by eliminating unnecessary complexity based on

infrequent current usage in Pilot Securities and their limited ability to execute under the

---

[18]   See Exchange Rule 11.8(a).

[19]   Id.

Trade-at Prohibition in Test Group Three. An order with a Pegged instruction is automatically adjusted by the System in response to changes in the NBBO and will peg to the NBB or NBO or a certain amount away from the NBB or NBO.[20] An order with a Market Peg instruction is pegged to the contra-side NBBO.[21] A User[22] entering an order with a Market Peg instruction can specify that such order's price will offset the inside quote on the contra-side of the market by an amount (the "Offset") set by the User. An order with a Market Peg instruction is not eligible to be displayed on the Exchange.

In Test Groups One and Two, the Exchange proposes to modify the behavior of an order with a Market Peg instruction when it is locked by an incoming order with a Post Only instruction[23] that does not remove liquidity pursuant to Rule 11.6(n)(4).[24] In such case, the order with a Market Peg instruction would be converted to an executable order and will remove liquidity against such incoming order. In no case would an order with a Market Peg instruction execute against an incoming order with a Post Only instruction if an order with higher priority is on the EDGX Book.[25] Specifically, if an

---

[20]   See Exchange Rule 11.6(j).

[21]   See Exchange Rule 11.6(j)(1).

[22]   A "User" is defined as any member or sponsored participant of the Exchange who is authorized to obtain access to the System pursuant to Rule 11.3. See Exchange Rule 1.5(ee).

[23]   See Exchange Rule 11.6(n)(4).

[24]   A Post Only Order will remove contra-side liquidity from the EDGX Book if the order is an order to buy or sell a security priced below $1.00 or if the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the EDGX Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. See Exchange Rule 11.6(n)(4).

[25]   The term "EDGX Book" is defined as the "System's electronic file of orders." See Exchange Rule 1.5(d).

order other than an order with a Market Peg instruction maintains higher priority than one or more orders with a Market Peg instruction, the order(s) with a Market Peg instruction with lower priority will not be converted, as described above, and the incoming order with a Post Only instruction will be posted or cancelled in accordance with Rule 11.6(n)(4).

The Exchange notes that orders with a Market Peg instruction are aggressive by nature and believes executing the order in such circumstance is appropriate. The Exchange also notes that the proposed behavior for orders with a Market Peg instruction in Test Groups One and Two is identical to the operation of orders with the Super Aggressive Routing instruction under Exchange Rule 11.6(n)(2). When an order with a Super Aggressive instruction is locked by an incoming order with a Post Only instruction that does not remove liquidity pursuant to Rule 11.6(n)(4), the order is converted to an executable order and will remove liquidity against such incoming order. In addition, like as proposed above, in no case would an order with a Super Aggressive instruction execute against an incoming order with a Post Only instruction if an order with higher priority is on the EDGX Book. The Exchange believes this change is reasonable and appropriate due to the limited usage of orders with a Market Peg instruction in Pilot Securities, to avoid unnecessary additional System complexity, and to ensure the order with a Market Peg instruction may execute in such circumstance.

The Exchange also proposes to not accept orders with a Market Peg instruction in Test Group Three based on limited current usage, additional System complexity, and their limited ability to execute under the Trade-at Prohibition. Exchange Rule 11.22(a)(6)(D) sets forth the "Trade-at Prohibition," which is the prohibition against

executions by a Member that operates a Trading Center of a sell order for a Pilot Security

in Test Group Three at the price of a Protected Bid or the execution of a buy order for a

Pilot Security in Test Group Three at the price of a Protected Offer during Regular

Trading Hours,[26] unless an enumerated exception applies.[27] The Exchange believes that

their de minimis usage and limited ability to execute due to the Trade-at Prohibition does

not justify the complexity that would be created by supporting orders with a Market Peg

instruction in Test Group Three. A vast majority of orders with a Market Pegged

instruction are entered into the System with a zero Offset and, therefore, create a locked

market with the contra-side NBBO. Under the Trade-at Prohibition, an order with a

Market Peg instruction would not be eligible for execution at the locking price, including

when a Trade-at Intermarket Sweep Order ("ISO")[28] is entered, because of non-cleared

contra-side Protected Quotations. For example, assume the NBBO is $10.00 (NYSE) x

$10.05 (Nasdaq) in a Test Group 3 security. An order with a Market Peg instruction to

buy at $10.10 with a zero Offset is entered on the Exchange. The order would be ranked

---

[26]   The term "Regular Trading Hours" is defined as "the time between 9:30 a.m. and 4:00 p.m. Eastern Time." See Exchange Rule 1.5(y).

[27]   See also Section VI(D) of the Plan.

[28]   A Trade-at ISO is a Limit Order for a Pilot Security that meets the following requirements: (i) when routed to a Trading Center, the limit order is identified as a Trade-at Intermarket Sweep Order; and (ii) simultaneously with the routing of the limit order identified as a Trade-at Intermarket Sweep Order, one or more additional limit orders, as necessary, are routed to execute against the full size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the Pilot Security with a price that is better than or equal to the limit price of the limit order identified as a Trade-at Intermarket Sweep Order. See Exchange Rule 11.22(a)(7)(A)(i). These additional routed orders also must be marked as Trade-at Intermarket Sweep Orders. Id.

and hidden on the EDGX Book at $10.05. A Trade-at ISO to sell at $10.05 is then

entered. In this example, no execution occurs on the Exchange because Nasdaq is

displaying an order to sell at $10.05. The Trade-at ISO instruction only indicates that all

of the better and equal priced buy orders have been cleared. It does not indicate that the

seller has cleared any Protected Offers. Therefore, the Exchange proposes to not accept

orders with a Market Peg instruction in Test Group Three in an effort to reduce

unnecessary System complexity, avoid an internally locked book, and due to the limited

execution opportunities for orders with a Market Peg instruction due to the Trade-at

Prohibition.

MidPoint Peg Orders

A MidPoint Peg Order is an order whose price is automatically adjusted by the

System in response to changes in the NBBO to be pegged to the midpoint of the NBBO,

or, alternatively, pegged to the less aggressive of the midpoint of the NBBO or one

Minimum Price Variation[29] inside the same side of the NBBO as the order.[30] The Plan

and current Exchange rules permit the acceptance of orders priced to execute at the

midpoint of the NBBO to be ranked and accepted in increments of less than $0.05.[31]

Consistent with previous guidance issued by the Participants,[32] the Exchange proposes to

amend the operation of MidPoint Peg Orders to explicitly state that MidPoint Peg Orders

---

[29]   See Exchange Rule 11.6(i).

[30]   See Exchange Rule 11.8(d).

[31]   See Sections VI(B), (C), and (D) of the Plan. See also Exchange Rules
        11.22(a)(4), (a)(5), and (a)(6).

[32]   See e.g., Question 42 of the Tick Size Pilot Program Trading and Quoting FAQs
        available at http://www.finra.org/sites/default/files/TSPP-Trading-and-Quoting-
        FAQs.pdf

in Pilot Securities may not be entered in increments other than $0.05. The System will execute a MidPoint Peg Order: (i) in $0.05 increments priced better than the midpoint of the NBBO; or (ii) at the midpoint of the NBBO, regardless of whether the midpoint of the NBBO is in an increment of $0.05. In order to comply with the minimum quoting and trading increments of the Plan and reduce unnecessary System complexity, a MidPoint Peg Order will not be permitted to alternatively peg to one Minimum Price Variation inside the same side of the NBBO as the order in Pilot Securities. The Exchange believes that the current de minimis usage of the alternative pegging functionality in Pilot Securities does not justify the complexity and risk that would be created by re-programming the System to support this functionality under the Plan.

