

are valued in NAC deliberations and aid in its ability to address issues in a neutral fashion. FINRA believes that adding one Non-Industry Member seat to the NAC confirms that a diversity of views is represented in the NAC's opinions.

FINRA believes also that the proposed rule change is consistent with the provisions of Section 15A(b)(4) of the Act,³¹ which requires, among other things, that FINRA rules assure a fair representation of its members in the administration of its affairs. Although the proposed rule change would make a limited change to the NAC's composition, it would nevertheless continue FINRA's custom of substantial industry participation in FINRA's adjudicatory process and would not dilute the critically important involvement of FINRA members and their associated persons in NAC deliberations. Under the proposed rule change, the opportunity for FINRA members to vote on five designated Industry Member NAC seats based on firm size—two Small Firm, one Mid-Size Firm and two Large Firm Member seats—is unaltered. The right of FINRA members to elect a total of five Industry Members to the NAC, one-third of all members, based on firm size is consistent with the Act's fair representation requirement.³² The proposed rule change will also result in a more accessible NAC election process, which FINRA believes will assure a fair representation of its members on the NAC.³³

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

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is intended solely to enhance impartiality and integrity in FINRA's process for reviewing appeals of disciplinary and other decisions concerning member firms and their associated persons, and will lead to efficiencies in the process by which some NAC members are elected to the NAC by allowing contemporary

balloting methods and expediting the process by which ballots are counted. FINRA does not believe that there are any material economic impacts associated with the proposed rule change.

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

Written comments were neither solicited nor received.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 email to rule-comments@sec.gov. Please include File Number SR-FINRA-2016-014 on the subject line.

Paper Comments

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090. All submissions should refer to File Number SR-FINRA-2016-014. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. 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 Number SR-FINRA-2016-014, and should be submitted on or before June 3, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁴

Robert W. Errett,
Deputy Secretary.

[FR Doc. 2016-11295 Filed 5-12-16; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77784; File No. SR-BatsBZX-2016-14]

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees as They Apply to the Equity Options Platform

May 9, 2016.

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 May 2, 2016, Bats BZX Exchange, Inc. (the "Exchange" or "BZX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under section 19(b)(3)(A)(ii) of the Act³ and Rule 19b-4(f)(2)

³⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

³¹ 15 U.S.C. 78o-3(b)(4).

³² The Commission has found the similar composition requirements of the FINRA Board to meet the statutory requirements of Section 15A(b)(4) of the Act. See *supra* note 3.

³³ The Commission has found that the processes used currently for FINRA District Elections, processes with which those used in NAC elections would be aligned under the proposed rule change, are consistent with the statutory requirements of the Act. See Securities Exchange Act Release No. 64363 (April 28, 2011), 76 FR 25397 (May 4, 2011) (Order Approving File No. SR-FINRA-2011-011).

thereunder,⁴ which renders the proposed rule change effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to amend the fee schedule applicable to Members⁵ and non-members of the Exchange pursuant to BZX Rules 15.1(a) and (c).

The text of the proposed rule change is available at the Exchange's Web site 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 proposes to modify its fee schedule applicable to the Exchange's equity options platform ("BZX Options") to: (1) Modify the standard fee for Non-Customer⁶ orders that remove liquidity in Non-Penny Pilot Securities⁷ and to adopt a new tier in connection with such executions; (2) modify an existing tier and add a new tier to its tiered pricing structure for the

Exchange's Quoting Incentive Program ("QIP"); and (3) simplify the Exchange's routing fees, as further described below.

Non-Customer Orders That Remove Liquidity in Non-Penny Pilot Securities

The Exchange is proposing to modify the standard fee for Non-Customer orders that remove liquidity in Non-Penny Pilot Securities. Such orders when executed on the Exchange currently yield fee code NP and are assessed a standard fee of \$0.94 per contract. The Exchange is proposing to increase the standard fee for Non-Customer orders that remove liquidity in Non-Penny Pilot Securities under fee code NP from \$0.94 to \$0.99 per contract.

