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

File No.* SR - 2016 - * 29
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

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

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

The Exchange is filing this proposal related to functionality offered by EDGX Options to: (i) modify various rules to eliminate the display-price sliding option; (ii) modify various rules to eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism.

Contact Information

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

First Name * Anders Last Name * Franzon

Title * SVP, Associate General Counsel

E-mail * afranzon@bats.com

Telephone * (913) 815-7154 Fax

Signature

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

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

Date 07/11/2016

By Anders Franzon

(Name *)

(Title *)

SVP, Associate General Counsel

afranzon@bats.com

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

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] Bats EDGX Exchange, Inc. (the "Exchange" or "EDGX") is filing with the Securities and Exchange Commission ("Commission") a proposal related to functionality offered by the Exchange's options platform ("EDGX Options") to: (i) modify various rules to eliminate the display-price sliding option; (ii) modify various rules to eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism, as described below. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.[3]

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on February 11, 2014. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

[2] 17 CFR 240.19b-4.

[3] 17 CFR 240.19b-4(f)(6)(iii).

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

Eric Swanson	Anders Franzon
EVP, General Counsel	SVP, Associate General Counsel
(913) 815-7000	(913) 815-7154

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

(a) Purpose

The Exchange is filing this proposal related to functionality offered by EDGX Options to: (i) modify various rules to eliminate the display-price sliding option; (ii) modify various rules to eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism, as described below.

Elimination of the Display-Price Sliding Option

The Exchange currently offers various forms of sliding which, in all cases, result in the re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange offers: (i) the display-price sliding process, pursuant to Rule 21.1(h); and (ii) the Price Adjust process, pursuant to Rule 21.1(i). Under the display-price sliding process an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the EDGX Options Book and displayed by the System[4] at one minimum price variation below the current National Best Offer ("NBO")[5] (for bids) or one minimum price

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4 See Exchange Rule 16.1(a)(59) (defining the term System as the automated trading system used by EDGX Options for the trading of options contracts).

5 See Exchange Rule 16.1(a)(29) (defining the terms "NBB", "NBO", and

variation above the current National Best Bid ("NBB")[6] (for offers). In contrast, under the Price Adjust process, an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Thus, the two primary differences between the display-price sliding process and the Price Adjust process are: (i) the ranking of an order at a more aggressive price than the price at which it is displayed (the display-price sliding process) versus ranking and displaying an order at the same price (the Price Adjust process); and (ii) sliding of an order that would lock or cross a Protected Quotation of another options exchange but not an order displayed by the Exchange (the display-price sliding process) or the sliding of an order that would lock or cross a Protected Quotation of another options exchange or the exchange (the Price Adjust process).

Due to the general similarities between the two price sliding processes and to simplify the functionality offered by the Exchange, the Exchange proposes to eliminate the display-price sliding process for EDGX Options. In order to effect this change the Exchange proposes to delete Rule 21.1(h) in its entirety and to remove references to display-price sliding in paragraphs (d)(7) and (d)(8) of Rule 21.1, paragraph (f) of Rule 21.6 and paragraph (a)(1)(B) of Rule 21.9. The Exchange also proposes to delete Rule 21.1(j), which describes the relative handling of orders subject to the display-price sliding process and the Price Adjust process, as such provision is no longer necessary with the

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"NBBO").

6 Id.

elimination of the display-price sliding process. The Exchange also proposes to capitalize the reference to the Price Adjust process in Rule 21.9(a)(1)(B) to achieve consistency with the rest of the Exchange's rules.

In addition to the changes described above, the Exchange proposes to make the Price Adjust process the default price sliding functionality. Specifically, the Exchange proposes to modify Rule 21.1(d)(7), which currently designates the display-price sliding process as the default, to instead state that the Price Adjust process is the default, unless otherwise specified by a User.

Elimination of Price Improving Orders

Price Improving Orders are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security.[7] Price Improving Orders may be entered in increments as small as (1) one cent. Price Improving Orders are displayed at the minimum price variation in the security and shall be rounded up for sell orders and rounded down for buy orders. Unless a User[8] has entered instructions not to do so, Price Improving Orders are currently subject to the display-price sliding process, as described above.

The Exchange proposes to eliminate Price Improving Orders on EDGX Options in order to simplify System functionality. To effect this change, the Exchange proposes to delete paragraph (d)(6) from Rule 21.1(d) in its entirety. The Exchange also proposes to remove a reference to Price Improving Orders contained in Rule 18.4(f)(2).

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7 See Exchange Rule 21.1(d)(6).

8 The term "User" means any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access). See Exchange Rule 16.1(a)(63).

Step Up Mechanism

The Exchange proposes to adopt a rule that governs the operation of its new Step Up Mechanism ("SUM" or the "SUM process"). As proposed, SUM is a feature within the Exchange's System that would provide automated order handling in designated classes for qualifying orders that are not automatically executed by the System. Regarding SUM eligibility, the Exchange shall designate eligible order size, eligible order type, eligible order origin code (e.g., Priority Customer Orders, non-Market Maker non-Priority Customer orders, and Market Maker orders),[9] and classes in which SUM shall be activated. SUM shall automatically process upon receipt of: (i) an eligible order that is marketable against the Exchange's disseminated quotation while that quotation is not the national best bid or offer ("NBBO"); or (ii) an eligible order that would improve the Exchange's disseminated quotation and that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Market Plan (the "Linkage Plan").

For order handling and responses regarding SUM, orders that are received by SUM pursuant to the paragraph above shall be electronically exposed at the NBBO immediately upon receipt. The exposure shall be for a period of time determined by the Exchange on a class-by-class basis, which period of time shall not exceed one second. All Users will be permitted to submit responses to the exposure message during the exposure period. Responses (i) must be limited to the size of the order being exposed;

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9 See Exchange Rule 16.1(a)(45) (defining "Priority Customer" and "Priority Customer") and Exchange Rule 16.1(a)(37) (defining "Market Maker").

(ii) may be modified, cancelled and/or replaced any time during the exposure period; and (iii) will be cancelled back at the end of the exposure period if unexecuted.

Regarding the allocation of exposed orders, any responses priced at the prevailing NBBO or better shall immediately trade against the order (on a first come, first served basis). If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price. The exposure period shall not terminate if a quantity remains on the exposed order after such trade. Responses that are not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO and at the conclusion of the exposure period, the Exchange will evaluate remaining responses as well as the disseminated best bid/offer on other exchanges and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by executing against responses and unrelated orders (pursuant to the matching algorithm in effect for the class). Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the User. Any portion of a routed order that returns unfilled shall trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new orders shall be generated and routed to trade against such better prices. All executions on the Exchange pursuant to this paragraph shall comply with Rule 27.2 (Order Protection).

Regarding the early termination of the exposure period, in addition to the receipt of a response (or unrelated order or quote) to trade the entire exposed order at the NBBO or better, the exposure period will also terminate early: (i) if during the exposure period the NBBO updates such that the exposed order is no longer marketable against the prevailing NBBO; or (ii) if during the exposure of an order the Exchange is displaying an unrelated order on the same side of the market as the exposed order and such displayed order is subsequently locked or crossed by another options exchange. When the exposure period terminates early, the exposed order shall be processed in accordance with paragraph (c) of the proposed Rule (which regards allocation of exposed orders).

