

*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](mailto:rule-comments@sec.gov). Please include File Number SR-ISEGemini-2016-10 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-ISEGemini-2016-10. 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 the filing also will 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-ISEGemini-2016-10 and should be submitted on or before October 26, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>43</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-78988; File No. SR-BatsEDGX-2016-41]

**Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing of a Proposed Rule Change Related to the Exchange's Equity Options Platform To Adopt a Price Improvement Auction, the Bats Auction Mechanism**

September 29, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 16, 2016, 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, 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**

The Exchange filed a proposal for the Exchange's equity options platform ("EDGX Options") to adopt a price improvement auction, the Bats Auction Mechanism, as further discussed below.

The text of the proposed rule change is available at the Exchange's Web site at [www.batstrading.com](http://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.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

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

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

1. Purpose

Overview

The purpose of the proposed rule change is to establish a price improvement auction, the Bats Auction Mechanism ("BAM", "BAM Auction", or "Auction") on the Exchange. BAM includes functionality in which a Member (an "Initiating Member") may electronically submit for execution an order it represents as agent on behalf of a Priority Customer,<sup>3</sup> broker dealer, or any other person or entity ("Agency Order") against principal interest or against any other order it represents as agent (an "Initiating Order") provided it submits the Agency Order for electronic execution into the BAM Auction pursuant to the proposed Rule. For purposes of this filing and the proposed Rule, the term "NBBO" shall mean the national best bid or national best offer at the particular point in time applicable to the reference and the term "Initial NBBO" shall mean the national best bid or national best offer at the time an Auction is initiated.

The Exchange believes that the BAM Auction, as proposed herein, will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all EDGX Options participants ("Users") the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

<sup>3</sup> The term "Priority Customer" means any person or entity that is not: (A) a broker or dealer in securities; or (B) a Professional. The term "Priority Customer Order" means an order for the account of a Priority Customer. See Rule 16.1(a)(45). A "Professional" is any person or entity that: (A) is not a broker or dealer in securities; and (B) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). All Professional orders shall be appropriately marked by Options Members. See Rule 16.1(a)(46).

<sup>43</sup> 17 CFR 200.30-3(a)(12).

### Auction Eligibility Requirements

All options traded on the Exchange are eligible for BAM. Proposed Rule 21.19(a) describes the circumstances under which an Initiating Member may initiate an Auction. The Initiating Member may initiate an Auction provided the conditions which follow are met: the Initiating Member must stop the entire Agency Order as principal or with a solicited order at a price in an increment of \$0.01 that is: (A) If the Agency Order is for less than 50 option contracts and the difference between the NBB and NBO is \$0.01, the Initiating Member must stop the entire Agency Order at one minimum price improvement increment, which increment shall be determined by the Exchange but may not be smaller than \$0.01; or (B) for any other Agency Order, the Initiating Member must stop the entire Agency Order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order). Agency Orders that do not meet these conditions will be rejected. Also, Agency Orders submitted at or before the opening of trading or when the NBBO is crossed are not eligible to initiate an Auction and will be rejected.

### Auction Process

#### Initiating and Pricing of Auctions

With respect to Agency Orders for less than 50 contracts, only one such Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. Auctions for Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions in the same series. Because multiple Auctions of Agency Orders of 50 contracts or more will be allowed to occur at the same time as other Auctions, there will be no queuing of Auctions for Agency orders of 50 contracts or more.

To initiate the Auction, the Initiating Member must mark the Agency Order for Auction processing, and specify either: (i) A single price at which it seeks to execute the Agency Order (a "single-price submission"); or (ii) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all BAM Auction notification responses ("BAM responses") and other trading interest ("auto-match") as follows: (a) stopping the entire order at a single stop price and auto-matching BAM responses and other trading interest at all prices that improve the stop price to a specified price; or (b) stopping the entire order at a single stop price and auto-matching all BAM responses and

other trading interest at all prices that improve the stop price. For both single-price submissions and auto-match, if the EDGX BBO on the same side of the market as the Agency Order represents a Priority Customer on the book, the stop price must be at least \$0.01 better than the booked order's limit price. Once the Initiating Member has submitted an Agency Order for processing as described herein, such Agency Order may not be modified or cancelled. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% of the initial Agency Order in the event there is one competing quote, order or BAM response or 40% of the initial Agency Order in the event there are multiple competing quotes, orders or BAM responses.<sup>4</sup>

#### Last Priority

When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "last priority" to other BAM participants ("Last Priority"), which will result in the Initiating Member forfeiting priority and trade allocation privileges to which it is otherwise entitled pursuant to the proposed Rule.<sup>5</sup> If Last Priority is specified, the Initiating Order will only trade if there is not enough interest available to fully execute the Agency Order at prices which are equal to or improve upon the stop price. Last Priority will not be applied if both the Initiating Order and Agency Order are Priority Customer Orders. Last Priority cannot be designated on an Agency Order specified as auto-match, and thus, is only compatible with single-price submissions. Finally, Last Priority information will not be available to other market participants and may not be modified.

#### Auction Notification Messages

When the Exchange receives an Agency Order for Auction processing, an auction notification message detailing the side, size, price, and options series of the Agency Order will be sent over the Exchange's Multicast PITCH Feed and Auction Feed.<sup>6</sup> Agency

<sup>4</sup> See proposed Rule 21.19(b)(1)(A).

<sup>5</sup> The Chicago Board Options Exchange, Incorporated's ("CBOE") has a process whereby initiating participants may elect to receive last priority in an allocation. See CBOE Rule 6.74A(b)(3)(j) (Automated Improvement Mechanism ("AIM")). See also Miami International Securities Exchange, LLC ("MIAX") Rule 5.15(A)(a)(2)(iii)(j); NASDAQ OMX BX, Inc. ("BX Options") Chapter VI, Section 9(ii)(A)(1).

<sup>6</sup> Both data feeds are currently provided free of charge.

Orders will not be included in the Exchange's disseminated best bid or offer and will not be disseminated to OPRA.