In addition, the Exchange proposes to adopt a new tier that would apply to Non-Customer orders that remove liquidity in Non-Penny Pilot Securities that result in a reduced fee for Members that meet the qualifications of the tier. Specifically, the Exchange is proposing to create a new footnote 13 entitled "Non-Customer Non-Penny Pilot Take Volume Tier," which would apply to orders that receive fee code NP. Under the proposed new tier, Non-Customer orders that remove liquidity in Non-Penny Pilot Securities would be assessed a reduced fee of \$0.95 per contract where the Member has: (1) an ADAV⁸ in Customer orders in Non-Penny Pilot Securities equal to or greater than 0.05% of average TCV;⁹ and (2) an ADV¹⁰ in Non-Customer Orders that remove liquidity in Non-Penny Pilot Securities equal to or greater than 0.10% of average TCV.

In addition to the modification to the Fee Codes and Associated Fees table and the addition of footnote 13 described above, the Exchange proposes to update the Standard Rates table of the fee schedule to reflect these changes.

QIP Tiers

The Exchange currently offers three QIP tiers that provide an additional rebate per contract for an order that adds liquidity to the BZX Options Book¹¹ in options classes in which a Member is a Market Maker registered on

BZX Options pursuant to Rule 22.2. The Market Maker must be registered with BZX Options in an average of 20% or more of the associated options series in a class in order to qualify for QIP rebates for that class. The Exchange proposes to amend QIP Tier 3 and to add a new QIP Tier 4, as further described below.

Under QIP Tier 3, a Market Maker receives an additional rebate of \$0.06 per contract where that Market Maker has an ADV equal to or greater than 2.5% of average TCV. The Exchange proposes to decrease the rebate provided pursuant to QIP Tier 3 from an additional rebate of \$0.06 per contract to an additional rebate of \$0.05 per contract. The Exchange does not propose to amend the qualifying criteria for QIP Tier 3.

In addition, the Exchange proposes to adopt new QIP Tier 4. Under proposed QIP Tier 4, a Market Maker will receive an additional rebate of \$0.06 per contract where the Member has an ADV equal to or greater than 3.5% of average TCV. Thus, QIP Tier 4 will provide the same rebate as is provided under current QIP Tier 3.

Routing Fees

The Exchange proposes to modify the fees charged for orders routed away from the Exchange and executed at various away options exchanges. The Exchange currently has specific rates and associated fee codes for each away options exchange.¹² Such rates are further divided at each options exchange into either two categories in order to differentiate between Customer and Non-Customer orders or into four categories in order to differentiate between Customer and Non-Customer orders and then into Penny Pilot Securities¹³ and Non-Penny Pilot Securities.¹⁴ In order to simplify routing fees for executions at away options exchanges, the Exchange proposes to charge flat rates for routing to other options exchanges that have been placed into groups based on the

¹² Other options exchanges to which the Exchange routes include: BOX Options Exchange LLC ("BOX"), Chicago Board Options Exchange, Inc. ("CBOE"), C2 Options Exchange, Inc. ("C2"), Bats EDGX Exchange, Inc. ("EDGX Options"), International Securities Exchange, Inc. ("ISE"), ISE Gemini, LLC ("ISE Gemini"), ISE Mercury, LLC ("ISE Mercury"), Miami International Securities Exchange, LLC ("MIAX"), Nasdaq Options Market LLC ("NOM"), Nasdaq OMX BX LLC ("BX Options"), Nasdaq OMX PHLX LLC ("PHLX"), NYSE Arca, Inc. ("ARCA"), and NYSE MKT LLC ("AMEX").

¹³ The term "Penny Pilot Security" applies to those issues that are quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

¹⁴ The Exchange notes that it still applies a single rate for orders routed to and executed at the newest options exchange, ISE Mercury.

⁴ 17 CFR 240.19b-4(f)(2).