The purpose of the proposed change is to provide all Exchange Users with the opportunity to improve their prices and “step up” to meet the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to EDGX Options to increase its chances of receiving an execution at EDGX Options (the market participant’s chosen venue) instead of having the order be routed to another exchange. This “step up” process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers EDGX Options due to some combination of these other factors will know that, even if EDGX Options is not displaying a price that is the NBBO, the market participant may still receive an execution at EDGX Options because another User may “step up” to match the NBBO. Further, SUM and the “step up” process enable Users to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when a User on EDGX Options “steps up” to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on EDGX Options than are available at that same price on the other exchange.

The Exchange's proposed SUM and the "step up" process are not novel concepts. As proposed, SUM is similar to the Hybrid Agency Liaison ("CBOE HAL") offered on the Chicago Board Options Exchange, Incorporated ("CBOE"), which provides the same manner of "step up" process and has been approved by the Commission.[10] One difference between CBOE HAL and the proposed SUM is that CBOE HAL operates on CBOE's Hybrid Trading System, which combines both open outcry and electronic trading, whereas the proposed SUM would be entirely electronic (as EDGX Options is an all-electronic exchange). The proposed SUM rule does not incorporate CBOE HAL language regarding Hybrid.[11]

Another difference is that on CBOE HAL, only Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of CBOE's book in the relevant option series opposite the order submitted to CBOE HAL may submit responses to the exposure message during the exposure period (unless CBOE determines, on a class-by-class basis, to allow all Trading Permit Holders to submit responses to the exposure message). The Exchange has determined that, on its proposed SUM, all Users may submit responses to the exposure message during the exposure period. This difference leads to various differences

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10 See Securities Exchange Act Release No. 60551 (August 20, 2009), 74 FR 43196 (August 26, 2009) (SR-CBOE-2009-040) ("HAL Approval Order").

11 See CBOE Rule 6.14A. The Exchange notes, however, that C2 Options Exchange, Incorporated ("C2"), which has adopted a HAL mechanism as well, is similar to the Exchange in this respect. See C2 Rule 6.18. Specifically, like the Exchange, C2 does not have open outcry but is a fully electronic exchange. The Exchange further notes that C2's version of HAL was adopted with certain distinctions from the CBOE's approved HAL rule pursuant to an immediately effective rule filing. See Securities Exchange Act Release No. 68573 (January 3, 2013), 78 FR 1889 (January 9, 2013) (SR-C2-2012-043).

between the proposed rule applicable to SUM and the rule applicable to CBOE HAL. Specifically, pursuant to CBOE HAL, an order will not be exposed if the CBOE quotation contains resting orders and does not contain sufficient CBOE Market Maker quotation interest to satisfy the entire order. The Exchange did not propose this language or limitation because the proposed SUM process is not dependent only on Market Maker interest in any way, but rather, seeks to expose the order for execution to all participants on EDGX Options. Also, Interpretation and Policy .01 to CBOE Rule 6.14A (the CBOE rule regarding HAL), which prohibits the redistribution of exposure messages to market participants not eligible to respond to such messages (except in classes in which CBOE allows all Trading Permit Holders to respond to such messages) does not apply to the proposed SUM, as all Users of EDGX Options are permitted to respond to all exposure messages.[12]

The Exchange has also proposed different criteria for early termination of an exposure period than those reasons set forth in the corresponding CBOE rule regarding HAL. Although an exposure period will terminate early if an order is executed in full, the Exchange moved this provision to a separate section of the proposed rule. CBOE also terminates an exposure period in slightly different circumstances than the Exchange has proposed, including when a same side order is received by CBOE, if CBOE Market Maker interest decrements to an amount equal to the size of the exposed order and if the underlying security enters a limit up limit down state. While the Exchange does not believe early termination is necessary for SUM under any of these reasons, the Exchange

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[12] The Exchange notes that while different from the CBOE rule, the proposal is identical to the corresponding C2 rule, Rule 6.18. See id.

has proposed to terminate an exposure period early in two other scenarios not covered by HAL, specifically when the exposed order is no longer marketable against the NBBO or if a resting order on the Exchange is locked or crossed by another options exchange. Although the early termination section of the proposed rule represents the greatest departure from the HAL rule, the Exchange does not believe that any of these differences raise new policy issues generally with respect to a step up process.

With respect to the early termination scenarios not adopted by the Exchange, the Exchange believes that the fact that a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO mitigate any potential concern regarding such differences. Further, regarding the additional early termination scenarios specified by the Exchange, the Exchange believes that these are reasonable reasons to terminate the SUM process. Specifically, if an order is no longer marketable, then it cannot be executed through the SUM process so no longer benefits from being exposed. If an order resting on the Exchange is locked or crossed by another options exchange then the Exchange believes that continuing to expose the order could present difficulties with respect to the handling of the resting order and, particularly with respect to a crossing quotation published by another options exchange, that the exposed order, if routable, should be routed to such options exchange for potential price improvement.

In addition to the differences described above, the Exchange has used terminology throughout proposed Rule 21.18 that differs from terminology used in the corresponding CBOE rule regarding HAL in order to retain consistency with other Exchange rules or because the Exchange's System does not operate the same as CBOE (i.e., with respect to market turner and price checks).[13] Further, the Exchange has made various wording and structural changes that the Exchange believes improve the general understandability of the SUM process. The Exchange also included a few additional details not included in the CBOE HAL rule, such as making clear that responses are cancelled at the end of the exposure period if unexecuted, stating that responses may become executable based on changes to the NBBO, and stating that an order will not be exposed when the NBBO is crossed. The Exchange does not believe the terminology used or different wording or structure represents any substantive difference between the proposed SUM process and HAL, but rather, that these are minor improvements to the language of the rule to highlight the exact operation of the proposed SUM process.

Despite the differences highlighted above, the proposed SUM process would otherwise operate in similar manner to the CBOE HAL, which has been approved by the Commission. The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those better prices.[14] The proposed SUM's "step up" process would allow participants on EDGX Options to do just that. If an

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13 The Exchange did not include language included in the corresponding rule for CBOE HAL related to a price check parameters, as the Exchange does not have the same price check process as CBOE. That said, all orders exposed via SUM will be subject to the same price checks as all other orders on EDGX Options, including but not limited to, collars applicable to market orders and executions only within the NBBO.

14 For example, in adopting the Order Protection Rule (Rule 611) under Regulation NMS in 2005, the Commission stated: "The Order Protection Rule generally requires that trading centers match the best quoted prices, cancel orders without an execution, or route orders to the trading centers quoting the best prices." See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005), at 37525 (S7-10-04).

EDGX Options User wants to ensure that an order does not go through the proposed SUM process, then that User can submit an order that would not be exposed to SUM.[15]

In addition to Rule 21.18 as described above, the Exchange also proposes to adopt Interpretation and Policy .01 to new Rule 21.18, which will state that all determinations by the Exchange pursuant to Rule 21.18 (i.e., eligible order size, order type, increment, order origin codes and classes) will be announced in a circular to Members and maintained in specifications made publicly available via the Exchange's website. The Exchange also proposes to adopt Interpretation and Policy .02 to new Rule 21.18 to make clear that the Exchange will not initiate the SUM process if the NBBO is crossed.