Discretionary Range Instruction

The Exchange proposes to not accept orders with a Discretionary Range in all Test Groups, including the Control Group, to reduce risk in the System by eliminating unnecessary complexity based on infrequent current usage in Pilot Securities. In sum, an order with a Discretionary Range has a displayed or non-displayed ranked price and size and an additional non-displayed "discretionary price".[33] The discretionary price is a non-displayed upward offset at which a User is willing to buy, if necessary, or a non-displayed downward offset at which a User is willing to sell, if necessary. The System changes necessary for orders with a Discretionary Range to comply with the Plan become increasingly complex because both the displayed price and discretionary price must comply with the Plan's minimum quoting and trading increments as well as the Trade-at

---

[33]   See Exchange Rule 11.6(d).

restriction in Test Group Three. In addition, Users do not currently set discretionary

prices less than $0.05 away from the order's displayed price and the Exchange does not

anticipate Users doing so under the Plan. To date, orders with a Discretionary Range are

rarely entered in Pilot Securities and the Exchange anticipates their usage to further

decrease due to the Plan's minimum quoting increments. The Exchange believes that the

current extremely limited usage of orders with a Discretionary Range in Pilot Securities

does not justify the additional System complexity that would be created by supporting

such orders. As a result of these factors the Exchange proposes to not accept orders with

a Discretionary Range in all Test Groups and the Control Group.

Non-Displayed Instruction

The Exchange proposes to re-price to the midpoint of the NBBO orders with a

Non-Displayed instruction in Test Group Three that are priced in a permissible increment

better than the midpoint of the NBBO. An order with a Non-Displayed instruction is not

displayed on the Exchange.[34] Exchange Rule 11.22(a)(6)(D) incorporates the "Trade-at

Prohibition" in the Exchange's rules. The Trade-at Prohibition prevents the execution of

a sell order for a Pilot Security in Test Group Three at the price of a Protected Bid or the

execution of a buy order for a Pilot Security in Test Group Three at the price of a

Protected Offer during Regular Trading Hours, unless an exception applies. A Trading

Center that is displaying a quotation, via either a processor or an SRO quotation feed, that

is a Protected Bid or Protected Offer is permitted to execute orders at that level, but only

up to the amount of its displayed size. Unless an exception applies, an order with a Non-

---

[34]   See Exchange Rule 11.6(e)(2).

Displayed instruction that is able to execute at the price of the Protected Quotation would not be able to do so in Test Group Three due to the Trade-at Prohibition and the Exchange's priority rule.[35] Furthermore, such aggressively priced orders would not be able to post to the EDGX Book at the contra-side Protected Quotation, and re-pricing the order to the midpoint of the NBBO would increase execution opportunities under normal market conditions. However, orders that are priced to execute at the midpoint of the NBBO are exempt from the Trade-at Prohibition. Therefore, to increase the execution opportunities for orders with a Non-Displayed instruction in Test Group Three, the Exchange proposes to re-price to the midpoint of the NBBO orders with a Non-Displayed instruction that are priced in a permissible increment better than the midpoint of the NBBO.

Market Maker Peg Orders

A Market Maker Peg Order is a Limit Order that is automatically priced by the System at the Designated Percentage (as defined in Exchange Rule 11.20(d)(2)(D)) away from the then current NBB and NBO, or if no NBB or NBO, at the Designated Percentage away from the last reported sale from the responsible single plan processor in order to comply with the quotation requirements for Market Makers set forth in Exchange Rule 11.20(d).[36] Should the above pricing result in a Market Maker Peg Order being priced at an increment other than $0.05, the Exchange proposes to round an order to buy (sell) up (down) to the nearest $0.05 increment in order to comply with the minimum

---

[35]   Under Exchange Rule 11.9(a)(2)(A), displayed Limit Orders have priority over non-displayed Limit Orders.

[36]   See Exchange Rule 11.8(e).

quoting increments of the Plan.

Supplemental Peg Orders

The Exchange proposes to not accept Supplemental Peg Orders in Test Group

Three in order to reduce risk in the System by eliminating unnecessary complexity based

on infrequent current usage in Pilot Securities and their limited ability to execute under

the Trade-at Prohibition. A Supplemental Peg Order is a non-displayed Limit Order that

posts to the EDGX Book, and thereafter is eligible for execution at the NBB for buy

orders and NBO for sell orders against routable orders that are equal to or less than the

aggregate size of the Supplemental Peg Order interest available at that price.[37] In sum,

Supplemental Peg Orders are only executable at the NBBO against an order that is in the

process of being routed away. In such case, the Exchange is not displaying a Protected

Quotation and, therefore, the Supplemental Peg Order would be unable to execute in Test

Group Three due to the Trade-at Prohibition.[38] Therefore, the Exchange proposes to not

accept Supplemental Peg Orders in Test Group Three.

Display-Price Sliding

Under the Display-Price Sliding process, an order eligible for display by the

Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation

---

[37]   See Exchange Rule 11.8(f).

[38]   The Exchange notes that the likelihood of a Supplemental Peg Order qualifying
         for an exception to the Trade-at Prohibition is small. For example, Supplemental
         Peg Orders are only executable against orders that are to be routed away and
         would not be eligible to execute against an incoming ISO or Trade-at ISO. Also,
         the Exchange would not be displaying a Protected Quotation. In addition, the
         Exchange does not frequently receive orders of Block Size and, in order to qualify
         for the Block exception, the contra-side Block Order must be routable and the
         Supplemental Peg Order be of Block Size.

NMS by locking or crossing a Protected Quotation of an external market, will be ranked

at the locking price in the EDGX Book and displayed by the System at one minimum

price variation (i.e., $0.05) below the current NBO (for bids) or one minimum price

variation above the current NBB (for offers).[39] The ranked and displayed prices of an

order subject to the Display-Price Sliding process may be adjusted once or multiple times

depending upon the instructions of a User and changes to the prevailing NBBO.[40]

As described above, Exchange Rule 11.22(a)(6)(D) sets forth the Trade-at

Prohibition, which is the prohibition against executions by a Member that operates a

Trading Center of a sell order for a Pilot Security in Test Group Three at the price of a

Protected Bid or the execution of a buy order for a Pilot Security in Test Group Three at

the price of a Protected Offer during Regular Trading Hours, unless an exception applies.

Orders that are priced to execute at the midpoint of the NBBO are exempt from the

Trade-at Prohibition. Therefore, to increase the execution opportunities and qualify for

the mid-point exception to the Trade-at Prohibition, the Exchange proposes to rank orders

in Test Group Three that are subject to the Display-Price Sliding process at the midpoint

of the NBBO in the BZX Book and display such orders one minimum price variation

below the current NBO (for bids) or one minimum price variation above the current NBB

(for offers).

The Exchange also proposes to cancel orders subject to Display-Price Sliding in

Test Group Three that are only to be adjusted once and not multiple times in the event the

NBBO widens and a contra-side order with a Non-Displayed instruction is resting on the

---

[39]   See Exchange Rule 11.6(l)(1)(B).

[40]   See Exchange Rule 11.6(l)(1)(B)(iii).

EDGX Book at the price to which the order subject to Display-Price Sliding would be adjusted. Due to the increased minimum quoting increments under the Plan, the Exchange is unable to safely re-price an order subject to single Display-Price Sliding in Test Group Three to the original locking price in such circumstances and doing so would add additional System complexity and risk. As discussed above, the Exchange proposes to rank orders in Test Group Three subject to the Display-Price Sliding process at the midpoint of the NBBO. In the event the NBBO changes such that an order subject to Display-Price Sliding would not lock or cross a Protected Quotation of an external market, the order will receive a new timestamp, and will be displayed at the order's limit price.[41] Due to technological limitations arising from the increased minimum quoting increments under the Plan, however, the Exchange is unable to safely re-program its System to re-price such order to the original locking price when the NBBO widens and a contra-side order with a Non-Displayed instruction is resting on the EDGX Book at the price to which the order subject to Display-Price Sliding would be adjusted. Therefore, the Exchange proposes to cancel orders subject to the single Display-Price Sliding process in such circumstances. Users who prefer an execution in such a scenario may elect to use the multiple Display-Price Sliding process.