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

⁶ The term "Non-Customer" applies to any transaction that is not a Customer order. In turn, the term "Customer" applies to any transaction identified by a Member for clearing in the Customer range at the Options Clearing Corporation ("OCC"), excluding any transaction for a Broker Dealer or a "Professional" as defined in Exchange Rule 16.1.

⁷ The term "Non-Penny Pilot Security" applies to those issues that are not Penny Pilot Securities quoted pursuant to Exchange Rule 21.5, Interpretation and Policy .01.

⁸ "ADAV" means average daily volume calculated as the number of contracts added per day.

⁹ "TCV" means total consolidated volume calculated as the volume reported by all exchanges to the consolidated transaction reporting plan for the month for which the fees apply, excluding volume on any day that the Exchange experiences an Exchange System Disruption and on any day with a scheduled early market close.

¹⁰ "ADV" means average daily volume calculated as the number of contracts added or removed, combined, per day.

¹¹ "BZX Options Book" is defined as "the electronic book of options orders maintained by the Trading System. See Exchange Rule 16.1(a)(9).

approximate cost of routing to such venues. The grouping of away options exchanges is based on the cost of transaction fees assessed by each venue as well as costs to the Exchange for routing (*i.e.*, clearing fees, connectivity and other infrastructure costs, membership fees, etc.) (collectively, "Routing Costs"). To address different fees at various other options exchanges, the Exchange proposes to adopt five different fees and associated fee codes applicable to routing to away options exchanges, as further described below.

With respect to Non-Customer orders, the Exchange proposes to adopt two fee codes: (1) Fee code RN, which would result in a fee of \$0.85 per contract and would apply to all Non-Customer orders in Penny Pilot Securities; and (2) fee code RO, which would result in a fee of \$1.20 per contract and would apply to all Non-Customer orders in Non-Penny Pilot Securities. The Exchange notes that the current range of fees applicable to Non-Customer orders routed to other options exchanges is from \$0.56 per contract (fee code RF, applicable to Non-Customer orders in Penny Pilot Securities executed at EDGX Options) to \$1.25 per contract (fee code QG, applicable to Non-Customer orders executed at NOM in Non-Penny Pilot Securities).

With respect to Customer orders, the Exchange proposes to adopt three fee codes: (1) Fee code RP, which would result in a fee of \$0.25 per contract and would apply to all Customer orders routed to and executed at AMEX, BOX, BX Options, CBOE, EDGX Options, ISE Mercury, MIAx or PHLX; (2) fee code RQ, which would result in a fee of \$0.70 per contract and would apply to all Customer orders in Penny Pilot Securities routed to and executed at ARCA, C2, ISE, ISE Gemini or NOM; and (3) fee code RR, which would result in a fee of \$0.90 per contract and would apply to all Customer orders in Non-Penny Pilot Securities routed to and executed at ARCA, C2, ISE, ISE Gemini or NOM. The Exchange notes that the current range of fees applicable to Customer orders routed to other options exchanges is from no charge per contract (fee codes BD, applicable to Customer orders in Non-Penny Pilot Securities executed at BX Options, and fee codes RC and RD, applicable to Customer orders in Penny Pilot Securities and Non-Penny Pilot Securities, respectively, executed at EDGX Options) to \$0.90 per contract (fee codes AD, GD and QD, applicable to Customer orders executed at ARCA,

ISE Gemini, and NOM, respectively, in Non-Penny Pilot Securities).¹⁵

As a general matter, the groupings described above in most instances attempt to differentiate between the Routing Costs applicable to either executions of orders in Penny Pilot Securities versus those in Non-Penny Pilot Securities or between fee ranges typical of exchanges that operate primarily a maker/taker or price/time market model (generally imposing higher fees, including for Customer orders) versus exchanges that operate primarily a pro rata or customer priority market model (generally imposing lower fees, especially for Customer orders).

