

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–87109; File No. SR–Phlx–2019–36]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Exchange's Pricing Schedule, at Equity 7, Section 3

September 25, 2019.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b–4 thereunder,² notice is hereby given that on September 13, 2019, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 proposes to amend the Exchange's transaction fees at Equity 7, Section 3, as described further below.

The text of the proposed rule change is available on the Exchange's website at <http://nasdaqphlx.cchwallstreet.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 aspects of such statements.

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

1. Purpose

Presently, the Exchange has a pricing schedule, at Equity 7, Section 3, which sets forth several different fees that it

charges for orders in securities priced at \$1 or more per share that remove liquidity from the Exchange and several different credits that it provides for orders in such securities that add liquidity on the Exchange. The Exchange recently amended this pricing schedule to increase removal activity on the Exchange and to improve overall market quality.³ Currently, the Exchange provides the following schedule of credits for displayed orders/quotes that provide liquidity to the Exchange:

- \$0.0026 per share executed credit for quotes/orders entered by member organizations that provide 0.15% or more of total Consolidated Volume during a month;
- \$0.0024 per share executed credit for quotes/orders entered by member organizations that provide 0.07% or more of total Consolidated Volume during a month; and
- \$0.0023 per share executed credit for all other quotes/orders.

The Exchange now proposes to reduce its \$0.0023 per share executed credit for all other displayed quotes/orders to \$0.0020 per share executed. The Exchange proposes this change to further offset the costs of its recent reductions to its transaction fees, as set forth in SR–Phlx–2019–35, which the Exchange intends to incentivize increased liquidity removal activity on the Exchange, and to further improve overall market quality. Nasdaq [sic] notes that it mistakenly omitted this change when it filed SR–Phlx–2019–35, and wishes to correct that omission going forward.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁴ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,⁵ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Proposal Is Reasonable

The Exchange's proposed change to its credit for all other displayed orders/quotes is reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for equity securities transaction services that constrain its

pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In *NetCoalition v. Securities and Exchange Commission*, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’”⁶

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”⁷

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for equity security transaction services. The Exchange is only one of several equity venues to which market participants may direct their order flow. Competing equity exchanges offer similar tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume thresholds.⁸

Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules.⁹ Within the foregoing

⁶ *NetCoalition v. SEC*, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782–83 (December 9, 2008) (SR–NYSEArca–2006–21)).

⁷ Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

⁸ See Cboe EDGX U.S. Equities Exchange Fee Schedule, available at https://markets.cboe.com/us/equities/membership/fee_schedule/edgx/.

⁹ The Exchange perceives no regulatory, structural, or cost impediments to market participants shifting order flow away from it. In particular, the Exchange notes that such shifts in liquidity and market share occur within the context

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ See SR–Phlx–2019–35.

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(4) and (5).

context, the proposal represents a reasonable attempt by the Exchange to further offset the costs of its recent action¹⁰ to improve market quality and increase its market share relative to its competitors.

Generally, the Exchange's schedule of credits and charges in Equity 7, Section 3, as recently amended by SR-Phlx-2019-35, is intended to provide strong incentives to member organizations to increase their liquidity removal activity on the Exchange, and to do so broadly in orders in securities in all Tapes. The Exchange believes that an increase in overall liquidity removal activity on the Exchange will, in turn, improve the quality of the Exchange's equity market and increase its attractiveness to existing and prospective participants. The proposal to reduce the Exchange's credit for all other displayed orders/quotes is an effort to help offset the costs of its recent reductions in transaction fees for removing liquidity from the Exchange. Even as lowered, the proposed amended credit will be comparable to, if not favorable to, those that its competitors provide.¹¹

The Proposal Is an Equitable Allocation of Credits and Charges

The Exchange believes its proposal will allocate its proposed credits fairly among its market participants. The Exchange believes that it is equitable to offset the costs of its recent proposal to charge lower fees for liquidity removal¹² by lowering its corresponding credits for liquidity provision to the Exchange. Although the proposed amended credit will be lower than the existing credit, the Exchange believes that the proposed credit will continue to be comparable to liquidity adding rebates provided by its competitors.¹³ That said, the Exchange again notes that those participants that do not wish to receive the lower credit are free to shift their order flow to competing venues that offer them higher credits.