Ministerial Change

Currently, both Interpretation and Policy .03 to Rule 11.22(a) and Interpretation and Policy .11 to Rule 11.22(b) state that Rule 11.22 shall be in effect during a pilot period to coincide with the pilot period for the Plan (including any extensions to the pilot

---

[41] Id.

period for the Plan). The Exchange proposes to include this language at the beginning of

Rule 11.22 and, therefore, proposes to delete both Interpretation and Policy .03 to Rule

11.22(a) and Interpretation and Policy .11 to Rule 11.22(b) as those provisions would be

redundant and unnecessary. The Exchange also proposes to amend the last sentence of

Rule 11.22(a)(4) to specify that the current permissible price increments are set forth

under Exchange Rule 11.6(i), Minimum Price Variation.

Implementation Date

If the Commission approves the proposed rule change, the proposed rule change

will be effective upon Commission approval and shall become operative upon the

commencement of the Pilot Period.

(b)   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act[42] in general, and furthers the objectives of Section 6(b)(5) of the Act[43] 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 Plan requires the Exchange to establish, maintain, and enforce written

policies and procedures that are reasonably designed to comply with applicable quoting

and trading requirements specified in the Plan. The proposed rule change is designed to

comply with the Plan, reduce complexity and enhance System resiliency while not

---

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

[43]   15 U.S.C. 78f(b)(5).

adversely affecting the data collected under the Plan. Therefore, the Exchange believes

that the proposed rule changes are reasonably designed to comply with applicable quoting

and trading requirements specified in the Plan and, as discussed further below, other

applicable regulations.

The Exchange believes that the proposed changes regarding Market Orders,

MidPoint Peg Orders, Market Maker Peg Orders, and Display-Price Sliding are

consistent with the Act because they are intended to modify the Exchange's System to

comply with the provisions of the Plan, and are designed to assist the Exchange in

meeting its regulatory obligations pursuant to the Plan. In approving the Plan, the SEC

noted that the Pilot was an appropriate, data-driven test that was designed to evaluate the

impact of a wider tick size on trading, liquidity, and the market quality of securities of

smaller capitalization companies, and was therefore in furtherance of the purposes of the

Act. To the extent that these proposals are intended to comply with the Plan, the

Exchange believes that these proposals are in furtherance of the objectives of the Plan, as

identified by the Commission, and is therefore consistent with the Act.

The Exchange also believes that its proposed changes to orders with a Market Peg

instruction, orders with a Discretionary Range, orders with a Non-Displayed instruction,

Supplemental Peg Orders, and Display-Price Sliding are also consistent with the Act

because they are intended to eliminate unnecessary System complexity and risk based on

the de minimis current usage of such order types and instructions in Pilot Securities

and/or their limited ability to execute under the Plan's minimum trading and quoting

increments or Trade-at Prohibition.[44] For example, during March 2016, the alternative

pegging functionality of MidPoint Peg Orders, orders with a Market Peg instruction,

orders with a Non-Displayed instruction, and Supplemental Peg Orders accounted for

0.01%, 0.02%, 0.92%, and 0.01%, respectively, of volume in eligible Pilot Securities on

the Exchange, BYX, BZX and EDGA combined. Notably, orders with a Discretionary

Range accounted for 0.00% of volume in eligible Pilot Securities on the Exchange, BYX,

BZX and EDGA combined.

The Commission adopted Regulation Systems Compliance and Integrity

("Regulation SCI") in November 2014 to strengthen the technology infrastructure of the

U.S. securities markets.[45] Regulation SCI is designed to reduce the occurrence of

systems issues, improve resiliency when systems problems do occur, and enhance the

Commission's oversight and enforcement of securities market technology infrastructure.

Regulation SCI required the Exchange to establish written policies and procedures

reasonably designed to ensure that their systems have levels of capacity, integrity,

resiliency, availability, and security adequate to maintain their operational capability and

promote the maintenance of fair and orderly markets, and that they operate in a manner

that complies with the Exchange Act. Each of these proposed changes are intended to

reduce complexity and risk in the System to ensure the Exchange's technology remains

---

[44]   The Commission has also expressed concern regarding potential market
         instability caused by technological risks. See e.g., Chair Mary Jo White,
         Commission, Enhancing Our Equity Market Structure (June 5, 2014) available at
         https://www.sec.gov/News/Speech/Detail/Speech/1370542004312#.VD2HW610
         w6Y.

[45]   See Securities Exchange Act Release No. 73639 (November 19, 2014), 79 FR
         72251 (December 5, 2014) ("Regulation SCI Approval Order").

robust and resilient. In determining the scope of the proposed changes, the Exchange

carefully weighed the impact on the Pilot, System complexity, and the usage of such

order types in Pilot Securities.[46] The potential complexity results from code changes for

a majority of the Exchange's order types, which requires the implementation and testing

of a separate branch of code for each Test Group. For example, the Exchange currently

utilizes one branch of code for which to implement and test changes. Development work

for the Pilot results in the creation of four additional branches of code that are to be

developed and tested (e.g., Control Group + three Test Groups). The Exchange

determined that the changes proposed herein are necessary to ensure continued System

resiliency in accordance with the requirements of Regulation SCI. Therefore, the

Exchange believes the proposed rule change promotes just and equitable principles of

trade, removes impediments to and perfects the mechanism of a free and open market and

a national market system and, in general, to protect investors and the public interest.

In addition, each of these proposed changes would have a de minimis to zero

impact on the data reported pursuant to the Plan. As evidenced above, orders with a

Market Peg instruction, orders with a Discretionary Range, the alternative pegging

functionality of MidPoint Peg Orders, and Supplemental Peg Orders are infrequently

used in Pilot Securities or the execution of such orders would be scarce due to the Plan's

minimum trading and quoting requirement and Trade-at Prohibition. The limited usage

and execution scenarios do not justify the additional system complexity which would be

---

[46]   But for the Plan, the Exchange notes that it would not have proposed to amend the
        operation of orders with a Market Peg instruction, orders with a Discretionary
        Range, orders with a Non-Displayed instruction, Supplemental Peg Orders, and
        Display-Price Sliding as described herein.

created by modifying the System to support such order types in order to comply with the
Plan. Therefore, the Exchange believes each proposed change is a reasonable means to
ensure that the System's integrity, resiliency, and availability continues to promote the
maintenance of fair and orderly markets. Due to the additional complexity, limited usage
and execution opportunities, the Exchange believes it is not unfairly discriminatory to
apply the changes proposed herein to only Pilot Securities as such changes are necessary
to reduce complexity and ensure continued System resiliency in accordance with the
requirements of Regulation SCI. The Exchange also believes the proposed changes to
orders with a Non-Displayed instruction, and orders subject to the Display-Price Sliding
process in Test Group Three are consistent with the Act because they are designed to
increase the execution opportunities for such order types in compliance with the mid-
point exception to the Trade-at Prohibition. The Exchange also believes the proposed
change to Market Pegged Orders in Test Groups One and Two is consistent with the Act
because it is identical to the operation of the Super Aggressive instruction under
Exchange Rule 11.6(n)(2). The Exchange notes that Market Pegged Orders are
aggressive by nature and believes executing the order in such circumstance is reasonable
and appropriate.

The Exchange also believes it is reasonable and appropriate to cancel an order
subject to the single Display-Price Sliding process in Test Group Three in the event that
the NBBO widens and a contra-side order with a Non-Displayed instruction is resting on
the EDGX Book at the price to which the order subject to Display-Price Sliding would be
adjusted. Due to technological limitations and the Plan's increased minimum quoting
increments, the Exchange is unable to safely re-program its System to re-price such

orders to the original locking price in such circumstances. The Exchange also anticipates

that the scenario under which it proposes to cancel the Display-Price Sliding order will be

infrequent in Tick Pilot Securities. Users who prefer an execution in such a scenario may

elect to use the multiple Display-Price Sliding process. Therefore, the Exchange believes

it is consistent with the Act to set forth this scenario in its rules so that Users will

understand how the System operates and how their orders would be handled in this

discrete scenario.

Lastly, the Exchange believes the ministerial changes to Rule 11.22 are also

consistent with the Act as they would: (i) clarify a provision under paragraph (a)(4); and

(ii) remove redundant provisions from the rule.