As set forth above, the Exchange's proposed approach to routing fees is to set forth in a simple manner certain flat fees that approximate the cost of routing to other options exchanges. The Exchange will then monitor the fees charged as compared to the costs of its routing services, as well as monitoring for specific fee changes by other options exchanges, and intends to adjust its flat routing fees and/or groupings to ensure that the Exchange's fees do indeed result in a rough approximation of overall Routing Costs, and are not significantly higher or lower in any area. Although there may be instances where the Exchange's fee to a particular options exchange is indeed significantly higher than the fee charged by such options exchange, the Exchange believes that this is appropriate for several reasons discussed in further detail below, including the simplicity that it will provide Users of the Exchange's routing services.

Implementation Date

The Exchange proposes to implement these amendments to its fee schedule immediately.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of section 6 of the Act.¹⁶ Specifically, the Exchange believes that the proposed rule change is consistent with section 6(b)(4) of the Act,¹⁷ in that it provides for the equitable allocation of reasonable dues, fees and other

charges among members and other persons using any facility or system which the Exchange operates or controls. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels to be excessive.

Volume-based rebates such as those currently maintained on the Exchange have been widely adopted by options exchanges, including the Exchange, and are equitable because they are open to all Members on an equal basis and provide additional benefits or discounts that are reasonably related to the value to an exchange's market quality associated with higher levels of market activity, such as higher levels of liquidity provision and/or growth patterns, and introduction of higher volumes of orders into the price and volume discovery processes.

The Exchange believes that its proposal to change the standard fee charged for Non-Customer orders that remove liquidity in Non-Penny Pilot Securities under fee code NP from \$0.94 to \$0.99 per contract is reasonable, fair and equitable and non-discriminatory, because the change will apply equally to all participants, and because, while the change marks an increase in fees for orders in Non-Penny Pilot Securities, such proposed fees remain consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure and will allow the Exchange to earn additional revenue that can be used to offset the addition of new pricing incentives, including those introduced as part of this proposal. The Exchange also believes that its proposal to adopt a tiered pricing structure that will result in a reduced fee for all Members qualifying for the tier mitigates the increased fee. The tier is itself reasonable, fair and equitable and non-discriminatory for the reasons set forth above with respect to volume-based pricing generally, and also because the change will apply equally to all participants, the proposed fee under the tier remains consistent with pricing previously offered by the Exchange as well as competitors of the Exchange and does not represent a significant departure from the Exchange's general pricing structure.

The Exchange believes that its proposal to amend QIP Tier 3 and add a new QIP Tier 4 under footnote 5 is reasonable, fair and equitable and non-discriminatory, for the reasons set forth above with respect to volume-based

¹⁵ The Exchange again notes that it currently applies a single rate for orders routed to and executed at the newest options exchange, ISE Mercury. As such, Customer orders execute at ISE Mercury technically pay the highest rate today, a fee of \$0.99 per contract.

¹⁶ 15 U.S.C. 78f.

¹⁷ 15 U.S.C. 78f(b)(4).

pricing generally. In addition, the Exchange believes the reduction of the rebate offered under QIP Tier 3 is equitable and reasonable because of the adoption of QIP Tier 4, which will still provide Members with the ability to earn the current rebate provided by QIP Tier 3, albeit only if such Members satisfy the increased criteria. The Exchange also notes that although registration as a Market Maker is required to qualify for QIP, such registration is available to all Members on an equal basis. The Exchange also believes that proposed QIP Tier 4 is reasonable, fair and equitable, and non-discriminatory because it, like the QIP generally, is aimed to incentivize active market making on the Exchange.