The Exchange also proposes to add references to the proposed SUM process to paragraph (f)(6) of Rule 21.6 and paragraph (a)(1) of Rule 21.9, in both cases to provide a complete list of potential ways an order may be handled by the Exchange. As proposed, Rule 21.9(a)(1) would also make clear that the SUM process is the default order handling process for any routable order.

Finally, the Exchange proposes to adopt paragraph (b)(4) under Rule 21.15 to refer to a new data feed that would be offered by the Exchange in connection with auctions on EDGX Options, including the SUM process. Specifically, the Rule would state that that Auction Feed is an uncompressed data product that provides information regarding the current status of price and size information related to auctions conducted by the Exchange. The Exchange intends to provide data regarding the SUM process to

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15 A User will be able to opt-out of SUM by including a specific field in their orders submitted to the Exchange. As noted below, unless otherwise specified, all routable orders will be subject to SUM. Details regarding the ability to opt-out of SUM will be set forth in the Exchange's order entry specifications, which are made publicly available to all Users.

Users via its Multicast PITCH Feed, the main depth of book product offered by the Exchange, but believes that having a separate Auction Feed for Users that wish to receive such information separately is appropriate. The Exchange notes that the proposed language for the Auction Feed is directly based on Rule 11.22(i) of Bats BZX Exchange, Inc. ("BZX"), which describes the BZX equities auction feed applicable to securities listed on BZX. In addition to referencing the Auction Feed in Rule 21.15(b), the Exchange proposes to modify current Rule 21.15(c) to make clear that information regarding Priority Customer Orders and trades will be included in the Auction Feed, just as such information is included on the Exchange's Multicast PITCH Feed today. The Exchange also notes that while SUM is not an auction process, per se, the Exchange believes that the options industry has often grouped step up processes with other auction processes when describing product offerings. Thus, the Exchange does not believe that including SUM information in the Auction Feed will cause any confusion. Further, the Exchange expects to propose additional (more traditional) auction processes over time and intends to include information regarding activity in such auctions in the Auction Feed. The Exchange notes that until additional auctions are proposed and implemented by EDGX Options, information regarding the SUM process would be the only data in the Auction Feed.

(b) Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[16] In particular, the proposal is consistent with Section 6(b)(5) of the Act[17] because it is designed to simplify System functionality and to adopt the SUM process, which is designed to offer market participants greater flexibility with respect to orders entered into the EDGX Options Book, thereby promoting just and equitable principles of trade, fostering cooperation and coordination with persons engaged in facilitating transactions in securities, removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.

Elimination of the Display-Price Sliding Process and Price Improving Orders

The proposed change to eliminate display-price sliding under Rule 21.1(g) (as well as references to such process elsewhere in Exchange rules) promotes just and equitable principles of trade and fosters cooperation and coordination with persons engaged in facilitating transactions in securities. Similarly, the proposed change to eliminate Price Improving Orders under Rule 21.1(d)(6) (as well as references to such orders elsewhere in Exchange rules) promotes just and equitable principles of trade and fosters cooperation and coordination with persons engaged in facilitating transactions in securities. Specifically, both of the proposed changes are designed to simplify functionality on EDGX Options, particularly as the Exchange begins to adopt new processes such as the SUM process, proposed herein.

Step Up Mechanism

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16 15 U.S.C. 78f(b).

17 15 U.S.C. 78f(b)(5).

Adopting SUM, a “step up” program, would provide eligible Users on EDGX Options with the opportunity to improve their prices to match the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to EDGX Options to increase its chances of receiving an execution at EDGX Options (the market participant’s chosen venue) instead of having the order be routed to another exchange. This “step up” process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers EDGX Options due to some combination of these other factors will know that, even if EDGX Options is not displaying a price that is the NBBO, the market participant may still receive an execution at EDGX Options because another User may “step up” to match the NBBO. Therefore, the fact that SUM allows a market participant who elects to send an order to EDGX Options to have a greater likelihood of achieving execution at this chosen venue without the risk of paying a lower price removes an impediment to and perfects the mechanism for a free and open national market system. Further, SUM and the “step up” process enable Users to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when a User “steps up” to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on EDGX Options than are available at that same price on the other exchange. This increased liquidity benefits all market participants on EDGX Options, thereby perfecting the mechanism for a free and open national market system and protecting investors and the public interest.

The Exchange's proposed SUM process is similar to CBOE HAL, which provides the same manner of "step up" process. The differences between CBOE HAL and the proposed SUM process are described elsewhere in the proposal and the Exchange believes each relates either to the language used to describe each respective process or to the specific way that the Exchange's System operates generally or specifically with respect to SUM as compared to CBOE's implementation of HAL. The Exchange does not believe that any of these differences raise any new or significant policy concerns. Further, despite these differences, the proposed SUM process would otherwise operate in a similar manner to the CBOE HAL, which has been approved by the Commission.[18] As such, the Exchange merely desires to adopt a mechanism that is similar to one that already exists on CBOE and other exchanges. Permitting the Exchange to operate on an even playing field relative to other exchanges removes impediments to and to perfects the mechanism for a free and open market and a national market system.

The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those better prices.[19] The proposed SUM's "step up" process would allow participants on EDGX Options to do just that.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange does not believe the proposed rule changes

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[18] See HAL Approval Order, supra note 10.

[19] See supra, note 13.

regarding display price sliding and Price Improving Orders impact competition, but rather, that the changes will help to reduce the complexity of the operation of EDGX Options.

The Exchange does not believe that the proposed rule change to adopt the SUM process will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposed SUM is open to all market participants. The "step-up" feature of the proposed SUM allows for execution at the NBBO or price improvement. When such price improvement is achieved via this "stepping up" to meet (or beat) the best quoted price at another exchange, market participants are able to receive the best quoted price while still achieving execution on EDGX Options, the exchange to which they elected to send their orders. As noted above, the SUM process is similar to processes offered by at least one other options exchange that competes with the Exchange, and therefore the proposal is a pro-competitive proposal.

For all the reasons stated above, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change. The Exchange has not received any written comments from members or other interested parties.

6. <u>Extension of Time Period for Commission Action</u>

Not applicable.

7. <u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)</u>

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act[20] and paragraph (f)(6) of Rule 19b-4 thereunder.[21] The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of investors or the public interest, (2) will not impose any significant burden on competition, and (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing, or such shorter time as designated by the Commission.[22]

The Exchange believes that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. The Exchange believes the proposed rule change with regard to the elimination of display-price sliding and Price Improving Orders is consistent with the protection of investors and the public interest because it would allow the Exchange to simplify functionality on EDGX Options, particularly as the Exchange begins to adopt new processes such as the SUM process, proposed herein. The Exchange's proposed SUM and the "step up" process are not novel concepts. SUM is similar to the CBOE HAL process, which provides the same manner of "step up" process, as well as other

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[20] 15 U.S.C. 78s(b)(3)(A).

[21] 17 CFR 240.19b-4.