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

The Exchange does not believe that the proposed rule change will result in any

burden on competition that is not necessary or appropriate in furtherance of the purposes

of the Act. The Exchange notes that the proposed rule change is designed to assist the

Exchange in meeting its regulatory obligations pursuant to the Plan, reduce System

complexity and enhance resiliency. The Exchange also notes that the proposed rule

change will apply equally to all Members that trade Pilot Securities.

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

Written comments were neither solicited nor received.

6.   Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of the time period for

Commission action specified in Section 19(b)(2) of the Act.[47]

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the

Federal Register.

Exhibit 5. Text of the proposed rule change.

---

[47] 15 U.S.C. 78s(b)(2).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____; File No. SR-BatsEDGX-2016-26)

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing of a
Proposed Rule Change to Adopt Paragraph (c) to Exchange Rule 11.22 to Describe
Changes to System Functionality Necessary to Implement the Regulation NMS Plan to
Implement a Tick Size Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1]

and Rule 19b-4 thereunder,[2] notice is hereby given that on _____,

Bats EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and

Exchange Commission ("Commission") the proposed rule change as described in Items I

and II below, which Items have been prepared by the Exchange. The Commission is

publishing this notice to solicit comments on the proposed rule change from interested

persons.

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

The Exchange filed a proposal to adopt paragraph (c) to Exchange Rule 11.22 to

describe changes to System[3] functionality necessary to implement the Regulation NMS

Plan to Implement a Tick Size Pilot Program ("Plan" or "Pilot").[4] In determining the

---

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

[2]   17 CFR 240.19b-4.

[3]   The term "System" is defined as the "electronic communications and trading
        facility designated by the Board through which securities orders of Users are
        consolidated for ranking, execution and, when applicable, routing away." See
        Exchange Rule 1.5(cc).

[4]   See Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27513
        (May 13, 2015) ("Approval Order").

scope of the proposed changes to implement the Pilot,[5] the Exchange carefully weighed

the impact on the Pilot, System complexity, and the usage of such order types in Pilot

Securities.

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

www.batstrading.com, at the principal office of the Exchange, and at the Commission's

Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning

the purpose of and basis for the proposed rule change and discussed any comments it

received on the proposed rule change. The text of these statements may be examined at

the places specified in Item IV below. The Exchange has prepared summaries, set forth

in Sections A, B, and C below, of the most significant parts of such statements.

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

       1.   Purpose

Background

On August 25, 2014, NYSE Group, Inc., on behalf of the Exchange, Bats BYX

Exchange, Inc. ("BYX"), Chicago Stock Exchange, Inc., Bats BZX Exchange, Inc.

("BZX"), Bats EDGA Exchange, Inc. ("EDGA"), Financial Industry Regulatory

Authority, Inc. ("FINRA"), NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, the

Nasdaq Stock Market LLC, New York Stock Exchange LLC ("NYSE"), NYSE MKT

---

5   Unless otherwise specified, capitalized terms used in this rule filing are defined as
        set forth in the Plan.

LLC, and NYSE Arca, Inc. (collectively "Participants"), filed with the Commission,

pursuant to Section 11A of the Act[6] and Rule 608 of Regulation NMS thereunder, the

Plan to implement a tick size pilot program.[7] The Participants filed the Plan to comply

with an order issued by the Commission on June 24, 2014.[8] The Plan was published for

comment in the Federal Register on November 7, 2014, and approved by the

Commission, as modified, on May 6, 2015.[9]

The Plan is designed to allow the Commission, market participants, and the public

to study and assess the impact of increment conventions on the liquidity and trading of

the common stocks of small-capitalization companies. Each Participant is required to

comply, and to enforce compliance by its member organizations, as applicable, with the

provisions of the Plan.

The Pilot will include stocks of companies with $3 billion or less in market

capitalization, an average daily trading volume of one million shares or less, and a

volume weighted average price of at least $2.00 for every trading day. The Pilot will

consist of a Control Group of approximately 1400 Pilot Securities and three Test Groups

with 400 Pilot Securities in each Test Group selected by a stratified sampling.[10] During

the Pilot, Pilot Securities in the Control Group will be quoted and traded at the currently

---

[6]   15 U.S.C. 78k-1.

[7]   See Letter from Brendon J. Weiss, Vice President, Intercontinental Exchange, Inc., to Secretary, Commission, dated August 25, 2014.

[8]   See Securities Exchange Act Release No. 72460 (June 24, 2014), 79 FR 36840 (June 30, 2014).

[9]   See Approval Order, supra note 4.

[10]   See Section V of the Plan for identification of Pilot Securities, including criteria for selection and grouping.

permissible increments. Pilot Securities in the first Test Group ("Test Group One") will be quoted in $0.05 minimum increments but will continue to trade at any price increment that is currently permitted.[11] Pilot Securities in the second Test Group ("Test Group Two") will be quoted in $0.05 minimum increments and will trade at $0.05 minimum increments subject to a midpoint exception, a retail investor order exception, and a negotiated trade exception.[12] Pilot Securities in the third Test Group ("Test Group Three") will be subject to the same restrictions as Test Group Two and also will be subject to the "Trade-at" requirement to prevent price matching by a market participant that is not displaying at a price of a Trading Center's[13] "Best Protected Bid" or "Best Protected Offer," unless an enumerated exception applies.[14] The same exceptions provided under Test Group Two will also be available under the Trade-at Prohibition, with an additional exception for Block Size orders and exceptions that mirror those under Rule 611 of Regulation NMS.[15]

The Plan requires the Exchange to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with applicable quoting and trading requirements specified in the Plan. Accordingly, the Exchange adopted

---

[11]   See Section VI(B) of the Plan.

[12]   See Section VI(C) of the Plan.

[13]   The Plan incorporates the definition of "Trading Center" from Rule 600(b)(78) of Regulation NMS. Regulation NMS defines a Trading Center as "a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent."

[14]   See Section VI(D) of the Plan.

[15]   17 CFR 242.611.

paragraph (a) of Rule 11.22 to require Members[16] to comply with the quoting and trading

provisions of the Plan.[17] The Exchange also adopted paragraph (b) of Rule 11.22 to

require Members to comply with the data collection provisions under Appendix B and C

of the Plan.[18]

Proposed System Changes

The Exchange proposes to adopt paragraph (c) of Exchange Rule 11.22 to

describe changes to System functionality necessary to implement the Plan. Paragraph (c)

of Rule 11.22 would set forth the Exchange's specific procedures for handling, executing,

re-pricing and displaying of certain order types and order type instructions applicable to

Pilot Securities. Unless otherwise indicated, paragraph (c) of Rule 11.22 would apply to

order types and order type instructions in Pilot Securities in Test Groups One, Two, and

Three and not to orders in Pilot Securities included in the Control Group. The proposed

changes include select and discrete amendments to the operation of: (i) Market Orders;

(ii) orders with a Market Peg instruction; (iii) MidPoint Peg Orders; (iii) orders with a

Discretionary Range; (iv) orders with a Non-Displayed instruction; (v) Market Maker

Peg Orders; (vi) Supplemental Peg Orders; and (vii) orders subject to the Display-Price

Sliding process.

In determining the scope of these proposed changes to implement the Plan, the

Exchange carefully weighed the impact on the Pilot, System complexity, and the usage of

---

[16]   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).

[17]   See Securities Exchange Act Release No. 77791 (May 10, 2016), 81 FR 30375
         (May 16, 2016) (SR-BatsEDGX-2016-14).

[18]   See Securities Exchange Act Release No. 77416 (March 22, 2016), 81 FR 17225
         (March 28, 2016) (SR-BatsEDGX-2016-01).

such order types in Pilot Securities. These proposed changes are designed to directly comply with the Plan and to assist the Exchange in meeting its regulatory obligations pursuant to the Plan. As discussed below, certain of these changes are also intended to reduce risk in the System by eliminating unnecessary complexity based on infrequent current usage of certain order types in Pilot Securities and/or their limited ability to execute under the Trade-at Prohibition. Therefore, the Exchange firmly believes that these changes will have little or no impact on the operation and data collection elements of the Plan. The Exchange further believes that the proposed rule changes are reasonably designed to comply with applicable quoting and trading requirements specified in the Plan.