#### Auction Period

The Auction will last for a period of time, as determined by the Exchange and announced on the Exchange's Web site. The Auction period will be no less than one hundred milliseconds and no more than one second.<sup>7</sup>

According to filings made by NASDAQ OMX PHLX LLC ("PHLX") and BX Options,<sup>8</sup> PHLX staff previously distributed a survey to all PHLX market maker firms inquiring as to the timeframe within which these market participants respond to an auction with a duration time ranging from less than fifty (50) milliseconds to more than one (1) second. According to the Filings, an overwhelming number of the market maker firms that responded to the survey indicated that they were capable of responding to auctions with a duration time of at least 50 milliseconds.<sup>9</sup> Based on the results of the survey previously conducted by PHLX, the commonality of participants on the Exchange and other options exchanges, including PHLX, and the Exchange's direct knowledge of its own technology and customer base, the Exchange believes that allowing for an auction period of no less than one hundred (100) milliseconds and no more than one (1) second would provide a meaningful opportunity for Members to respond to the BAM Auction while at the same time facilitating the prompt execution of orders.<sup>10</sup> The Exchange believes that Members will have sufficient time to ensure competition for Agency Orders, and could provide

<sup>7</sup> CBOE's AIM auction is a duration of one second. See CBOE Rule 6.74A(b)(1)(C).

<sup>8</sup> See, e.g., Securities Exchange Act Release No. 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-Phlx-2016-40) (the "PHLX PIXL Amendment"); Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) (the "BX Options Prism Approval," and together with the PHLX PIXL Amendment, the "Filings").

<sup>9</sup> Of the thirty five (35) PHLX market maker firms that were surveyed, twenty (20) of these market makers responded to the survey and of those respondents 100% indicated that their firm could respond to auctions with a duration time of at least 50 milliseconds. This survey was conducted in May 2014. See *id.*

<sup>10</sup> As of the date of this proposal, all Market Makers on EDGX Options are also members of the PHLX, and thus, rather than conduct an additional survey of the same market participants when such a survey was recently conducted, the Exchange is proposing to adopt the same Auction time parameters as have been approved based on that study. See BX Options PRISM Approval, *supra* note 8.

orders within the Auction additional opportunities for price improvement.

The Exchange believes the proposed rule change could provide orders within BAM an opportunity for price improvement. Also, the shorter duration of time for the auction reduces the market risk for all Members executing trades in BAM. Initiating Members are required to guarantee an execution at the NBBO or at a better price, and are subject to market risk while their Agency Order is exposed to other Options Members. While other Members are also subject to market risk, those providing responses in BAM may cancel or modify their orders while the Initiating Member cannot. The Exchange believes that the Initiating Member acts in a critical role within the BAM Auction. Their willingness to guarantee the orders entered into BAM an execution at the NBBO or a better price is the keystone to an order gaining the opportunity for price improvement. The Exchange believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit Members trading in BAM. EDGX believes it is in these Members' best interests to minimize the auction time while continuing to allow Members adequate time to electronically respond. Both the order being exposed and the responding orders are subject to market risk during the auction.

While some Members may wait to respond until later in the auction, presumably to minimize their market risk, the Exchange believes that a majority of BAM participants will respond early in an Auction. BAM Auctions are intended to provide all market participants with sufficient time to respond, compete, and provide price improvement for orders while also providing investors and other market participants with timely executions, thereby reducing their market risk. The proposed rule to cap the Auction time at one second will allow participants to respond quickly at the most favorable price while reducing the risk that the market will move against the response.

EDGX believes that its Members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. EDGX believes that its Members will be able to compete within 100 milliseconds and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

#### Auction Responses

As proposed, any person or entity other than the Initiating Member may submit responses to an Auction, provided such responses are properly marked specifying price, size, side of the market and information identifying the Auction to which the response is targeted. BAM responses will not be visible to Auction participants, and will not be disseminated to OPRA. A BAM response with a size greater than the size of the Agency Order will be capped at the size of the Agency Order (*i.e.*, the excess size will be ignored when processing the Auction).

Multiple BAM responses from the same User may be submitted during the Auction. Multiple orders at a particular price point submitted by a User in response to an Auction or resting on the EDGX Options Book will be aggregated together and will be capped at the size of the Agency Order (*i.e.*, the excess size will be ignored when processing the Auction).

BAM responses may be modified or cancelled during the Auction. BAM responses on the same side of the market as the Agency Order are considered invalid and will be immediately cancelled. BAM responses cannot cross the price of the Initial NBBO but will be executed, if possible, at the most aggressive permissible price within such Initial NBBO.

Finally, with respect to the impact of this proposal on System <sup>11</sup> capacity, EDGX has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with BAM Auctions. Because neither BAM notification messages nor responses will be published to OPRA, the Exchange does not expect any additional capacity necessary with respect to OPRA and the operation of BAM on the Exchange. Additionally, in terms of overall capacity, the Exchange represents that its Systems will be able to sufficiently maintain an audit trail for order and trade information with the BAM Auction.

#### Conclusion of an Auction

The BAM Auction would conclude at the earliest of: the end of the Auction period, upon receipt by the Exchange of a Priority Customer order on the same side of the market and at the stop price of the Agency Order that is to be posted to the EDGX Options Book, upon receipt by the Exchange of an unrelated order on the same side of the market as the Agency Order that would cause the

<sup>11</sup> The term "System" is defined in Rule 16.1(a)(59).

Agency Order's stop price to be outside of the EDGX BBO, at the close of trading, or any time there is a trading halt on the Exchange in the affected series.<sup>12</sup>

If the Auction concludes for any of the reasons set forth above other than a trading halt, then the Auction will be processed pursuant to the order allocation process set forth in proposed Rule 21.19(d), which is described in further detail below. In the event of a trading halt on the Exchange in the affected series, the Auction will be cancelled without execution.

An unrelated market or marketable limit order (against the EDGX BBO) on the opposite side of the market from the Agency Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction.<sup>13</sup> If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described below. The Exchange notes that it also proposes to make clear that all unrelated orders submitted to the Exchange with contracts remaining at the time the Auction ends, including orders marked as Post Only Orders pursuant to Rule 21.1(d)(8), will be considered for participation as described below.<sup>14</sup>

#### Order Allocation

##### Allocations

At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) as follows. First, Priority Customer Orders would have time priority at each price level. Next, the Initiating Member would be allocated after Priority Customer Orders.