[22] 17 CFR 240.19b-4(f)(6)(iii).

similar processes offered by other options exchanges. Although there are various differences between SUM and CBOE's HAL, as described above, the proposed SUM process would largely operate in an extremely similar manner to the CBOE HAL, which has been approved by the Commission.[23] The adoption of SUM on the Exchange would merely place the Exchange on an even playing field with CBOE and other options exchanges regarding the "step up" procedure. Based on the foregoing, the Exchange believes that the proposed rule change does not raise any new or unique regulatory issues not already considered by the Commission and, accordingly, the Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act[24] and paragraph (f)(6) of Rule 19b-4 thereunder.[25]

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act[26] and paragraph (f)(6) of Rule 19b-4 thereunder.[27] The proposal will allow the Exchange to provide functionality on EDGX Options that is similar to functionality provided by other options exchanges, including but not limited to, CBOE and C2.[28] Thus, waiver of the 30-day operative delay will allow the Exchange to more effectively compete with other options exchanges. Waiver of the operative delay is consistent with the protection of

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23 See HAL Approval Order, supra note 10.

24 15 U.S.C. 78s(b)(3)(A).

25 17 CFR 240.19b-4.

26 15 U.S.C. 78s(b)(3)(A).

27 17 CFR 240.19b-4(f)(6).

28 See supra, notes 10 and 11.

investors and the public interest for the reasons described above.

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

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

The Exchange's proposed SUM process is similar to and based on CBOE HAL, which provides the same manner of "step up" process. There are several differences, as summarized above and again repeated below.

- CBOE HAL operates on CBOE's Hybrid Trading System, which combines both open outcry and electronic trading, whereas the proposed SUM would be entirely electronic (as EDGX Options is an all-electronic exchange). The proposed SUM rule does not incorporate the CBOE HAL language regarding Hybrid.[29]
- On CBOE HAL, only Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of CBOE's book in the relevant option series opposite the order submitted to CBOE HAL may submit responses to the exposure message during the exposure period (unless CBOE determines, on a class-by-class basis, to allow all Trading Permit Holders to submit responses to the exposure message). The Exchange has determined that, on its proposed SUM, all Users may submit responses to the exposure message during the exposure period. This difference leads to various

[29] As noted above, C2's HAL rule, Rule 6.18, does not include such language either. See supra, note 11.

differences between the proposed rule applicable to SUM and the rule applicable to CBOE HAL. Specifically, pursuant to CBOE HAL, an order will not be exposed if the CBOE quotation contains resting orders and does not contain sufficient CBOE Market Maker quotation interest to satisfy the entire order. The Exchange did not propose this language or limitation because the proposed SUM process is not dependent only on Market Maker interest in any way, but rather, seeks to expose the order for execution to all participants on EDGX Options. Also, Interpretation and Policy .01 to CBOE Rule 6.14A (the CBOE rule regarding HAL), which prohibits the redistribution of exposure messages to market participants not eligible to respond to such messages (except in classes in which CBOE allows all Trading Permit Holders to respond to such messages) does not apply to the proposed SUM, as all Users of EDGX Options are permitted to respond to all exposure messages.[30]

- The Exchange has proposed different criteria for early termination of an exposure period than those reasons set forth in the corresponding CBOE rule regarding HAL. Although an exposure period will terminate early if an order is executed in full, the Exchange moved this provision to a separate section of the proposed rule. CBOE also terminates an exposure period in slightly different circumstances than the Exchange has proposed, including when a same side order is received by CBOE, if CBOE Market Maker interest decrements to an amount equal to the size of the exposed order and if the underlying security enters a limit up limit down

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30 The Exchange notes that while different from the CBOE rule, the proposal is identical to the corresponding C2 rule, Rule 6.18. See supra, notes 11 and 12.

state. While the Exchange does not believe early termination is necessary for SUM under any of these reasons, the Exchange has proposed to terminate an exposure period early in two other scenarios not covered by HAL, specifically when the exposed order is no longer marketable against the NBBO or if a resting order on the Exchange is locked or crossed by another options exchange. Although the early termination section of the proposed rule represents the greatest departure from the HAL rule, the Exchange does not believe that any of these differences raise new policy issues generally with respect to a step up process.

- In addition to the differences described above, the Exchange has used terminology throughout proposed Rule 21.18 that differs from terminology used in the corresponding CBOE rule regarding HAL in order to retain consistency with other Exchange rules or because the Exchange's System does not operate the same as CBOE (i.e., with respect to market turner and price checks).[31] Further, the Exchange has made various wording and structural changes that the Exchange believes improve the general understandability of the SUM process. The Exchange also included a few additional details not included in the CBOE HAL rule, such as making clear that responses are cancelled at the end of the exposure period if unexecuted, stating that responses may become executable based on changes to the NBBO, and stating that an order will not be exposed when the

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[31] The Exchange did not include language included in the corresponding rule for CBOE HAL related to a price check parameters, as the Exchange does not have the same price check process as CBOE. That said, all orders exposed via SUM will be subject to the same price checks as all other orders on EDGX Options, including but not limited to, collars applicable to market orders and executions only within the NBBO.

NBBO is crossed. The Exchange does not believe the terminology used or different wording or structure represents any substantive difference between the proposed SUM process and HAL, but rather, that these are minor improvements to the language of the rule to highlight the exact operation of the proposed SUM process.

Aside from the abovementioned differences, the proposed SUM process would otherwise operate in an identical manner to the CBOE HAL, which has been approved by the Commission.[32]

The Exchange also notes that the proposed language for Rule 21.15(b)(4) with respect to the Auction Feed is based on and nearly identical to BZX Rule 11.23(i).

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

Not applicable.

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

Not applicable.

11. Exhibits

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

Exhibit 2–4: Not applicable.

Exhibit 5: Text of Proposed Rule Change

32 See HAL Approval Order, supra note 10.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____________; File No. SR-BatsEDGX-2016-29)

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Functionality Offered by the Exchange's Options Platform to: (i) Modify Various Rules to Eliminate the Display-Price Sliding Option; (ii) Modify Various Rules to Eliminate Price Improving Orders; and (iii) Adopt the Step Up Mechanism

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

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

The Exchange filed a proposal related to functionality offered by the Exchange's options platform ("EDGX Options") to: (i) modify various rules to eliminate the display-price sliding option; (ii) modify various rules to eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism, as described below.

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

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A).

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

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

The Exchange is filing this proposal related to functionality offered by EDGX Options to: (i) modify various rules to eliminate the display-price sliding option; (ii) modify various rules to eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism, as described below.

Elimination of the Display-Price Sliding Option

The Exchange currently offers various forms of sliding which, in all cases, result in the re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange offers: (i) the display-price sliding process, pursuant to Rule 21.1(h); and (ii) the Price Adjust process, pursuant to Rule 21.1(i). Under the display-price sliding process an order that, at the time of entry, would lock or cross a

Protected Quotation of another options exchange will be ranked at the locking price in the EDGX Options Book and displayed by the System[5] at one minimum price variation below the current National Best Offer ("NBO")[6] (for bids) or one minimum price variation above the current National Best Bid ("NBB")[7] (for offers). In contrast, under the Price Adjust process, an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Thus, the two primary differences between the display-price sliding process and the Price Adjust process are: (i) the ranking of an order at a more aggressive price than the price at which it is displayed (the display-price sliding process) versus ranking and displaying an order at the same price (the Price Adjust process); and (ii) sliding of an order that would lock or cross a Protected Quotation of another options exchange but not an order displayed by the Exchange (the display-price sliding process) or the sliding of an order that would lock or cross a Protected Quotation of another options exchange or the exchange (the Price Adjust process).