With respect to the proposed routing structure, the Exchange again notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues or providers of routing services if they deem fee levels to be excessive. As explained above, the Exchange proposes to approximate the cost of routing to other options exchanges, including other applicable costs to the Exchange for routing, in order to provide a simplified and easy to understand pricing model. The Exchange believes that a pricing model based on approximate Routing Costs is a reasonable, fair and equitable approach to pricing. Specifically, the Exchange believes that its proposal to modify fees is fair, equitable and reasonable because the fees are generally an approximation of the cost to the Exchange for routing orders to such exchanges. The Exchange believes that its flat fee structure for orders routed to various venues is a fair and equitable approach to pricing, as it will provide certainty with respect to execution fees at groups of away options exchanges. In order to achieve its flat fee structure, taking all costs to the Exchange into account, the Exchange will necessarily charge a higher premium to route to certain options exchanges than to others. As a general matter, the Exchange believes that the proposed fees will allow it to recoup and cover its costs of providing routing services to such exchanges and to make some additional profit in exchange for the services it provides. The Exchange also believes that the proposed fee structure for orders routed to and executed at these away options exchanges is fair and equitable and not unreasonably discriminatory in that it applies equally to all Members. Finally, the Exchange notes that it intends to consistently evaluate its routing fees,

including profit and loss attributable to routing, as applicable, in connection with the operation of a flat fee routing service, and would consider future adjustments to the proposed pricing structure to the extent it was recouping a significant profit or loss from routing to away options exchanges.

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

The Exchange believes the proposed amendments to its fee schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Rather, the proposal is a competitive proposal that is seeking to further the growth of the Exchange and to simplify the Exchange's fees for routing orders to away options exchanges. With respect to the tiered pricing changes, the Exchange has structured the proposed fees and rebates to attract additional volume to the Exchange based on pricing that is competitive with that offered by other options exchanges. In particular, by offering tiered pricing the Exchange is incentivizing Members to maintain and/or increase the liquidity provided to the Exchange, which is representative of the competitive nature of the options markets. With respect to the proposed routing fee structure, the Exchange believes that the proposed fees are competitive in that they will provide a simple approach to routing pricing that some Members may favor. Additionally, Members may opt to disfavor the Exchange's pricing, including pricing for transactions on the Exchange as well as routing fees, if they believe that alternatives offer them better value. In particular, with respect to routing services, such services are available to Members from other broker-dealers as well as other options exchanges. The Exchange also notes that Members may choose to mark their orders as ineligible for routing to avoid incurring routing fees.¹⁸ Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

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

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

Exchange has not received any written comments from members or other interested parties.

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

The foregoing rule change has become effective pursuant to section 19(b)(3)(A) of the Act¹⁹ and paragraph (f) of Rule 19b-4 thereunder.²⁰ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 email to rule-comments@sec.gov. Please include File Number SR-BatsBZX-2016-14 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 Number SR-BatsBZX-2016-14. This file number should be included on the subject line if email 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE.,

¹⁸ See Exchange Rule 21.1(d)(7) (describing "Book Only" orders) and Exchange Rule 21.9(a)(1) (describing the Exchange's routing process, which requires orders to be designated as available for routing).

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f).

Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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 Number SR-BatsBZX-2016-14 and should be submitted on or before June 3, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Robert W. Errett,

Deputy Secretary.

[FR Doc. 2016-11293 Filed 5-12-16; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77785; File No. SR-CHX-2016-06]

Self Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Schedule of Fees and Assessments To Modify and Clarify Certain Fees Applicable to CHX Institutional Brokers

May 9, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) ¹, and Rule 19b-4 ² thereunder, notice is hereby given that on May 3, 2016, the Chicago Stock Exchange, Inc. (“CHX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The 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

CHX proposes to amend its Schedule of Fees and Assessments (the “Fee Schedule”) to modify and clarify certain fees applicable to CHX Institutional Brokers. The text of this proposed rule change is available on the Exchange’s Web site at (www.chx.com) and in 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 CHX included statements concerning the purpose of and basis for the proposed rule changes 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 CHX has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend the Fee Schedule to modify and clarify certain fees applicable to CHX Institutional Brokers (“Institutional Brokers”).³ Specifically, the Exchange proposes to amend Sections E.3(a) and E.7 of the Fee Schedule to modify and clarify the application of the respective fee caps.⁴ The Exchange also proposes to amend Section E.4 of the Fee Schedule to correct a misstatement regarding its applicability.