If the Initiating Member selected the single-price submission option of the Auction, BAM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the initial Agency Order allocated to the Initiating Member.<sup>15</sup> However, if only one other quote, order or BAM response matches the stop price, then the Initiating Member may be allocated up to 50% of the initial Agency Order when executed at such price. Remaining contracts would be allocated, pursuant to proposed sub-paragraphs (iii) and (iv) to Rule 21.19(b)(4)(B), among remaining quotes, orders and BAM responses at the stop price. Thereafter, remaining

<sup>12</sup> See proposed Rule 21.19(b)(2).

<sup>13</sup> See proposed Rule 21.19(b)(3).

<sup>14</sup> *Id.*

<sup>15</sup> The Exchange notes that the International Securities Exchange ("ISE") bases the percentage-based allocations to an initiating member on the initial or original size of an agency order before other interest is executed. See ISE Rule 723(d)(3).

contracts, if any, would be allocated to the Initiating Member. The allocation will account for Last Priority, if applicable.

If the Initiating Member selected the auto-match option of the Auction the Initiating Member would be allocated an equal number of contracts as the aggregate size of all other quotes, orders and BAM responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member would be entitled to receive up to 40% (multiple competing quotes, orders or BAM responses) or 50% (one competing quote, order or BAM response) of the initial Agency Order at the final price point (including situations where the stop price is the final price) after Priority Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and BAM responses at the final price point the contracts will be allocated to such interest pursuant to proposed sub-paragraphs (iii) and (iv) to Rule 21.19(b)(4)(B). Any remaining contracts would be allocated to the Initiating Member.

Next, for classes designated by the Exchange as eligible for "Priority Quote" status, Users with resting quotes and orders that were at a price that is equal to the Initial NBBO on the opposite side of the market from the Agency Order ("Priority Quotes") would have priority up to their size in the Initial NBBO at each price level at or better than such Initial NBBO after Priority Customer and the Initiating Member have received allocations.<sup>16</sup> Priority Quotes and BAM responses will be allocated pursuant to the algorithm set forth in Rule 21.8(c).<sup>17</sup> Priority Quote status is only valid for the duration of the particular Auction.

Finally, after Priority Customers, the Initiating Member and Users with Priority Quotes, if applicable, have received allocations, all other interest will be allocated pursuant to Rule 21.8(c).<sup>18</sup>

<sup>16</sup> MIAX allocates executions resulting from Public Customer interest and priority Market Maker quotes ahead of other interest. MIAX's system may designate Market Maker quotes as either priority quotes or non-priority quotes in accordance with the provisions in MIAX Rule 517(b). Although not limited to EDGX Market Makers, the Exchange is prioritizing Priority Quote allocations in the proposed EDGX BAM Auction in a similar manner, ahead of other non-Priority Customer interest. See also, BX Options Chapter VI, Section 9(ii)(E)(3).

<sup>17</sup> See proposed Rule 21.19(b)(4)(B)(iii).

<sup>18</sup> See proposed Rule 21.19(b)(4)(B)(iv).

#### Additional Details

Any unexecuted BAM responses will be cancelled.<sup>19</sup> With respect to "Intermarket Sweep Orders" or "ISO" Orders,<sup>20</sup> if an Auction is initiated for an Agency Order designated as an ISO Order, executions will be permitted at a price inferior to the Initial NBBO.<sup>21</sup> Specifically, a BAM ISO is the transmission of two orders for crossing without regard for better priced Protected Bids or Protected Offers because the Member transmitting the BAM ISO to the Exchange has, simultaneous with the routing of the BAM ISO, routed one or more ISOs, as necessary, to execute against the full size of any Protected Bid or Protected Offer that is superior to the Auction price, including all interest in the Exchange's book priced better than the proposed Auction price. The Exchange will accept a BAM ISO provided the order adheres to the Agency Order acceptance requirements, but without regard to the NBBO. The Exchange will execute the BAM ISO in the same manner as other Agency Orders, except that it will not protect prices away. Instead, order flow providers will bear the responsibility to clear all better priced interest away simultaneously with submitting the BAM ISO Order. There is no other impact to BAM functionality. Specifically, liquidity present at the end of the BAM Auction will continue to be included in the BAM Auction as it is with Agency Orders not marked as ISOs. This order type is offered by other options exchanges.<sup>22</sup>

The Exchange proposes to limit the use of Match Trade Prevention ("MTP") functionality, set forth in Rule 21.1(g), in the context of BAM responses to the MTP Cancel Newest option. A BAM response with any other MTP modifier will be rejected.

#### Crossing and Agency Orders

In lieu of the procedures in proposed paragraphs (a)–(b) to Rule 21.19, an Initiating Member may enter an Agency Order for the account of a Priority Customer paired with an order for the account of a Priority Customer and such paired orders will be automatically executed without an Auction

<sup>19</sup> See proposed Rule 21.19(b)(7).

<sup>20</sup> "Intermarket Sweep Orders" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by EDGX and are executed within the System at one or multiple price levels without regard to Protected Quotations of other Eligible Exchanges as defined in Rule 27.1. ISOs are not eligible for routing pursuant to Rule 21.9.

<sup>21</sup> See proposed Rule 21.19(b)(7).

<sup>22</sup> See PHLX Rules at 1080(n), which indicates that PIXL ISO Orders are permissible. See also CBOE Rule 6.53(q); BX Options Chapter VI, Section 9(ii)(K).

("Customer-to-Customer Immediate Cross"), subject to the following proposed conditions. A Customer-to-Customer Immediate Cross must be priced at or between the EDGX BBO. Further, a Customer-to-Customer Immediate Cross will not be initiated but will instead be cancelled if there is a resting Priority Customer order on the same side of the market and at the same price as the Agency Order. Finally, a Customer-to-Customer Immediate Cross will not be initiated if there is a resting Priority Customer order on the opposite side of the market from, and at the same price as, the Agency Order. Instead, the Agency Order will be subject to the Auction process set forth above, and the resting Priority Customer order will participate in such process.<sup>23</sup>

#### Regulatory Provisions

##### Bona Fide Transactions; Disrupting or Manipulating Auctions

Under the proposed Rule, the Auction may be used only where there is a genuine intention to execute a bona fide transaction.<sup>24</sup> Also, under the proposed Rule, a pattern or practice of submitting orders or quotes for the purpose of disrupting or manipulating BAM Auctions would be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1. It would also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 3.1 to engage in a pattern of conduct where the Initiating Member breaks up an Agency Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in sub-paragraph (b)(4) of the proposed Rule.<sup>25</sup>

##### Order Exposure

EDGX Rule 22.12 prevents an Options Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Options Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Member to establish a relationship with a Priority Customer or other person to deny agency orders the opportunity to interact on the Exchange

<sup>23</sup> See proposed Rule 21.19(c).