Due to the general similarities between the two price sliding processes and to simplify the functionality offered by the Exchange, the Exchange proposes to eliminate the display-price sliding process for EDGX Options. In order to effect this change the

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5 See Exchange Rule 16.1(a)(59) (defining the term System as the automated trading system used by EDGX Options for the trading of options contracts).

6 See Exchange Rule 16.1(a)(29) (defining the terms "NBB", "NBO", and "NBBO").

7 Id.

Exchange proposes to delete Rule 21.1(h) in its entirety and to remove references to display-price sliding in paragraphs (d)(7) and (d)(8) of Rule 21.1, paragraph (f) of Rule 21.6 and paragraph (a)(1)(B) of Rule 21.9. The Exchange also proposes to delete Rule 21.1(j), which describes the relative handling of orders subject to the display-price sliding process and the Price Adjust process, as such provision is no longer necessary with the elimination of the display-price sliding process. The Exchange also proposes to capitalize the reference to the Price Adjust process in Rule 21.9(a)(1)(B) to achieve consistency with the rest of the Exchange's rules.

In addition to the changes described above, the Exchange proposes to make the Price Adjust process the default price sliding functionality. Specifically, the Exchange proposes to modify Rule 21.1(d)(7), which currently designates the display-price sliding process as the default, to instead state that the Price Adjust process is the default, unless otherwise specified by a User.

Elimination of Price Improving Orders

Price Improving Orders are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security.[8] Price Improving Orders may be entered in increments as small as (1) one cent. Price Improving Orders are displayed at the minimum price variation in the security and shall be rounded up for sell orders and rounded down for buy orders. Unless a User[9] has entered instructions not to do so, Price Improving Orders are currently subject to the display-price sliding

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8 See Exchange Rule 21.1(d)(6).

9 The term "User" means any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access). See Exchange Rule 16.1(a)(63).

process, as described above.

The Exchange proposes to eliminate Price Improving Orders on EDGX Options in order to simplify System functionality. To effect this change, the Exchange proposes to delete paragraph (d)(6) from Rule 21.1(d) in its entirety. The Exchange also proposes to remove a reference to Price Improving Orders contained in Rule 18.4(f)(2).

Step Up Mechanism

The Exchange proposes to adopt a rule that governs the operation of its new Step Up Mechanism ("SUM" or the "SUM process"). As proposed, SUM is a feature within the Exchange's System that would provide automated order handling in designated classes for qualifying orders that are not automatically executed by the System. Regarding SUM eligibility, the Exchange shall designate eligible order size, eligible order type, eligible order origin code (e.g., Priority Customer Orders, non-Market Maker non-Priority Customer orders, and Market Maker orders),[10] and classes in which SUM shall be activated. SUM shall automatically process upon receipt of: (i) an eligible order that is marketable against the Exchange's disseminated quotation while that quotation is not the national best bid or offer ("NBBO"); or (ii) an eligible order that would improve the Exchange's disseminated quotation and that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Market Plan (the "Linkage Plan").

For order handling and responses regarding SUM, orders that are received by SUM pursuant to the paragraph above shall be electronically exposed at the NBBO

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10 See Exchange Rule 16.1(a)(45) (defining "Priority Customer" and "Priority Customer") and Exchange Rule 16.1(a)(37) (defining "Market Maker").

immediately upon receipt. The exposure shall be for a period of time determined by the Exchange on a class-by-class basis, which period of time shall not exceed one second. All Users will be permitted to submit responses to the exposure message during the exposure period. Responses (i) must be limited to the size of the order being exposed; (ii) may be modified, cancelled and/or replaced any time during the exposure period; and (iii) will be cancelled back at the end of the exposure period if unexecuted.

Regarding the allocation of exposed orders, any responses priced at the prevailing NBBO or better shall immediately trade against the order (on a first come, first served basis). If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price. The exposure period shall not terminate if a quantity remains on the exposed order after such trade. Responses that are not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO and at the conclusion of the exposure period, the Exchange will evaluate remaining responses as well as the disseminated best bid/offer on other exchanges and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by executing against responses and unrelated orders (pursuant to the matching algorithm in effect for the class). Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the User. Any portion of a routed order that returns unfilled shall trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new orders shall be generated and routed to trade against such better prices. All executions on the Exchange pursuant to this paragraph shall comply with Rule 27.2 (Order Protection).

Regarding the early termination of the exposure period, in addition to the receipt of a response (or unrelated order or quote) to trade the entire exposed order at the NBBO or better, the exposure period will also terminate early: (i) if during the exposure period the NBBO updates such that the exposed order is no longer marketable against the prevailing NBBO; or (ii) if during the exposure of an order the Exchange is displaying an unrelated order on the same side of the market as the exposed order and such displayed order is subsequently locked or crossed by another options exchange. When the exposure period terminates early, the exposed order shall be processed in accordance with paragraph (c) of the proposed Rule (which regards allocation of exposed orders).

The purpose of the proposed change is to provide all Exchange Users with the opportunity to improve their prices and “step up” to meet the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to EDGX Options to increase its chances of receiving an execution at EDGX Options (the market participant’s chosen venue) instead of having the order be routed to another exchange. This “step up” process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers EDGX Options due to some combination of these other factors will know that, even if EDGX Options is not displaying a price that is the NBBO, the market participant may still receive an execution at EDGX Options because another User may “step up” to match the NBBO. Further, SUM and the “step up” process enable

Users to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when a User on EDGX Options "steps up" to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on EDGX Options than are available at that same price on the other exchange.

The Exchange's proposed SUM and the "step up" process are not novel concepts. As proposed, SUM is similar to the Hybrid Agency Liaison ("CBOE HAL") offered on the Chicago Board Options Exchange, Incorporated ("CBOE"), which provides the same manner of "step up" process and has been approved by the Commission.[11] One difference between CBOE HAL and the proposed SUM is that CBOE HAL operates on CBOE's Hybrid Trading System, which combines both open outcry and electronic trading, whereas the proposed SUM would be entirely electronic (as EDGX Options is an all-electronic exchange). The proposed SUM rule does not incorporate CBOE HAL language regarding Hybrid.[12]

Another difference is that on CBOE HAL, only Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of CBOE's book in the relevant option series opposite the order submitted to CBOE HAL may submit responses to the exposure message during the

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11 See Securities Exchange Act Release No. 60551 (August 20, 2009), 74 FR 43196 (August 26, 2009) (SR-CBOE-2009-040) ("HAL Approval Order").