Section E.3(a)

Currently, pursuant to Section E.3(a), the Exchange assesses a fee of \$0.0030/ share capped at \$100 per side ⁵ for executions within the Matching System resulting from single-sided ⁶ or cross orders ⁷ for at least a Round Lot ⁸

³ See CHX Article 1, Rule 1(n) defining “Institutional Broker”; see also generally CHX Article 17.

⁴ Section E.3(a) and E.7 fees are virtually identical as both apply to executions effected through Institutional Brokers that are cleared through the Exchange’s clearing systems, except that Section E.3(a) applies to executions within the Matching System, whereas Section E.7 applies to qualified away executions pursuant to CHX Article 21, Rule 6(a).

⁵ While the Fee Schedule does not provide an explicit definition for “side,” the Exchange currently defines “side” as each Trading Account that is allocated a position per buy side and/or sell side of a Section E.3(a) execution. See CHX Article 1, Rule 1(l) defining “Trading Account.” A Participant may hold only one Trading Permit, but may create more than one Trading Account under a Trading Permit. See CHX Article 1, Rule 1(aa) defining “Trading Permit”; see also CHX Article 3, Rule 2(e).

⁶ Single-sided orders include limit and market orders. See CHX Article 1, Rule 2(a)(1) defining “limit order”; see also CHX Article 1, Rule 2(a)(3) defining “market order.”

⁷ See CHX Article 1, Rule 2(a)(2) defining “cross order.”

⁸ See CHX Article 1, Rule 2(f)(3) defining “Round Lot.”

submitted by Institutional Brokers as agent only (“Section E.3(a) executions”); except that a side that is represented by two or more Institutional Broker Representatives ⁹ (“IBR”) is subject to separate fee caps per IBR.¹⁰ Section E.3(a) fees are assessed to the Participant in whose name the execution is submitted for clearance and settlement. Section E.3(a) fees do not apply to executions resulting from orders submitted as Odd Lots, which are assessed fees pursuant to Section E.4.¹¹

Identifying the side to a Section E.3(a) execution resulting from a single-sided order is simple because there will always be only one Trading Account associated with the single-sided order.¹² However, identifying the sides to a Section E.3(a) execution resulting from a cross order is usually more complex because such an execution is frequently allocated to three or more Trading Accounts, which may result in two or more clearing submissions. The following Example 1 illustrates how sides are currently allocated:

Example 1. Assume that a Section E.3(a) execution results from a cross order for 100,000 shares of XYZ priced at \$10.00/share. Assume that the following Participants have been allocated the following positions:

- Trading Account A is allocated 40,000 shares on the buy side and 20,000 shares on the sell side.¹³
- Trading Account B is allocated 40,000 shares on the buy side.
- Trading Account C is allocated 20,000 shares on the buy side.
- Trading Accounts D and E are each allocated 20,000 shares on the sell side.
- Trading Account F is allocated 40,000 shares on the sell side.

Assume also that the execution results in the following five clearing submissions:

⁹ See CHX Article 1, Rule 1(gg) defining “Institutional Broker Representative.”

¹⁰ For example, a side may be represented by two or more Institutional Broker Representatives where a Clearing Participant represents two or more correspondent firms that are allocated positions to a single Section E.3(a) execution resulting from a cross order. In such case, two or more Institutional Broker Representatives will never represent a single correspondent firm.

¹¹ See *infra* note 16.

¹² All single-sided orders submitted to the Matching System originate from a single Trading Account and, upon execution, are locked-in and immediately reported to the relevant securities information processor and Qualified Clearing Agency. See CHX Article 1, Rule 1(ff) defining “Qualified Clearing Agency”; see also *supra* note 5.

¹³ A Trading Account may be allocated positions on both sides of a Section E.3(a) execution where, for example, the Participant associated with the Trading Account is a Clearing Participant that represents two or more correspondent firms on both sides of the execution. See CHX Article 1, Rule 1(ee) defining “Clearing Participant.”

²¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.