Market Orders

A Market Order is an order to buy or sell a stated amount of a security that is to be executed at the NBBO when the order reaches the Exchange.[19] Market Orders shall not trade through Protected Quotations. Any portion of a Market Order that would execute at a price more than $0.50 or 5 percent worse than the NBBO at the time the order initially reaches the Exchange, whichever is greater, will be cancelled.[20] In order to comply with the minimum quoting increments set forth in the Plan, the Exchange proposes to state under proposed Rule 11.22(c)(1) that for purposes of determining whether a Market Order's execution price is more than 5 percent worse than the NBBO under Rule 11.8(a)(7), the execution price for a buy (sell) order will be rounded down (up) to the nearest $0.05 increment.

---

[19]   See Exchange Rule 11.8(a).

[20]   Id.

Market Peg Instruction

The Exchange proposes to amend the operation of orders with a Market Peg instruction to reduce risk in its System by eliminating unnecessary complexity based on infrequent current usage in Pilot Securities and their limited ability to execute under the Trade-at Prohibition in Test Group Three. An order with a Pegged instruction is automatically adjusted by the System in response to changes in the NBBO and will peg to the NBB or NBO or a certain amount away from the NBB or NBO.[21] An order with a Market Peg instruction is pegged to the contra-side NBBO.[22] A User[23] entering an order with a Market Peg instruction can specify that such order's price will offset the inside quote on the contra-side of the market by an amount (the "Offset") set by the User. An order with a Market Peg instruction is not eligible to be displayed on the Exchange.

In Test Groups One and Two, the Exchange proposes to modify the behavior of an order with a Market Peg instruction when it is locked by an incoming order with a Post Only instruction[24] that does not remove liquidity pursuant to Rule 11.6(n)(4).[25] In such case, the order with a Market Peg instruction would be converted to an executable

---

[21]   See Exchange Rule 11.6(j).

[22]   See Exchange Rule 11.6(j)(1).

[23]   A "User" is defined as any member or sponsored participant of the Exchange who is authorized to obtain access to the System pursuant to Rule 11.3. See Exchange Rule 1.5(ee).

[24]   See Exchange Rule 11.6(n)(4).

[25]   A Post Only Order will remove contra-side liquidity from the EDGX Book if the order is an order to buy or sell a security priced below $1.00 or if the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the EDGX Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. See Exchange Rule 11.6(n)(4).

order and will remove liquidity against such incoming order. In no case would an order with a Market Peg instruction execute against an incoming order with a Post Only instruction if an order with higher priority is on the EDGX Book.[26] Specifically, if an order other than an order with a Market Peg instruction maintains higher priority than one or more orders with a Market Peg instruction, the order(s) with a Market Peg instruction with lower priority will not be converted, as described above, and the incoming order with a Post Only instruction will be posted or cancelled in accordance with Rule 11.6(n)(4).

The Exchange notes that orders with a Market Peg instruction are aggressive by nature and believes executing the order in such circumstance is appropriate. The Exchange also notes that the proposed behavior for orders with a Market Peg instruction in Test Groups One and Two is identical to the operation of orders with the Super Aggressive Routing instruction under Exchange Rule 11.6(n)(2). When an order with a Super Aggressive instruction is locked by an incoming order with a Post Only instruction that does not remove liquidity pursuant to Rule 11.6(n)(4), the order is converted to an executable order and will remove liquidity against such incoming order. In addition, like as proposed above, in no case would an order with a Super Aggressive instruction execute against an incoming order with a Post Only instruction if an order with higher priority is on the EDGX Book. The Exchange believes this change is reasonable and appropriate due to the limited usage of orders with a Market Peg instruction in Pilot Securities, to avoid unnecessary additional System complexity, and to ensure the order

---

[26]   The term "EDGX Book" is defined as the "System's electronic file of orders."
         See Exchange Rule 1.5(d).

with a Market Peg instruction may execute in such circumstance.

The Exchange also proposes to not accept orders with a Market Peg instruction in Test Group Three based on limited current usage, additional System complexity, and their limited ability to execute under the Trade-at Prohibition. Exchange Rule 11.22(a)(6)(D) sets forth the "Trade-at Prohibition," which is the prohibition against executions by a Member that operates a Trading Center of a sell order for a Pilot Security in Test Group Three at the price of a Protected Bid or the execution of a buy order for a Pilot Security in Test Group Three at the price of a Protected Offer during Regular Trading Hours,[27] unless an enumerated exception applies.[28] The Exchange believes that their de minimis usage and limited ability to execute due to the Trade-at Prohibition does not justify the complexity that would be created by supporting orders with a Market Peg instruction in Test Group Three. A vast majority of orders with a Market Pegged instruction are entered into the System with a zero Offset and, therefore, create a locked market with the contra-side NBBO. Under the Trade-at Prohibition, an order with a Market Peg instruction would not be eligible for execution at the locking price, including when a Trade-at Intermarket Sweep Order ("ISO")[29] is entered, because of non-cleared

---

[27] The term "Regular Trading Hours" is defined as "the time between 9:30 a.m. and 4:00 p.m. Eastern Time." See Exchange Rule 1.5(y).

[28] See also Section VI(D) of the Plan.

[29] A Trade-at ISO is a Limit Order for a Pilot Security that meets the following requirements: (i) when routed to a Trading Center, the limit order is identified as a Trade-at Intermarket Sweep Order; and (ii) simultaneously with the routing of the limit order identified as a Trade-at Intermarket Sweep Order, one or more additional limit orders, as necessary, are routed to execute against the full size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the Pilot Security with a price that is better than or equal to the limit price of the limit order identified as a

contra-side Protected Quotations. For example, assume the NBBO is $10.00 (NYSE) x

$10.05 (Nasdaq) in a Test Group 3 security. An order with a Market Peg instruction to

buy at $10.10 with a zero Offset is entered on the Exchange. The order would be ranked

and hidden on the EDGX Book at $10.05. A Trade-at ISO to sell at $10.05 is then

entered. In this example, no execution occurs on the Exchange because Nasdaq is

displaying an order to sell at $10.05. The Trade-at ISO instruction only indicates that all

of the better and equal priced buy orders have been cleared. It does not indicate that the

seller has cleared any Protected Offers. Therefore, the Exchange proposes to not accept

orders with a Market Peg instruction in Test Group Three in an effort to reduce

unnecessary System complexity, avoid an internally locked book, and due to the limited

execution opportunities for orders with a Market Peg instruction due to the Trade-at

Prohibition.

MidPoint Peg Orders

A MidPoint Peg Order is an order whose price is automatically adjusted by the

System in response to changes in the NBBO to be pegged to the midpoint of the NBBO,

or, alternatively, pegged to the less aggressive of the midpoint of the NBBO or one

Minimum Price Variation[30] inside the same side of the NBBO as the order.[31] The Plan

and current Exchange rules permit the acceptance of orders priced to execute at the

---

Trade-at Intermarket Sweep Order. See Exchange Rule 11.22(a)(7)(A)(i). These
additional routed orders also must be marked as Trade-at Intermarket Sweep
Orders. Id.

[30]   See Exchange Rule 11.6(i).

[31]   See Exchange Rule 11.8(d).

midpoint of the NBBO to be ranked and accepted in increments of less than $0.05.[32]

Consistent with previous guidance issued by the Participants,[33] the Exchange proposes to

amend the operation of MidPoint Peg Orders to explicitly state that MidPoint Peg Orders

in Pilot Securities may not be entered in increments other than $0.05. The System will

execute a MidPoint Peg Order: (i) in $0.05 increments priced better than the midpoint of

the NBBO; or (ii) at the midpoint of the NBBO, regardless of whether the midpoint of the

NBBO is in an increment of $0.05. In order to comply with the minimum quoting and

trading increments of the Plan and reduce unnecessary System complexity, a MidPoint

Peg Order will not be permitted to alternatively peg to one Minimum Price Variation

inside the same side of the NBBO as the order in Pilot Securities. The Exchange believes

that the current de minimis usage of the alternative pegging functionality in Pilot

Securities does not justify the complexity and risk that would be created by re-

programming the System to support this functionality under the Plan.