12 See CBOE Rule 6.14A. The Exchange notes, however, that C2 Options Exchange, Incorporated ("C2"), which has adopted a HAL mechanism as well, is similar to the Exchange in this respect. See C2 Rule 6.18. Specifically, like the Exchange, C2 does not have open outcry but is a fully electronic exchange. The Exchange further notes that C2's version of HAL was adopted with certain distinctions from the CBOE's approved HAL rule pursuant to an immediately effective rule filing. See Securities Exchange Act Release No. 68573 (January 3, 2013), 78 FR 1889 (January 9, 2013) (SR-C2-2012-043).

exposure period (unless CBOE determines, on a class-by-class basis, to allow all Trading Permit Holders to submit responses to the exposure message). The Exchange has determined that, on its proposed SUM, all Users may submit responses to the exposure message during the exposure period. This difference leads to various differences between the proposed rule applicable to SUM and the rule applicable to CBOE HAL. Specifically, pursuant to CBOE HAL, an order will not be exposed if the CBOE quotation contains resting orders and does not contain sufficient CBOE Market Maker quotation interest to satisfy the entire order. The Exchange did not propose this language or limitation because the proposed SUM process is not dependent only on Market Maker interest in any way, but rather, seeks to expose the order for execution to all participants on EDGX Options. Also, Interpretation and Policy .01 to CBOE Rule 6.14A (the CBOE rule regarding HAL), which prohibits the redistribution of exposure messages to market participants not eligible to respond to such messages (except in classes in which CBOE allows all Trading Permit Holders to respond to such messages) does not apply to the proposed SUM, as all Users of EDGX Options are permitted to respond to all exposure messages.[13]

The Exchange has also proposed different criteria for early termination of an exposure period than those reasons set forth in the corresponding CBOE rule regarding HAL. Although an exposure period will terminate early if an order is executed in full, the Exchange moved this provision to a separate section of the proposed rule. CBOE also terminates an exposure period in slightly different circumstances than the Exchange has

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13 The Exchange notes that while different from the CBOE rule, the proposal is identical to the corresponding C2 rule, Rule 6.18. See id.

proposed, including when a same side order is received by CBOE, if CBOE Market Maker interest decrements to an amount equal to the size of the exposed order and if the underlying security enters a limit up limit down state. While the Exchange does not believe early termination is necessary for SUM under any of these reasons, the Exchange has proposed to terminate an exposure period early in two other scenarios not covered by HAL, specifically when the exposed order is no longer marketable against the NBBO or if a resting order on the Exchange is locked or crossed by another options exchange. Although the early termination section of the proposed rule represents the greatest departure from the HAL rule, the Exchange does not believe that any of these differences raise new policy issues generally with respect to a step up process.

With respect to the early termination scenarios not adopted by the Exchange, the Exchange believes that the fact that a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO mitigate any potential concern regarding such differences. Further, regarding the additional early termination scenarios specified by the Exchange, the Exchange believes that these are reasonable reasons to terminate the SUM process. Specifically, if an order is no longer marketable, then it cannot be executed through the SUM process so no longer benefits from being exposed. If an order resting on the Exchange is locked or crossed by another options exchange then the Exchange believes that continuing to expose the order could present difficulties with respect to the handling of the resting order and, particularly with respect to a crossing quotation published by another options exchange, that the exposed order, if routable, should be routed to such options exchange for potential price improvement.

In addition to the differences described above, the Exchange has used terminology throughout proposed Rule 21.18 that differs from terminology used in the corresponding CBOE rule regarding HAL in order to retain consistency with other Exchange rules or because the Exchange's System does not operate the same as CBOE (i.e., with respect to market turner and price checks).[14] Further, the Exchange has made various wording and structural changes that the Exchange believes improve the general understandability of the SUM process. The Exchange also included a few additional details not included in the CBOE HAL rule, such as making clear that responses are cancelled at the end of the exposure period if unexecuted, stating that responses may become executable based on changes to the NBBO, and stating that an order will not be exposed when the NBBO is crossed. The Exchange does not believe the terminology used or different wording or structure represents any substantive difference between the proposed SUM process and HAL, but rather, that these are minor improvements to the language of the rule to highlight the exact operation of the proposed SUM process.

Despite the differences highlighted above, the proposed SUM process would otherwise operate in similar manner to the CBOE HAL, which has been approved by the Commission. The Commission has always been clear that honoring better prices on other

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14 The Exchange did not include language included in the corresponding rule for CBOE HAL related to a price check parameters, as the Exchange does not have the same price check process as CBOE. That said, all orders exposed via SUM will be subject to the same price checks as all other orders on EDGX Options, including but not limited to, collars applicable to market orders and executions only within the NBBO.

markets can be accomplished by matching those better prices.[15] The proposed SUM's "step up" process would allow participants on EDGX Options to do just that. If an EDGX Options User wants to ensure that an order does not go through the proposed SUM process, then that User can submit an order that would not be exposed to SUM.[16]

In addition to Rule 21.18 as described above, the Exchange also proposes to adopt Interpretation and Policy .01 to new Rule 21.18, which will state that all determinations by the Exchange pursuant to Rule 21.18 (i.e., eligible order size, order type, increment, order origin codes and classes) will be announced in a circular to Members and maintained in specifications made publicly available via the Exchange's website. The Exchange also proposes to adopt Interpretation and Policy .02 to new Rule 21.18 to make clear that the Exchange will not initiate the SUM process if the NBBO is crossed.

The Exchange also proposes to add references to the proposed SUM process to paragraph (f)(6) of Rule 21.6 and paragraph (a)(1) of Rule 21.9, in both cases to provide a complete list of potential ways an order may be handled by the Exchange. As proposed, Rule 21.9(a)(1) would also make clear that the SUM process is the default order handling process for any routable order.

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15 For example, in adopting the Order Protection Rule (Rule 611) under Regulation NMS in 2005, the Commission stated: "The Order Protection Rule generally requires that trading centers match the best quoted prices, cancel orders without an execution, or route orders to the trading centers quoting the best prices." See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005), at 37525 (S7-10-04).

16 A User will be able to opt-out of SUM by including a specific field in their orders submitted to the Exchange. As noted below, unless otherwise specified, all routable orders will be subject to SUM. Details regarding the ability to opt-out of SUM will be set forth in the Exchange's order entry specifications, which are made publicly available to all Users.

Finally, the Exchange proposes to adopt paragraph (b)(4) under Rule 21.15 to refer to a new data feed that would be offered by the Exchange in connection with auctions on EDGX Options, including the SUM process. Specifically, the Rule would state that that Auction Feed is an uncompressed data product that provides information regarding the current status of price and size information related to auctions conducted by the Exchange. The Exchange intends to provide data regarding the SUM process to Users via its Multicast PITCH Feed, the main depth of book product offered by the Exchange, but believes that having a separate Auction Feed for Users that wish to receive such information separately is appropriate. The Exchange notes that the proposed language for the Auction Feed is directly based on Rule 11.22(i) of Bats BZX Exchange, Inc. (“BZX”), which describes the BZX equities auction feed applicable to securities listed on BZX. In addition to referencing the Auction Feed in Rule 21.15(b), the Exchange proposes to modify current Rule 21.15(c) to make clear that information regarding Priority Customer Orders and trades will be included in the Auction Feed, just as such information is included on the Exchange’s Multicast PITCH Feed today. The Exchange also notes that while SUM is not an auction process, per se, the Exchange believes that the options industry has often grouped step up processes with other auction processes when describing product offerings. Thus, the Exchange does not believe that including SUM information in the Auction Feed will cause any confusion. Further, the Exchange expects to propose additional (more traditional) auction processes over time and intends to include information regarding activity in such auctions in the Auction Feed. The Exchange notes that until additional auctions are proposed and implemented by EDGX Options, information regarding the SUM process would be the only data in the

Auction Feed.