<sup>24</sup> See proposed Interpretation and Policy .01 of Rule 21.19.

<sup>25</sup> See proposed Interpretation and Policy .02 of Rule 21.19.

and to realize similar economic benefits as it would achieve by executing agency orders as principal. Under the proposed Rule, it would be a violation of Rule 22.12 for an Options Member to circumvent such rule by providing an opportunity for (i) a Priority Customer affiliated with the Options Member, or (ii) a Priority Customer with whom the Options Member has an arrangement that allows the Options Member to realize similar economic benefits from the transaction as the Options Member would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as BAM Priority Customer-to-Priority Customer immediate crosses pursuant to paragraph (c) of the proposed Rule.<sup>26</sup> In addition to the proposed Interpretation and Policy described above, the Exchange proposes to amend Rule 22.12 to add reference to BAM as an exception to the general restriction on the execution of orders as principal against orders they represent as agent.

#### Pilot Program Information to the Commission

Subject to a Pilot expiring January 18, 2017, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any raw data which is submitted to the Commission will be provided on a confidential basis.<sup>27</sup>

The Exchange will provide the following additional information on a monthly basis:

(1) The number of contracts (of orders of 50 contracts or greater) entered into BAM Auctions;

(2) the number of contracts (of orders of fewer than 50 contracts) entered into BAM Auctions;

(3) the number of orders of 50 contracts or greater entered into BAM Auctions; and

(4) the number of orders of fewer than 50 contracts entered into BAM Auctions.

#### Implementation

If the Commission approves this proposed rule change, the Exchange

<sup>26</sup> See proposed Interpretation and Policy .03 to Rule 21.19.

<sup>27</sup> See proposed Interpretation and Policy .04 to Rule 21.19.

anticipates that it will deploy BAM within 45 days of approval. Members will be notified of the deployment date through a Trade Desk Notice.

#### Examples of Agency Order Executions

##### Example No. 1

*Summary:* Initiating Member & Priority Quote interest fully satisfies Agency Order; all participants eligible for Priority Quote status.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Member Firm 1 (non-Market Maker) offering 30 contracts each
- Class is designated as eligible for Priority Quotes
- Agency Order to buy 100 contracts stopped at 1.02 is received

*BAM Process:*

- Auction begins
- During Auction:
  - Market Maker A responds to sell 30 contracts at 1.02 (Priority Quote status);
  - Market Maker B responds to sell 20 contracts at 1.02; and
  - Member Firm 1 responds to sell 30 contracts at 1.02 (Priority Quote status).
- Auction ends:
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A and Member Firm 1 each trade 30 contracts since they maintained Priority Quotes for 30 contracts; and
  - Market Maker B's response is cancelled since there were no contracts open after Priority Quotes were filled at that price.

##### Example No. 2

*Summary:* Initiating Member & Priority Quote interest fully satisfies Agency Order with Priority Quote interest exceeding remainder; Pro-Rata Amongst Priority Quote interest.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Quotes
- Agency Order to buy 100 contracts stopped at 1.02 is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker A responds to sell 30 contracts at 1.02;
  - Market Maker B responds to sell 30 contracts at 1.02;
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 10 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price;
  - Initiating Member is allocated 40 contracts at 1.02 (40% carve out);
  - Market Maker A and Market Maker B each trades 25 contracts (pro rata among Priority Quotes).

- Market Maker D's response is cancelled since there were no contracts open after Priority Quotes were filled at that price.

##### Example No. 3

*Summary:* Market Makers improve upon the price and receive both Priority Quote status and non-Priority Quote status based on their size at initial NBBO; Initiating Member does not receive an allocation.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Quotes
- Agency Order to buy 90 contracts stopped at 1.03 is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price;
  - Market Maker A and Market Maker B each trade 30 contracts at 1.02 since they have priority up to their size at the NBBO when the Auction started;
  - Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance of 20 contracts at 1.02 based on their remaining interest size with Market Maker A being allocated 4 contracts (=20/90\*20), Market Maker B being allocated 4 (=20/90\*20) contracts, and Market Maker D being allocated 11 contracts (=50/90\*20);
  - The residual 1 contract will be allocated in time priority to Market Maker A;
  - Initiating Member does not participate as entirety of order was price improved.

##### Example No. 4

*Summary:* Initiating Member utilizes Auto-Match feature with specified price and Market Makers with Priority Quotes participate; Initiating Member & Priority Quote interest fully satisfies Agency Order.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Quotes
- Agency Order to buy 90 contracts stopped at 1.03 with Auto-Match feature to 1.02 is received

*BAM Process:*

- Auction begins
- During auction:

- Market Maker A responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
- Market Maker B responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
- Market Maker C responds to sell 10 at 1.01; and
- Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price; note that the Initiating Member specified a limit of 1.02 so such Initiating Member does not receive an Auto-Match execution at 1.01;
  - Initiating Member is allocated 40% or 36 contracts at 1.02 since it will be the final price point and Auto-Match is enabled;
  - Market Maker A and Market Maker B each trades 22 contracts at 1.02 since they have Priority Quote status ahead of Market Maker D up to their size at the NBBO when the Auction started; and
  - Market Maker D's response is cancelled.

**Example No. 5**

*Summary:* Initiating Member utilizes Auto-Match feature with specified price and Market Makers with Priority Quote status and non-Priority Quote status participate; Agency Order exceeds size of Initiating Member execution and Priority Quotes.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Quotes
- Agency Order to buy 150 contracts stopped at 1.03 with Auto-Match feature to 1.02 is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01 since it was the only interest offered at the best price; note that the Initiating Member specified a limit of 1.02 so such Initiating Member does not receive an Auto-Match execution at 1.01;
  - Initiating Member is allocated 40% or 60 contracts at 1.02 since it will be the final price point;
  - Market Maker A and Market Maker B each trade 30 contracts at 1.02 since they have Priority Quote status up to their size at the NBBO when the Auction started;

- Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance with Market Maker A and Market Maker B each trading 4 additional contracts at 1.02 (20/90\*20) and Market Maker D trading 11 contracts at 1.02 (50/90\*20);
- The residual 1 contract will be allocated in time priority to Market Maker A.