Discretionary Range Instruction

The Exchange proposes to not accept orders with a Discretionary Range in all

Test Groups, including the Control Group, to reduce risk in the System by eliminating

unnecessary complexity based on infrequent current usage in Pilot Securities. In sum, an

order with a Discretionary Range has a displayed or non-displayed ranked price and size

---

32   See Sections VI(B), (C), and (D) of the Plan. See also Exchange Rules
      11.22(a)(4), (a)(5), and (a)(6).

33   See e.g., Question 42 of the Tick Size Pilot Program Trading and Quoting FAQs
      available at http://www.finra.org/sites/default/files/TSPP-Trading-and-Quoting-
      FAQs.pdf

and an additional non-displayed "discretionary price".[34] The discretionary price is a non-displayed upward offset at which a User is willing to buy, if necessary, or a non-displayed downward offset at which a User is willing to sell, if necessary. The System changes necessary for orders with a Discretionary Range to comply with the Plan become increasingly complex because both the displayed price and discretionary price must comply with the Plan's minimum quoting and trading increments as well as the Trade-at restriction in Test Group Three. In addition, Users do not currently set discretionary prices less than $0.05 away from the order's displayed price and the Exchange does not anticipate Users doing so under the Plan. To date, orders with a Discretionary Range are rarely entered in Pilot Securities and the Exchange anticipates their usage to further decrease due to the Plan's minimum quoting increments. The Exchange believes that the current extremely limited usage of orders with a Discretionary Range in Pilot Securities does not justify the additional System complexity that would be created by supporting such orders. As a result of these factors the Exchange proposes to not accept orders with a Discretionary Range in all Test Groups and the Control Group.

Non-Displayed Instruction

The Exchange proposes to re-price to the midpoint of the NBBO orders with a Non-Displayed instruction in Test Group Three that are priced in a permissible increment better than the midpoint of the NBBO. An order with a Non-Displayed instruction is not displayed on the Exchange.[35] Exchange Rule 11.22(a)(6)(D) incorporates the "Trade-at Prohibition" in the Exchange's rules. The Trade-at Prohibition prevents the execution of

---

[34]   See Exchange Rule 11.6(d).

[35]   See Exchange Rule 11.6(e)(2).

a sell order for a Pilot Security in Test Group Three at the price of a Protected Bid or the

execution of a buy order for a Pilot Security in Test Group Three at the price of a

Protected Offer during Regular Trading Hours, unless an exception applies. A Trading

Center that is displaying a quotation, via either a processor or an SRO quotation feed, that

is a Protected Bid or Protected Offer is permitted to execute orders at that level, but only

up to the amount of its displayed size. Unless an exception applies, an order with a Non-

Displayed instruction that is able to execute at the price of the Protected Quotation would

not be able to do so in Test Group Three due to the Trade-at Prohibition and the

Exchange's priority rule.[36] Furthermore, such aggressively priced orders would not be

able to post to the EDGX Book at the contra-side Protected Quotation, and re-pricing the

order to the midpoint of the NBBO would increase execution opportunities under normal

market conditions. However, orders that are priced to execute at the midpoint of the

NBBO are exempt from the Trade-at Prohibition. Therefore, to increase the execution

opportunities for orders with a Non-Displayed instruction in Test Group Three, the

Exchange proposes to re-price to the midpoint of the NBBO orders with a Non-Displayed

instruction that are priced in a permissible increment better than the midpoint of the

NBBO.

Market Maker Peg Orders

A Market Maker Peg Order is a Limit Order that is automatically priced by the

System at the Designated Percentage (as defined in Exchange Rule 11.20(d)(2)(D)) away

from the then current NBB and NBO, or if no NBB or NBO, at the Designated

---

[36]   Under Exchange Rule 11.9(a)(2)(A), displayed Limit Orders have priority over
         non-displayed Limit Orders.

Percentage away from the last reported sale from the responsible single plan processor in

order to comply with the quotation requirements for Market Makers set forth in Exchange

Rule 11.20(d).[37] Should the above pricing result in a Market Maker Peg Order being

priced at an increment other than $0.05, the Exchange proposes to round an order to buy

(sell) up (down) to the nearest $0.05 increment in order to comply with the minimum

quoting increments of the Plan.

Supplemental Peg Orders

The Exchange proposes to not accept Supplemental Peg Orders in Test Group

Three in order to reduce risk in the System by eliminating unnecessary complexity based

on infrequent current usage in Pilot Securities and their limited ability to execute under

the Trade-at Prohibition. A Supplemental Peg Order is a non-displayed Limit Order that

posts to the EDGX Book, and thereafter is eligible for execution at the NBB for buy

orders and NBO for sell orders against routable orders that are equal to or less than the

aggregate size of the Supplemental Peg Order interest available at that price.[38] In sum,

Supplemental Peg Orders are only executable at the NBBO against an order that is in the

process of being routed away. In such case, the Exchange is not displaying a Protected

Quotation and, therefore, the Supplemental Peg Order would be unable to execute in Test

Group Three due to the Trade-at Prohibition.[39] Therefore, the Exchange proposes to not

---

[37]   See Exchange Rule 11.8(e).

[38]   See Exchange Rule 11.8(f).

[39]   The Exchange notes that the likelihood of a Supplemental Peg Order qualifying
         for an exception to the Trade-at Prohibition is small. For example, Supplemental
         Peg Orders are only executable against orders that are to be routed away and
         would not be eligible to execute against an incoming ISO or Trade-at ISO. Also,
         the Exchange would not be displaying a Protected Quotation. In addition, the

accept Supplemental Peg Orders in Test Group Three.

Display-Price Sliding

Under the Display-Price Sliding process, an order eligible for display by the
Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation
NMS by locking or crossing a Protected Quotation of an external market, will be ranked
at the locking price in the EDGX Book and displayed by the System at one minimum
price variation (i.e., $0.05) below the current NBO (for bids) or one minimum price
variation above the current NBB (for offers).[40] The ranked and displayed prices of an
order subject to the Display-Price Sliding process may be adjusted once or multiple times
depending upon the instructions of a User and changes to the prevailing NBBO.[41]

As described above, Exchange Rule 11.22(a)(6)(D) sets forth the Trade-at
Prohibition, which is the prohibition against executions by a Member that operates a
Trading Center of a sell order for a Pilot Security in Test Group Three at the price of a
Protected Bid or the execution of a buy order for a Pilot Security in Test Group Three at
the price of a Protected Offer during Regular Trading Hours, unless an exception applies.
Orders that are priced to execute at the midpoint of the NBBO are exempt from the
Trade-at Prohibition. Therefore, to increase the execution opportunities and qualify for
the mid-point exception to the Trade-at Prohibition, the Exchange proposes to rank orders
in Test Group Three that are subject to the Display-Price Sliding process at the midpoint

---

Exchange does not frequently receive orders of Block Size and, in order to qualify
for the Block exception, the contra-side Block Order must be routable and the
Supplemental Peg Order be of Block Size.

[40] See Exchange Rule 11.6(l)(1)(B).

[41] See Exchange Rule 11.6(l)(1)(B)(iii).

of the NBBO in the BZX Book and display such orders one minimum price variation below the current NBO (for bids) or one minimum price variation above the current NBB (for offers).

The Exchange also proposes to cancel orders subject to Display-Price Sliding in Test Group Three that are only to be adjusted once and not multiple times in the event the NBBO widens and a contra-side order with a Non-Displayed instruction is resting on the EDGX Book at the price to which the order subject to Display-Price Sliding would be adjusted. Due to the increased minimum quoting increments under the Plan, the Exchange is unable to safely re-price an order subject to single Display-Price Sliding in Test Group Three to the original locking price in such circumstances and doing so would add additional System complexity and risk. As discussed above, the Exchange proposes to rank orders in Test Group Three subject to the Display-Price Sliding process at the midpoint of the NBBO. In the event the NBBO changes such that an order subject to Display-Price Sliding would not lock or cross a Protected Quotation of an external market, the order will receive a new timestamp, and will be displayed at the order's limit price.[42] Due to technological limitations arising from the increased minimum quoting increments under the Plan, however, the Exchange is unable to safely re-program its System to re-price such order to the original locking price when the NBBO widens and a contra-side order with a Non-Displayed instruction is resting on the EDGX Book at the price to which the order subject to Display-Price Sliding would be adjusted. Therefore, the Exchange proposes to cancel orders subject to the single Display-Price Sliding

---

[42]   Id.

process in such circumstances. Users who prefer an execution in such a scenario may elect to use the multiple Display-Price Sliding process.