2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[17] In particular, the proposal is consistent with Section 6(b)(5) of the Act[18] because it is designed to simplify System functionality and to adopt the SUM process, which is designed to offer market participants greater flexibility with respect to orders entered into the EDGX Options Book, thereby promoting just and equitable principles of trade, fostering cooperation and coordination with persons engaged in facilitating transactions in securities, removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.

<u>Elimination of the Display-Price Sliding Process and Price Improving Orders</u>

The proposed change to eliminate display-price sliding under Rule 21.1(g) (as well as references to such process elsewhere in Exchange rules) promotes just and equitable principles of trade and fosters cooperation and coordination with persons engaged in facilitating transactions in securities. Similarly, the proposed change to eliminate Price Improving Orders under Rule 21.1(d)(6) (as well as references to such orders elsewhere in Exchange rules) promotes just and equitable principles of trade and fosters cooperation and coordination with persons engaged in facilitating transactions in securities. Specifically, both of the proposed changes are designed to simplify

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[17] 15 U.S.C. 78f(b).

[18] 15 U.S.C. 78f(b)(5).

functionality on EDGX Options, particularly as the Exchange begins to adopt new processes such as the SUM process, proposed herein.

Step Up Mechanism

Adopting SUM, a "step up" program, would provide eligible Users on EDGX Options with the opportunity to improve their prices to match the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to EDGX Options to increase its chances of receiving an execution at EDGX Options (the market participant's chosen venue) instead of having the order be routed to another exchange. This "step up" process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers EDGX Options due to some combination of these other factors will know that, even if EDGX Options is not displaying a price that is the NBBO, the market participant may still receive an execution at EDGX Options because another User may "step up" to match the NBBO. Therefore, the fact that SUM allows a market participant who elects to send an order to EDGX Options to have a greater likelihood of achieving execution at this chosen venue without the risk of paying a lower price removes an impediment to and perfects the mechanism for a free and open national market system. Further, SUM and the "step up" process enable Users to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when a User "steps up" to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on EDGX Options than are available at that same price on the other exchange. This increased liquidity benefits all market participants on EDGX

Options, thereby perfecting the mechanism for a free and open national market system and protecting investors and the public interest.

The Exchange's proposed SUM process is similar to CBOE HAL, which provides the same manner of "step up" process. The differences between CBOE HAL and the proposed SUM process are described elsewhere in the proposal and the Exchange believes each relates either to the language used to describe each respective process or to the specific way that the Exchange's System operates generally or specifically with respect to SUM as compared to CBOE's implementation of HAL. The Exchange does not believe that any of these differences raise any new or significant policy concerns. Further, despite these differences, the proposed SUM process would otherwise operate in a similar manner to the CBOE HAL, which has been approved by the Commission.[19] As such, the Exchange merely desires to adopt a mechanism that is similar to one that already exists on CBOE and other exchanges. Permitting the Exchange to operate on an even playing field relative to other exchanges removes impediments to and to perfects the mechanism for a free and open market and a national market system.

The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those better prices.[20] The proposed SUM's "step up" process would allow participants on EDGX Options to do just that.

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

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

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19 See HAL Approval Order, supra note 11.

20 See supra, note 14.

burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange does not believe the proposed rule changes regarding display price sliding and Price Improving Orders impact competition, but rather, that the changes will help to reduce the complexity of the operation of EDGX Options.

The Exchange does not believe that the proposed rule change to adopt the SUM process will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposed SUM is open to all market participants. The "step-up" feature of the proposed SUM allows for execution at the NBBO or price improvement. When such price improvement is achieved via this "stepping up" to meet (or beat) the best quoted price at another exchange, market participants are able to receive the best quoted price while still achieving execution on EDGX Options, the exchange to which they elected to send their orders. As noted above, the SUM process is similar to processes offered by at least one other options exchange that competes with the Exchange, and therefore the proposal is a pro-competitive proposal.

For all the reasons stated above, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

Because the foregoing proposed rule change does not: (A) significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designate it has become effective pursuant to Section 19(b)(3)(A) of the Act[21] and paragraph (f)(6) of Rule 19b-4 thereunder,[22] the Exchange has designated this rule filing as non-controversial. The Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

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

IV. Solicitation of Comments

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

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[21] 15 U.S.C. 78s(b)(3)(A).

[22] 17 CFR 240.19b-4.

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-2016-29 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-2016-29. 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-2016-29 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.[23]

Robert W. Errett
Deputy Secretary

[23] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Note: Proposed new language is <u>underlined</u>. Proposed deletions are enclosed in [brackets].

Rules of Bats EDGX Exchange, Inc.

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CHAPTER XVIII. BUSINESS CONDUCT

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Rule 18.4. Prevention of the Misuse of Material Nonpublic Information

(a)-(e) (No change.)

(f) It may be considered conduct inconsistent with just and equitable principles of trade for any Options Member or person associated with an Options Member who has knowledge of all material terms and conditions of:

(1) an order and a solicited order;

(2) an order being facilitated or submitted to EDGX Options for price improvement [(e.g., Price Improving Orders)]; or

(3) orders being crossed;

(No change.)

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CHAPTER XXI. TRADING SYSTEMS

Rule 21.1. Definitions

(No change.)

(a) – (c) (No changes.)

(d) (No change).

(1) – (5) (No change).

(6) [“Price Improving Orders” are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as (1) one cent. Price Improving

Orders shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. Unless a User has entered instructions not to do so, Price Improving Orders will be subject to the display-price sliding process as set forth in paragraph (h) below. Price Improving Orders subject to the display-price sliding process will be ranked at the price entered by the User down to the current NBB (for offers) or up to the current NBO (for bids) whereas Price Improving Orders subject to the Price Adjust process as set forth in paragraph (i) below will be ranked at the displayed price.](Reserved.)

(7) "Book Only Orders" are orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange. A Book Only Order will be subject to the [display-price sliding]Price Adjust process set forth in paragraph (i) below unless a User has entered instructions not to use [the display-price sliding]such process[as set forth in paragraph (h) below].

(8) "Post Only Orders" are orders that are to be ranked and executed on the Exchange pursuant to Rule 21.8 (Order Display and Book Processing) or cancelled, as appropriate, without routing away to another options exchange except that the order will not remove liquidity from the EDGX Options Book. [A Post Only Order cannot be designated with instructions to use the display-price sliding process described in paragraph (h) below, and any such order will be rejected.] A Post Only Order that is not subject to the Price Adjust process that would lock or cross a Protected Quotation of another options exchange or the Exchange will be cancelled.

(9) – (12) (No change).

(e) – (g) (No change).

(h) (Reserved.)[Display-Price Sliding.

(1) An order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the EDGX Options Book and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("display-price sliding"). A User may elect to have the System only apply display-price sliding to the extent an order at the time of entry would lock a Protected Quotation of another options exchange. For Users that select this order handling, any order will be cancelled if, upon entry, such order would cross a Protected Quotation of another options exchange.