**Example No. 6**

*Summary:* Initiating Member utilizes Auto-Match feature without specified price and Market Makers with Priority Quote status and non-Priority Quote status participate; Agency Order exceeds size of Initiating Member execution and Priority Quotes.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Class is designated as eligible for Priority Quotes
- Agency Order to buy 150 contracts stopped at 1.03 with Auto-Match feature is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker A responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
  - Market Maker B responds to sell 50 contracts at 1.02 (Priority Quote status for 30 contracts and non-Priority Quote status for 20 contracts);
  - Market Maker C responds to sell 10 at 1.01; and
  - Market Maker D responds to sell 50 contracts at 1.02.
- Auction ends:
  - Market Maker C trades 10 at 1.01;
  - Initiating Member auto-matches and trades 10 at 1.01;
  - Initiating Member is allocated 40% or 60 contracts at 1.02 since it will be the final price point;
  - Market Maker A and Market Maker B each trade 30 contracts at 1.02 since they have Priority Quote status up to their size at the NBBO when the Auction started;
  - Market Maker A, Market Maker B, and Market Maker D then pro-rata split the balance with Market Maker A and Market Maker B each trading 2 contracts at 1.02 (20/90\*10) and Market Maker D trading 6 contracts at 1.02 (50/90\*10).

**Example No. 7**

*Summary:* All executions occurring at initial NBBO price and Public Customer order received.

*Assumptions:*

- NBBO = .97–1.03
  - Class is designated as eligible for Priority Quotes
  - EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
  - Agency Order to buy 100 contracts stopped at 1.03 is received
- BAM Process:*
- Auction begins

- During auction:
  - Market Maker C responds to sell 20 at 1.03; and
  - Priority Customer offers 2 contracts at 1.03.
- Auction ends:
  - Priority Customer trades 2 contracts at 1.03;
  - Initiating Member is allocated 40% or 40 contracts at 1.03;
  - Remaining allocation is pro-rata among Priority Quote interest with Market Maker A trading 29 contracts (30/60\*58) and Market Maker B trading 29 contracts (30/60\*58).
  - Note that in this example the Priority Quote interest from Market Maker A and Market Maker B is from quotations published on the Exchange's order book and not from BAM responses received from such Market Makers.

**Example No. 8**

*Summary:* Initiating Member specifying Auto-Match feature without specified price, Market Maker with Priority Quotes has multiple price levels of interest, and executions occur at initial NBBO price.

*Assumptions:*

- NBBO = .97–1.03
  - EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
  - Agency Order to buy 300 contracts stopped at 1.03 with Auto-Match feature is received
- BAM Process:*
- Auction begins
  - During auction:
    - Market Maker A responds to sell 10 contracts at 1.02 (considered as Priority Quote);
    - Market Maker B responds to sell 50 contracts at 1.02 (30 of the 50 contracts are considered as Priority Quote);
    - Market Maker C responds to sell 5 at 1.01; and
    - Market Maker D responds to sell 40 contracts at 1.02.
  - Next, during auction:
    - Market Maker A responds with 30 additional contracts at 1.03 (considered as Priority Quote).
  - Next, during auction:
    - Market Maker A moves his quote (maintain Priority Quote status) and EDGX BBO becomes .95–1.02 for 10 contracts; and
    - An order from Member Firm 1 arrives offering 10 contracts at 1.02 such that the EDGX BBO becomes .95–1.02 for 20 contracts.
  - Auction ends:
    - Market Maker C trades 5 at 1.01;
    - Initiating Member auto-matches and trades 5 at 1.01;
    - Next, interest is then allocated at 1.02 as follows:
      - Market Maker A response (Priority Quote status) trades 10 contracts;
      - Market Maker B response (Priority Quote status) trades 30 contracts;
      - Market Maker A quote trades 10 contracts at 1.02;
      - Market Maker B response (non-Priority Quote status) trades 20 contracts;

- Market Maker D's response (non-Priority Quote status) trades 40 contracts at 1.02;
- Member Firm 1's quote (non-Priority Quote status) trades 10 contracts at 1.02.
- Next, the Initiating Member order matches the full volume trading at 1.02 (because of Auto-Match feature) which is 120 contracts.
- The remaining 50 contracts are traded by the Initiating Member at 1.03 since it will be the final price point (40% carve out;  $0.4 * 300 = 75$ ).

*Example No. 9*

*Summary:* Initiating Member utilizing Last Priority.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 100 contracts stopped at 1.02 marked with Last Priority is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker C responds to sell 5 at 1.01;
  - Market Maker A responds to sell 5 contracts at 1.02;
  - Market Maker B responds to sell 40 contracts at 1.02; and
  - Market Maker D responds to sell 20 contracts at 1.02.
- Next, during auction:
  - Market Maker A moves his quote (maintains Priority Quote status);
  - EDGX BBO becomes .95–1.02 for 5 contracts; and
  - NBBO becomes .97–1.02.
- Auction ends:
  - Market Maker C trades 5 contracts at 1.01;
  - Market Maker A response with Priority Quote status executes 5 contracts at 1.02;
  - Market Maker B response with Priority Quote status executes 30 contracts;
  - Market Maker A quote with Priority Quote status executes 5 contracts;
  - Non-Priority Quote interest at 1.02 then executes with Market Maker B trading 10 contracts and Market Maker D trading 20 contracts. The Initiating Member then executes the remaining 25 contracts at 1.02 since there is no other interest to satisfy the Agency Order at a price equal to or better than the stop price of 1.02.

*Example No. 10*

*Summary:* Initiating Member utilizing Last Priority and no responders.