Ministerial Change

Currently, both Interpretation and Policy .03 to Rule 11.22(a) and Interpretation and Policy .11 to Rule 11.22(b) state that Rule 11.22 shall be in effect during a pilot period to coincide with the pilot period for the Plan (including any extensions to the pilot period for the Plan). The Exchange proposes to include this language at the beginning of Rule 11.22 and, therefore, proposes to delete both Interpretation and Policy .03 to Rule 11.22(a) and Interpretation and Policy .11 to Rule 11.22(b) as those provisions would be redundant and unnecessary. The Exchange also proposes to amend the last sentence of Rule 11.22(a)(4) to specify that the current permissible price increments are set forth under Exchange Rule 11.6(i), Minimum Price Variation.

Implementation Date

If the Commission approves the proposed rule change, the proposed rule change will be effective upon Commission approval and shall become operative upon the commencement of the Pilot Period.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[43] in general, and furthers the objectives of Section 6(b)(5) of the Act[44] 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

---

[43]   15 U.S.C. 78f(b).

[44]   15 U.S.C. 78f(b)(5).

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 Plan requires the Exchange to establish, maintain, and enforce written

policies and procedures that are reasonably designed to comply with applicable quoting

and trading requirements specified in the Plan. The proposed rule change is designed to

comply with the Plan, reduce complexity and enhance System resiliency while not

adversely affecting the data collected under the Plan. Therefore, the Exchange believes

that the proposed rule changes are reasonably designed to comply with applicable quoting

and trading requirements specified in the Plan and, as discussed further below, other

applicable regulations.

The Exchange believes that the proposed changes regarding Market Orders,

MidPoint Peg Orders, Market Maker Peg Orders, and Display-Price Sliding are

consistent with the Act because they are intended to modify the Exchange's System to

comply with the provisions of the Plan, and are designed to assist the Exchange in

meeting its regulatory obligations pursuant to the Plan. In approving the Plan, the SEC

noted that the Pilot was an appropriate, data-driven test that was designed to evaluate the

impact of a wider tick size on trading, liquidity, and the market quality of securities of

smaller capitalization companies, and was therefore in furtherance of the purposes of the

Act. To the extent that these proposals are intended to comply with the Plan, the

Exchange believes that these proposals are in furtherance of the objectives of the Plan, as

identified by the Commission, and is therefore consistent with the Act.

The Exchange also believes that its proposed changes to orders with a Market Peg

instruction, orders with a Discretionary Range, orders with a Non-Displayed instruction,

Supplemental Peg Orders, and Display-Price Sliding are also consistent with the Act

because they are intended to eliminate unnecessary System complexity and risk based on

the de minimis current usage of such order types and instructions in Pilot Securities

and/or their limited ability to execute under the Plan's minimum trading and quoting

increments or Trade-at Prohibition.[45] For example, during March 2016, the alternative

pegging functionality of MidPoint Peg Orders, orders with a Market Peg instruction,

orders with a Non-Displayed instruction, and Supplemental Peg Orders accounted for

0.01%, 0.02%, 0.92%, and 0.01%, respectively, of volume in eligible Pilot Securities on

the Exchange, BYX, BZX and EDGA combined. Notably, orders with a Discretionary

Range accounted for 0.00% of volume in eligible Pilot Securities on the Exchange, BYX,

BZX and EDGA combined.

The Commission adopted Regulation Systems Compliance and Integrity

("Regulation SCI") in November 2014 to strengthen the technology infrastructure of the

U.S. securities markets.[46] Regulation SCI is designed to reduce the occurrence of

systems issues, improve resiliency when systems problems do occur, and enhance the

Commission's oversight and enforcement of securities market technology infrastructure.

Regulation SCI required the Exchange to establish written policies and procedures

reasonably designed to ensure that their systems have levels of capacity, integrity,

---

[45]   The Commission has also expressed concern regarding potential market
         instability caused by technological risks. See e.g., Chair Mary Jo White,
         Commission, Enhancing Our Equity Market Structure (June 5, 2014) available at
         https://www.sec.gov/News/Speech/Detail/Speech/1370542004312#.VD2HW610
         w6Y.

[46]   See Securities Exchange Act Release No. 73639 (November 19, 2014), 79 FR
         72251 (December 5, 2014) ("Regulation SCI Approval Order").

resiliency, availability, and security adequate to maintain their operational capability and

promote the maintenance of fair and orderly markets, and that they operate in a manner

that complies with the Exchange Act. Each of these proposed changes are intended to

reduce complexity and risk in the System to ensure the Exchange's technology remains

robust and resilient. In determining the scope of the proposed changes, the Exchange

carefully weighed the impact on the Pilot, System complexity, and the usage of such

order types in Pilot Securities.[47] The potential complexity results from code changes for

a majority of the Exchange's order types, which requires the implementation and testing

of a separate branch of code for each Test Group. For example, the Exchange currently

utilizes one branch of code for which to implement and test changes. Development work

for the Pilot results in the creation of four additional branches of code that are to be

developed and tested (e.g., Control Group + three Test Groups). The Exchange

determined that the changes proposed herein are necessary to ensure continued System

resiliency in accordance with the requirements of Regulation SCI. Therefore, the

Exchange believes the proposed rule change promotes just and equitable principles of

trade, removes impediments to and perfects the mechanism of a free and open market and

a national market system and, in general, to protect investors and the public interest.

In addition, each of these proposed changes would have a de minimis to zero

impact on the data reported pursuant to the Plan. As evidenced above, orders with a

Market Peg instruction, orders with a Discretionary Range, the alternative pegging

---

[47]   But for the Plan, the Exchange notes that it would not have proposed to amend the
operation of orders with a Market Peg instruction, orders with a Discretionary
Range, orders with a Non-Displayed instruction, Supplemental Peg Orders, and
Display-Price Sliding as described herein.

functionality of MidPoint Peg Orders, and Supplemental Peg Orders are infrequently

used in Pilot Securities or the execution of such orders would be scarce due to the Plan's

minimum trading and quoting requirement and Trade-at Prohibition. The limited usage

and execution scenarios do not justify the additional system complexity which would be

created by modifying the System to support such order types in order to comply with the

Plan. Therefore, the Exchange believes each proposed change is a reasonable means to

ensure that the System's integrity, resiliency, and availability continues to promote the

maintenance of fair and orderly markets. Due to the additional complexity, limited usage

and execution opportunities, the Exchange believes it is not unfairly discriminatory to

apply the changes proposed herein to only Pilot Securities as such changes are necessary

to reduce complexity and ensure continued System resiliency in accordance with the

requirements of Regulation SCI. The Exchange also believes the proposed changes to

orders with a Non-Displayed instruction, and orders subject to the Display-Price Sliding

process in Test Group Three are consistent with the Act because they are designed to

increase the execution opportunities for such order types in compliance with the mid-

point exception to the Trade-at Prohibition. The Exchange also believes the proposed

change to Market Pegged Orders in Test Groups One and Two is consistent with the Act

because it is identical to the operation of the Super Aggressive instruction under

Exchange Rule 11.6(n)(2). The Exchange notes that Market Pegged Orders are

aggressive by nature and believes executing the order in such circumstance is reasonable

and appropriate.

  The Exchange also believes it is reasonable and appropriate to cancel an order

subject to the single Display-Price Sliding process in Test Group Three in the event that

the NBBO widens and a contra-side order with a Non-Displayed instruction is resting on

the EDGX Book at the price to which the order subject to Display-Price Sliding would be

adjusted. Due to technological limitations and the Plan's increased minimum quoting

increments, the Exchange is unable to safely re-program its System to re-price such

orders to the original locking price in such circumstances. The Exchange also anticipates

that the scenario under which it proposes to cancel the Display-Price Sliding order will be

infrequent in Tick Pilot Securities. Users who prefer an execution in such a scenario may

elect to use the multiple Display-Price Sliding process. Therefore, the Exchange believes

it is consistent with the Act to set forth this scenario in its rules so that Users will

understand how the System operates and how their orders would be handled in this

discrete scenario.