(2) An order subject to display-price sliding will retain its original limit price irrespective of the prices at which such order is ranked and displayed. In the event the NBBO changes such that an order subject to display-price sliding would not lock or cross a Protected Quotation of another options exchange, the order will receive a new timestamp, and will be displayed at the most aggressive permissible price. All orders that

are re-ranked and re-displayed pursuant to display-price sliding will retain their priority as compared to other orders subject to display-price sliding based upon the time such orders were initially received by the Exchange. Following the initial ranking and display of an order subject to display-price sliding, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price, provided, however, that the Exchange will re-rank an order at the same price as the displayed price in the event such order's displayed price is locked or crossed by a Protected Quotation of another options exchange. Such event will not result in a change in priority for the order at its displayed price.

(3) The ranked and displayed prices of an order subject to display-price sliding may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. The Exchange's default display-price sliding process will only adjust the ranked and displayed prices of an order upon entry and then the displayed price one time following a change to the prevailing NBBO, provided however, that if such an order's displayed price has been locked or crossed by a Protected Quotation of another options exchange then the Exchange will adjust the ranked price of such order and it will not be further re-ranked or re-displayed at any other price. Orders subject to the optional multiple price sliding process will be further re-ranked and re-displayed as permissible based on changes to the prevailing NBBO.

(4) To the extent an incoming Post Only Order would be ranked and displayed at a price equal to the ranked price of a contra-side order subject to display-price sliding ("locking price") the order subject to display-price sliding will be re-ranked at one (1) cent above the current NBB (for offers) or one (1) cent below the current NBO (for bids). An order subject to display price sliding that is re-ranked pursuant to this paragraph will be re-ranked at the locking price in the event there is no longer displayed contra-side interest at the locking price.]

(i) (No change).

[(j) Display of Orders Subject to Display-Price Sliding and Price Adjust. In the event the NBBO changes such that display eligible orders subject to display-price sliding and Price Adjust would not lock or cross a Protected Quotation and are eligible to be displayed at a more aggressive price, the System will first display all orders subject to display-price sliding at their ranked price followed by orders subject to Price Adjust, which will be re-ranked and re-displayed as set forth above.]

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Rule 21.6. Entry of Orders

(No change.)

(a)-(e) (No change.)

(f) Any order entered with a price that would lock or cross a Protected Quotation of another options exchange that is not eligible for either routing, [the display-price sliding process as defined in paragraph (h) of Rule 21.1 (Definitions)]<u>the Step Up Mechanism as defined in Rule 21.18</u>, or the Price Adjust process as defined in paragraph (i) of Rule 21.1 will be cancelled.

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Rule 21.9. Order Routing

(a) (No change.)

(1) *Routing to Away Options Exchanges*. Orders designated as available for routing will first check the EDGX Options Book for available contracts for execution pursuant to Rule 21.8 (Order Display and Book Processing). After checking the EDGX Options Book for available contracts <u>and subjecting orders to the Step Up Mechanism defined in Rule 21.18, unless otherwise instructed by the User</u>, the System will designate orders as IOCs and will cause such orders to be routed to one or more options exchanges for potential execution, per the entering User's instructions. After the System receives responses to orders that were routed away, to the extent an order is not executed in full through the routing process, the System will process the balance of such order as follows. Depending on parameters set by the User when the incoming order was originally entered, the System will either:

(A) (No change.)

(B) post the unfilled balance of the order to the EDGX Options Book, subject to the [display-price sliding process as defined in Rule 21.1(h) or p]<u>P</u>rice [a]<u>A</u>djust process as defined in Rule 21.1(i), if applicable;

(C)-(E) (No change.)

(2)-(3) (No change.)

(b)-(f) (No change.)

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Rule 21.15. Data Dissemination

(a) (No change.)

(b) Exchange Data Products. The Exchange offers the following Exchange data products free of charge, except as otherwise noted in the Fee Schedule:

(1)-(3) (No change.)

(4) Auction Feed. The Auction Feed is an uncompressed data product that provides information regarding the current status of price and size information related to auctions conducted by the Exchange.

(c) Notification of Priority Customer Interest on the Book.

(1) (No change.)

(2) The Exchange will identify Priority Customer Orders and trades as such on messages disseminated by the Exchange through its Multicast PITCH and Auction data feeds.

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Rule 21.18. Step Up Mechanism

This Rule governs the operation of the Step Up Mechanism ("SUM"). SUM is a feature within the System that provides automated order handling in designated classes trading for qualifying orders that are not automatically executed by the System.

(a) *SUM Eligibility*. The Exchange shall designate eligible order size, eligible order type, eligible order origin code (*e.g.*, Priority Customer orders, non-Market Maker non-Priority Customer orders, and Market Maker orders), and classes in which SUM shall be activated. SUM shall automatically process upon receipt of:

(1) an eligible order that is marketable against the Exchange's disseminated quotation while that quotation is not the NBBO; or

(2) an eligible order that would improve the Exchange's disseminated quotation and that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Market Plan.

(b) *Order Handling and Responses.*

(1) Orders that are received by SUM pursuant to paragraph (a) above shall be electronically exposed at the NBBO immediately upon receipt. The exposure shall be for a period of time determined by the Exchange on a class-by-class basis, which period of time shall not exceed 1 second.

(2) All Users will be permitted to submit responses to the exposure message.

(3) Responses: (A) must be limited to the size of the order being exposed; (B) may be modified, cancelled and/or replaced any time during the exposure period; and (C) will be cancelled back at the end of the exposure period if unexecuted.

(c) *Allocation of Exposed Orders.*

(1) Any responses priced at the prevailing NBBO or better shall immediately trade against the order (on a first come, first served basis).

(2) If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price. The exposure period shall not terminate if a quantity remains on the exposed order after such trade.

(3) Responses that are not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO and at the conclusion of the exposure period, the Exchange will evaluate remaining responses as well as the disseminated best bid/offer on other exchanges and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by executing against responses and unrelated orders (pursuant to the matching algorithm in effect for the class).

(4) Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the User. Any portion of a routed order that returns unfilled shall trade against the Exchange’s best bid/offer unless another exchange is quoting at a better price in which case new orders shall be generated and routed to trade against such better prices.

(5) All executions on the Exchange pursuant to this paragraph shall comply with Rule 27.2 (Order Protection).

(d) *Early Termination of Exposure Period.* In addition to the receipt of a response (or unrelated order or quote) to trade the entire exposed order at the NBBO or better, the exposure period will also terminate prior to its expiration and the exposed order shall be processed in accordance with paragraph (c) above if during the exposure period:

(1) the NBBO updates such that the exposed order is no longer marketable against the prevailing NBBO; or

(2) the Exchange is displaying an unrelated order on the same side of the market as the exposed order and such displayed order is subsequently locked or crossed by another options exchange.

Interpretations and Policies:

.01 All determinations by the Exchange pursuant to this Rule (*i.e.*, eligible order size, order type, increment, order origin codes and classes) will be announced in a circular to Members and maintained in specifications made publicly available via the Exchange's website.

.02 The Exchange will not initiate the SUM process if the NBBO is crossed.

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