*Assumptions:*

- EDGX BBO = .95–1.03(60) with Market Maker A and Market Maker B offering 30 contracts each
- Agency Order to buy 20 contracts stopped at 1.02 marked with Last Priority is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker C quotes .95–1.02 for 10 contracts and EDGX BBO becomes .95–1.02 for 10 contracts; and

- NBBO becomes .97–1.02.
- Next, during auction:
  - Market Maker A moves his quote (maintains Priority Quote status) and joins the EDGX BBO at .95–1.02 for 10 contracts; and
  - NBBO remains .97–1.02.
- Auction ends:
  - Priority Quote interest trades first: Market Maker A gets allocated 10 contracts of Agency Order.
  - Non-Priority Quote interest trades next: Market Maker C gets allocated 10 contracts.
  - Neither the Initiating Member nor Market Maker B receives any execution in this example.

*Example No. 11*

*Summary:* Initiating Member utilizing an ISO Order priced through NBBO.

*Assumptions:*

- NBBO = .97–1.03
- EDGX BBO = .95–1.04
- Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received

*BAM Process:*

- Auction begins
- During auction:
  - Market Maker A responds to sell 20 at 1.02; and
  - Market Maker B responds to sell 20 at 1.02.
- Auction ends:
  - Market Maker A gets allocated 20 contracts of Agency Order at 1.02.
  - Market Maker B gets allocated 20 contracts of Agency Order at 1.02.
  - The Initiating Member gets allocated the remaining 10 contracts at 1.04.

*Example No. 12*

*Summary:* Initiating Member utilizing an ISO Order priced through EDGX BBO.

*Assumptions:*

- NBBO = .97–1.03
  - EDGX BBO = .95–1.03
  - Agency Order to buy 50 contracts stopped at 1.04 marked with an ISO flag is received
- Agency Order is rejected.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of the Act,<sup>28</sup> in general, and with Section 6(b)(5) of the Act,<sup>29</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

<sup>28</sup> 15 U.S.C. 78a *et seq.*

<sup>29</sup> 15 U.S.C. 78f(b)(5).

The Exchange believes that the proposal will result in increased liquidity available at improved prices, with competitive final pricing out of the Initiating Member's complete control. BAM should promote and foster competition and provide more options contracts with the opportunity for price improvement. As a result of the increased opportunities for price improvement, the Exchange believes that participants will use BAM to increase the number of Priority Customer Orders that are provided with the opportunity to receive price improvement over the NBBO.

The Exchange believes that the BAM Auction will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all Users the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

As noted above, the Exchange has proposed to allow BAM Auctions for 50 contracts or more to occur concurrently with other BAM Auctions. Although Auctions for larger Agency Orders will be allowed to overlap, the Exchange does not believe that this raises any issues that are not addressed through the proposal as described above. For example, although overlapping, each Auction will be started in a sequence and with a time that will determine its processing. Thus, even if there are two Auctions that commence and conclude, at nearly the same time, each Auction will have a distinct conclusion at which time the Auction will be allocated. In turn, when the first Auction concludes, unrelated orders that then exist will be considered for participation in the Auction.<sup>30</sup> If unrelated orders are fully executed in such Auction, then there will be no unrelated orders for consideration when the subsequent Auction is processed (unless new unrelated order interest has arrived). If instead there is remaining unrelated order interest after the first Auction has

<sup>30</sup> See proposed Rule 21.19(b)(3).

been allocated, then such unrelated order interest will be considered for allocation when the subsequent Auction is processed. As another example, each BAM response is required to specifically identify the Auction for which it is targeted<sup>31</sup> and if not fully executed will be cancelled back at the conclusion of the Auction.<sup>32</sup> Thus, BAM responses will be specifically considered only in the specified Auction.

The Exchange does not believe that allowing multiple auctions to overlap for Agency Orders of 50 contracts or more presents any unique issues that differ from functionality already in place on other exchanges. The Exchange notes that other options exchanges offer auctions for orders 50 contracts or greater (generally referred to as “facilitation auctions”) that are permitted to overlap.<sup>33</sup> In contrast, similar to the Exchange’s proposal, other options exchanges do prevent simultaneous auctions to occur for orders less than 50 contracts (generally referred to as “price improvement auctions”).<sup>34</sup> Instead of proposing two separate auction processes that are functionally the same with only minor differences, such as the restriction on overlapping or queuing auctions—which is present in other options exchanges’ price improvement auctions but not in their facilitation auctions—the Exchange is proposing to have a single process that recognizes these specific nuances to avoid introducing new policy issues regarding such topics.

Further, the new functionality may lead to an increase in Exchange volume and should allow the Exchange to better compete against other markets that already offer an electronic solicitation mechanism, while providing an opportunity for price improvement for agency orders. The Exchange believes that its proposal will allow the Exchange to better compete for solicited transactions, while providing an opportunity for price improvement for agency orders and assuring that Priority Customers on the book are protected. The new solicitation mechanism should promote and foster competition and provide more options contracts with the opportunity for price improvement, which should benefit market participants, investors, and traders. The Exchange has proposed a range between no less than one hundred milliseconds

and no more than one second for the duration of the BAM Auction; therefore the proposed rule change will provide investors with more timely execution of their options orders than a mechanism that has a one second auction, while ensuring that there is an adequate exposure of orders in EDGX BAM. The Exchange preliminary expects to use a default of 100 milliseconds for all symbols. The time will be announced to Members and available on the Exchange’s Web site. The proposed auction response time of no less than one hundred milliseconds and no more than one second should allow investors the opportunity to receive price improvement through BAM while reducing market risk. The Exchange believes a briefer time period reduces the market risk for the Initiating Member, versus an auction with a one second period, as well as for any Member providing orders in response to a broadcast. As such, EDGX believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors’ and the public interest. The Exchange believes the proposed rule change is not unfairly discriminatory because the BAM duration would be the same for all Members and symbols. All Members will have an equal opportunity to respond with their best prices during the BAM Auction. Since the Exchange considers all interest present in the System, and not solely BAM responses, for execution against the Agency Order, those participants who are not explicit responders to the Auction will expect executions via BAM as well.