Lastly, the Exchange believes the ministerial changes to Rule 11.22 are also

consistent with the Act as they would: (i) clarify a provision under paragraph (a)(4); and

(ii) remove redundant provisions from the rule.

     (B)   <u>Self-Regulatory Organization's Statement on Burden on Competition</u>

The Exchange does not believe that the proposed rule change will result in any

burden on competition that is not necessary or appropriate in furtherance of the purposes

of the Act. The Exchange notes that the proposed rule change is designed to assist the

Exchange in meeting its regulatory obligations pursuant to the Plan, reduce System

complexity and enhance resiliency. The Exchange also notes that the proposed rule

change will apply equally to all Members that trade Pilot Securities.

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

Written comments were neither solicited nor received.

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

        Within 45 days of the date of publication of this notice in the Federal Register or

within such longer period (i) as the Commission may designate up to 90 days of such date

if it finds such longer period to be appropriate and publishes its reasons for so finding or

(ii) as to which the Exchange consents, the Commission will: (a) by order approve or

disapprove such proposed rule change, or (b) institute proceedings to determine whether

the proposed rule change should be disapproved.

IV.   Solicitation of Comments

        Interested persons are invited to submit written data, views and arguments

concerning the foregoing, including whether the proposal is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

•   Use the Commission's Internet comment form
        (http://www.sec.gov/rules/sro.shtml); or

•   Send an e-mail to rule-comments@sec.gov. Please include File No. SR-
        BatsEDGX-2016-26 on the subject line.

Paper Comments:

•   Send paper comments in triplicate to Secretary, Securities and Exchange

        Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BatsEDGX-2016-26. This file number

should be included on the subject line if e-mail is used. To help the Commission process

and review your comments more efficiently, please use only one method. The

Commission will post all comments on the Commission's Internet website

(http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent

amendments, all written statements with respect to the proposed rule change that are filed

with the Commission, and all written communications relating to the proposed rule

change between the Commission and any person, other than those that may be withheld

from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street,

NE, Washington, DC 20549, on official business days between the hours of 10:00 am and

3:00 pm. Copies of such filing will also be available for inspection and copying at the

principal office of the Exchange. All comments received will be posted without change;

the Commission does not edit personal identifying information from submissions. You

should submit only information that you wish to make available publicly. All

submissions should refer to File No. SR-BatsEDGX-2016-26 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.[48]

<div style="text-align:center">

Robert W. Errett
Deputy Secretary

</div>

---

[48]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

Proposed new language is <u>underlined</u>; proposed deletions are marked by [brackets].

* * * * *

Rule 11.22. Compliance with Regulation NMS Plan to Implement a Tick Size Pilot Program

This Rule shall be in effect during a pilot period to coincide with the pilot period for the Plan

(including any extensions to the pilot period for the Plan).

    (a) Compliance with Quoting and Trading Restrictions

        (1)   (No change).

        (2) Exchange Compliance

The System will not display, quote or trade in violation of the applicable quoting and trading requirements for a Pilot Security specified in the Plan and this Rule, unless such quotation or transaction is specifically exempted under the Plan. The Exchange's specific procedures for handling, executing, re-pricing and displaying of certain order types and order type instructions applicable to Pilot Securities are set forth under section (c) of this Rule.

        (3)   (No change).

        (4) Pilot Securities in Test Group One

No Member may display, rank, or accept from any person any displayable or non-displayable bids or offers, orders, or indications of interest in any Pilot Security in Test Group One in increments other than $0.05. However, orders priced to execute at the midpoint of the national best bid and national best offer ("NBBO") or best protected bid and best protected offer ("PBBO") and orders entered in a Participant-operated retail liquidity program may be ranked and accepted in increments of less than $0.05. Pilot

Securities in Test Group One may continue to trade at any price increment that is currently permitted by Rule 11.6(i), Minimum Price Variation[applicable Participant, SEC and Exchange rules].

(5) – (7)   (No change).

Interpretations and Policies.

.01 - .02   (No change).

[.03 This Rule shall be in effect during a pilot period to coincide with the pilot period for the Plan (including any extensions to the pilot period for the Plan).]

(b)   (No change).

(1) – (5)   (No change).

Interpretations and Policies.

.01 - .10   (No change).

[.11 This Rule shall be in effect during a pilot period to coincide with the pilot period for the Plan (including any extensions to the pilot period for the Plan).]

(c)   Operation of Order Types and Order Type Instructions for Pilot Securities

This section sets forth the Exchange's specific procedures for handling, executing, re-pricing and displaying of certain order types and order type instructions applicable to Pilot Securities. Unless otherwise indicated, this section applies to orders in Pilot Securities in Test Groups One, Two, and Three and not to orders in Pilot Securities included in the Control Group.

(1)   Market Orders. For purposes of determining whether a Market Order's execution price is more than 5 percent worse than the NBBO under Rule 11.8(a)(7), the execution price for a buy (sell) order will be rounded down (up) to the nearest $0.05 increment.

(2)   Market Peg. In Test Groups One and Two, when an order with a Market Peg instruction is locked by an incoming order with a Post Only instruction that does not remove liquidity pursuant to Rule 11.6(n)(4), the order with a Market Peg instruction is converted to an executable order and will remove liquidity against such incoming order. Notwithstanding the foregoing, if an order other than an order with a Market Peg instruction maintains higher priority than one or more orders with a Market Peg instruction, the order(s) with a Market Peg instruction with lower priority will not be converted, as described above, and the incoming order with a Post Only instruction will be posted or cancelled in accordance with Rule 11.6(n)(4) above. The System will not accept orders with a Market Peg instruction in Test Group Three, regardless of price.

(3)   MidPoint Peg Orders. Notwithstanding paragraphs (a)(4), (a)(5), and (a)(6) of this Rule, MidPoint Peg Orders may not be entered in increments other than $0.05. The System will execute a MidPoint Peg Order: (i) in $0.05 increments priced better than the midpoint of the NBBO; or (ii) at the midpoint of the NBBO, regardless of whether the midpoint of the NBBO is in an increment of $0.05. MidPoint Peg Orders may not be alternatively pegged to one minimum price variation inside the same side of the NBBO as the order.

(4)   Discretionary Range. The System will not accept orders with a Discretionary Range, regardless of price, in all Test Groups and the Control Group.

(5)   Non-Displayed. In Test Group Three, an order with a Non-Displayed instruction that is priced in a permissible increment better than the midpoint of the NBBO will be re-priced to the midpoint of the NBBO.

(6)   Market Maker Peg Orders. Pursuant to Rule 11.8(f), a Market Maker Peg

Order is automatically priced by the System at the Designated Percentage (as defined in

Rule 11.20(d)(2)(D)) away from the then current NBB and NBO, or if no NBB or NBO,

at the Designated Percentage away from the last reported sale from the responsible single

plan processor in order to comply with the quotation requirements for Market Makers set

forth in Rule 11.20(d). Should the above pricing result in a Market Maker Peg Order

being priced at an increment other than $0.05, the System will round an order to buy

(sell) up (down) to the nearest $0.05 increment.

(7)   Supplemental Peg Orders. The System will not accept Supplemental Peg

Orders in Test Group Three, regardless of price.

(8)   Display-Price Sliding. In Test Group Three, orders subject to Display-

Price Sliding will be ranked at the midpoint of the NBBO in the EDGX Book and

displayed by the System one minimum price variation below the current NBO (for bids)

or one minimum price variation above the current NBB (for offers). Orders subject to

Display-Price Sliding in Test Group Three that are only to be adjusted once and not

multiple times will be cancelled in the event the NBBO widens and a contra-side order

with a Non-Displayed instruction is resting on the EDGX Book at the price to which the

order subject to Display-Price Sliding would be adjusted.

* * * * *