With respect to trading halts, as described herein, in the case of a trading halt on the Exchange in the affected series, the Auction will be cancelled without execution. Cancelling Auctions without execution in this circumstance is consistent with Exchange handling of trading halts in the context of continuous trading on EDGX Options and promotes just and equitable principles of trade and, in general, protects investors and the public interest.<sup>35</sup>

The Exchange further believes that the proposal is consistent with the requirements of Section 11(a) of the Act<sup>36</sup> and Rule 11a2–2(T)<sup>37</sup> thereunder. Section 11(a) prohibits a member of a national securities exchange from

effecting transactions on the exchange for its own account, the account of an associated person, or an account in which it or an associated person exercises investment discretion, unless an exception applies (collectively “Covered Accounts”). Rule 11a2–2(T) under the Act,<sup>38</sup> known as the effect versus execute” rule, provides exchange members with an exemption from the Section 11(a)(1) prohibition. Rule 11a2–2(T) permits an exchange member, subject to certain conditions, to effect transactions for Covered Accounts by arranging for an unaffiliated member to execute transactions on the exchange.<sup>39</sup> To comply with Rule 11a2–2(T)’s conditions, a member: (i) Must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution;<sup>40</sup> (iii) may not be affiliated with the executing member; and (iv) with respect to an account over which the member has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule. For the reasons set forth below, the Exchange believes that Exchange Members entering orders into BAM would satisfy the requirements of Rule 11a2–2(T).

The Exchange does not operate a physical trading floor, rather the Exchange operates an electronic market. Rule 11a2–2(T)’s first condition is that orders for Covered Accounts be transmitted from off the exchange floor. In the context of automated trading systems, the Commission has found that the off-floor transmission requirement is met if a Covered Account order is transmitted from a remote location directly to an exchange’s floor by electronic means.<sup>41</sup> EDGX represents

<sup>38</sup> CFR 240.11a2–2(T).

<sup>39</sup> In enacting this provision, Congress was concerned about members benefiting in their principal transactions from special “time and place” advantages associated with floor trading—such as the ability to “execute decisions faster than public investors.” The Commission, however, has adopted a number of exceptions to the general statutory prohibition for situations in which the principal transactions contribute to the fairness and orderliness of exchange markets or do not reflect any time and place trading advantages. See Securities Exchange Act Release No. 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978); Securities Exchange Act Release No. 14713 (April 28, 1978), 43 FR 18557 (May 1, 1978); Securities Exchange Act Release No. 15533 (January 29, 1979), 44 FR 6093 (Jan. 31, 1979). The 1978 and 1979 Releases cite the House Report at 54–57.

<sup>40</sup> The member may, however, participate in clearing and settling the transaction.

<sup>41</sup> See, e.g., Securities Exchange Act Release Nos. 61419 (January 26, 2010), 75 FR 5157 (February 1,

<sup>31</sup> See proposed Rule 21.19(b)(1)(E).

<sup>32</sup> See proposed Rule 21.19(b)(5).

<sup>33</sup> See, e.g., ISE Rule 716(d), which governs ISE’s facilitation mechanism and does not restrict such auctions to one auction at a time. See also Boston Options Exchange (“BOX”) Rule 7270.

<sup>34</sup> See ISE Rule 723, Interpretation and Policy .04. See also BOX IM–7150–3.

<sup>35</sup> The Exchange notes that trading on the Exchange in any option contract will be halted whenever trading in the underlying security has been paused or halted by the primary listing market and other circumstances. See Rule 20.3.

<sup>36</sup> 15 U.S.C. 78k(a)(1).

<sup>37</sup> 17 CFR 240.11a2–2(T).



that the System and the proposed BAM Auction receive all orders electronically through remote terminals or computer-to-computer interfaces. The Exchange represents that orders for Covered Accounts from Members will be transmitted from a remote location directly to the proposed BAM mechanisms by electronic means.

The second condition of Rule 11a2-2(T) requires that neither a member nor an associated person participate in the execution of its order once the order is transmitted to the floor for execution. The Exchange represents that, upon submission to the BAM Auction, an order will be executed automatically pursuant to the rules set forth for BAM. In particular, execution of an order sent to the mechanism depends not on the Initiating Member entering the order, but rather on what other orders are present and the priority of those orders. Thus, at no time following the submission of an order is a Member able to acquire control or influence over the result or timing of order execution.<sup>42</sup> Once the Agency Order has been transmitted, the Exchange Initiating Member that transmitted the order will not participate in the execution of the Agency Order. Initiating Members submitting Agency Orders will relinquish control to modify their Agency Orders upon transmission to the Exchange's System. Further, no Member, including the Initiating Member, will see a BAM response submitted into BAM and therefore and will not be able to influence or guide the execution of their Agency Orders. Finally, the Last Priority feature will not permit a Member to have any control over an order. The election to Last Priority on an order is available prior to the submission of the order and therefore could not be utilized to gain influence or guide the execution of the Agency Order. The information provided with respect to the Last Priority feature by the Initiating Member will not be broadcast

2010) (SR-BATS-2009-031) (approving BATS options trading); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SRBSE-2008-48) (approving equity securities listing and trading on BSE); 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080) (approving NOM options trading); 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving The Nasdaq Stock Market LLC); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (SR-PCX-00-25) (approving Archipelago Exchange); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (SR-NYSE-90-52 and SR-NYSE-90-53) (approving NYSE's Off-Hours Trading Facility); and 15533 (January 29, 1979), 44 FR 6084 (January 31, 1979) ("1979 Release").

<sup>42</sup> The Exchange notes that a Member may not cancel or modify an order after it has been submitted into BAM.

and further, the information may not be modified by the Initiating Member during the auction.

Rule 11a2-2(T)'s third condition requires that the order be executed by an exchange member who is unaffiliated with the member initiating the order. The Commission has stated that the requirement is satisfied when automated exchange facilities, such as the BAM Auction are used, as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange.<sup>43</sup> The Exchange represents that the BAM Auction is designed so that no Member has any special or unique trading advantage in the handling of its orders after transmitting its orders to the mechanism.

Rule 11a2-2(T)'s fourth condition requires that, in the case of a transaction effected for an account with respect to which the initiating member or an associated person thereof exercises investment discretion, neither the initiating member nor any associated person thereof may retain any compensation in connection with effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to Section 11(a) of the Act and Rule 11a2-2(T) thereunder.<sup>44</sup> The Exchange recognizes that Members relying on Rule 11a2-2(T) for transactions effected through the BAM Auction must comply with this condition of the Rule and the

<sup>43</sup> In considering the operation of automated execution systems operated by an exchange, the Commission noted that, while there is not an independent executing exchange member, the execution of an order is automatic once it has been transmitted into the system. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). See 1979 Release.

<sup>44</sup> See 17 CFR 240.11a2-2(T)(a)(2)(iv). In addition, Rule 11a2-2(T)(d) requires a member or associated person authorized by written contract to retain compensation, in connection with effecting transactions for Covered Accounts over which such member or associated persons thereof exercises investment discretion, to furnish at least annually to the person authorized to transact business for the account a statement setting forth the total amount of compensation retained by the member in connection with effecting transactions for the account during the period covered by the statement which amount must be exclusive of all amounts paid to others during that period for services rendered to effect such transactions. See also 1978 (stating "[t]he contractual and disclosure requirements are designed to assure that accounts electing to permit transaction-related compensation do so only after deciding that such arrangements are suitable to their interests").

Exchange will enforce this requirement pursuant to its obligations under Section 6(b)(1) of the Act to enforce compliance with federal securities laws.

The Exchange believes that the instant proposal is consistent with Rule 11a2-2(T), and that therefore the exception should apply in this case.

The Exchange also believes that the proposed rule changes would further the objectives of the Act to protect investors by promoting the intermarket price protection goals of the Options Intermarket Linkage Plan.<sup>45</sup> The Exchange believes its proposal would help ensure inter-market competition across all exchanges and facilitate compliance with best execution practices. The Exchange believes that these objectives are consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 11A of the Act.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The competition among the options exchanges is vigorous and this proposal is intended to afford the EDGX Options market the opportunity to compete for order flow by offering an auction mechanism on EDGX similar to that of other exchanges.

With respect to intra-market competition, the Auction will be available to all EDGX Options Members. Moreover, as explained above, the proposal should encourage EDGX Options Members to compete amongst each other by responding with their best price and size for a particular auction. With respect to overall market quality, the Exchange believes that the BAM Auction, as proposed herein, will encourage will encourage participants on EDGX Options to quote or display orders at the NBBO with additional size and thereby result in tighter and deeper markets, resulting in more liquidity on EDGX Options. Specifically, by offering all Users the ability to receive priority in the proposed allocation during the BAM Auction up to the size of their quote, an EDGX User will be encouraged to maintain quotes or orders with additional size outside of the BAM Auction at the best and most aggressive prices. The Exchange believes that this incentive may result in a narrowing of quotes and thus further enhance EDGX's

<sup>45</sup> See Rule 27.3 regarding Locked and Crossed Markets.

market quality. Within the BAM Auction, EDGX believes that the rules that are proposed will encourage EDGX Users to compete vigorously to provide the opportunity for price improvement in a competitive auction process.

The Exchange's proposal is a competitive response to similar provisions in the price improvement auction rules of other options exchanges.<sup>46</sup> The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish more uniform price improvement auction rules on the various options exchanges. The Exchange anticipates that this auction proposal will create new opportunities for EDGX to attract new business and compete on equal footing with those options exchanges with auctions and for this reason the proposal does not create an undue burden on inter-market competition. Rather, the Exchange believes that the proposed rule would bolster inter-market competition by promoting fair competition among individual markets, while at the same time assuring that market participants receive the benefits of markets that are linked together, through facilities and rules, in a unified system, which promotes interaction among the orders of buyers and sellers. The Exchange believes its proposal would help ensure inter-market competition across all exchanges and facilitate compliance with best execution practices. In addition, the Exchange believes that the proposed rule change would help promote fair and orderly markets by helping ensure compliance with Options Order Protection and Locked and Crossed Market Rules.<sup>47</sup> Thus, the Exchange does not believe the proposal creates any significant impact on competition.

#### *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 Exchange consents, the Commission will: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the 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](mailto:rule-comments@sec.gov). Please include File Number SR-BatsEDGX-2016-41 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-BatsEDGX-2016-41. 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 the filing also will 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-BatsEDGX-2016-41 and should be

submitted on or before October 26, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>48</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

[FR Doc. 2016-24010 Filed 10-4-16; 8:45 am]

**BILLING CODE 8011-01-P**

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#### **SMALL BUSINESS ADMINISTRATION**

[License No. 09/09-0479]

#### **Avante Mezzanine Partners SBIC II, L.P.; Notice Seeking Exemption Under Section 312 of the Small Business Investment Act, Conflicts of Interest**

Notice is hereby given that Avante Mezzanine Partners SBIC II, L.P., 11150 Santa Monica Boulevard, Suite 1470, Los Angeles, CA 90025, a Federal Licensee under the Small Business Investment Act of 1958, as amended ("the Act"), in connection with the financing of a small concern, has sought an exemption under Section 312 of the Act and Section 107.730, Financials which constitute Conflicts of Interest of the Small Business Administration ("SBA") Rules and Regulations (13 CFR 107.730). Avante Mezzanine Partners SBIC II, L.P. proposes to provide debt and equity financings to Global ID Group, Inc., 500 N. 4th Street, Suite 204, Fairfield, Iowa 52556.

The financing is brought within the purview of § 107.730(a) of the Regulations because Avante Mezzanine Partners SBIC, L.P. ("Avante") and Avante Mezzanine Partners SBIC II, L.P. are Associates. Avante owns more than ten percent of Global ID Group, Inc. and therefore this transaction is considered *Financing an Associate* requiring prior SBA approval. This transaction will also discharge an obligation of Avante.

Notice is hereby given that any interested person may submit written comments on this transaction within fifteen days of the date of this publication to the Associate Administrator, Office of Investment and Innovation, U.S. Small Business Administration, 409 Third Street SW., Washington, DC 20416.

**Mark L. Walsh,**  
*Associate Administrator for Office of Investment and Innovation.*

[FR Doc. 2016-24035 Filed 10-4-16; 8:45 am]

**BILLING CODE 8025-01-P**

<sup>46</sup> Today, the following options markets offer auctions: CBOE, ISE, BOX, MIAx, PHLX and BX Options. See CBOE Rule 6.74A, ISE Rule 723, BOX Rule 7150, MIAx Rule 5.15, PHLX Rule 1080(n), and BX Options Chapter VI, Section 9.

<sup>47</sup> See Chapter XXVII of the Exchange's Rules.

<sup>48</sup> 17 CFR 200.30-3(a)(12).