The Proposal Is Not Unfairly Discriminatory

The Exchange believes that the proposal is not unfairly discriminatory. As an initial matter, the Exchange believes that nothing about its volume-based tiered pricing model is inherently unfair; instead, it is a rational pricing model that is well-established and

ubiquitous in today's economy among firms in various industries—from co-branded credit cards to grocery stores to cellular telephone data plans—that use it to reward the loyalty of their best customers that provide high levels of business activity and incent other customers to increase the extent of their business activity. It is also a pricing model that the Exchange and its competitors have long employed with the assent of the Commission. It is fair because it incentivizes customer activity that increases liquidity, enhances price discovery, and improves the overall quality of the equity markets.

The Exchange intends for the proposal to offset its costs of improving market quality for all members on the Exchange. Although net adders of liquidity will bear the burden of the lower credit, this result is fair insofar as increased liquidity removal activity that the lower credit facilitates will help to improve overall market quality and the attractiveness of the Exchange's equity market to all existing and prospective participants.

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

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

Intramarket Competition

The Exchange does not believe that its proposal will place any category of Exchange participant at a competitive disadvantage. As noted above, all members of the Exchange—and even those that receive the lower proposed credit—will benefit from an increase in the removal of liquidity by those that choose to meet the tier qualification criteria. Moreover, members are free to trade on other venues to the extent they believe that the credits provided are not attractive. As one can observe by looking at any market share chart, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to credit changes. The Exchange notes that the tier structure is consistent with broker-dealer fee practices as well as the other industries, as described above.

Intermarket Competition

The Exchange believes that its proposed modification to its schedule of credits will not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from the other 12 live

exchanges and from off-exchange venues, which include 32 alternative trading systems. The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees and credits to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own credits in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which credit changes in this market may impose any burden on competition is extremely limited.

The proposed amended credit is reflective of this competition because, as a threshold issue, the Exchange is a relatively small market so its ability to burden intermarket competition is limited. In this regard, even the largest U.S. equities exchange by volume only has 17–18% market share, which in most markets could hardly be categorized as having enough market power to burden competition. Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. This is in addition to free flow of order flow to and among off-exchange venues which comprised more than 37% of industry volume for the month of July 2019.

In sum, the Exchange intends for the proposed amended credit to support increases in member incentives to remove liquidity from the Exchange and to contribute to market quality, which is reflective of fierce competition for order flow noted above; however, if the proposed amended credit is unattractive to market participants, it is likely that the Exchange will either fail to increase its market share or even lose market share as a result. Accordingly, the Exchange does not believe that the proposed amended credit will impair the ability of members or competing order execution 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

No written comments were either solicited or received.

¹⁰ of market participants' existing duties of Best Execution and obligations under the Order Protection Rule under Regulation NMS.

¹¹ See SR-Phlx-2019-35.

¹² See n. 8, *supra*.

¹³ See SR-Phlx-2019-35.

¹⁴ See n. 8, *supra*.

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)(ii) of the Act.¹⁴

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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments 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-Phlx-2019-36 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-Phlx-2019-36. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE,

Washington, DC 20549, on official business days between the hours of 10:00 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2019-36 and should be submitted on or before October 22, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87108; File No. SR-CboeBZX-2019-067]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Order Granting Approval of a Proposed Rule Change, as Modified by Amendment Nos. 2 and 3, to List and Trade Shares of the Innovator-100 Buffer ETF Series, Innovator Russell 2000 Buffer ETF Series, Innovator-100 Power Buffer ETF Series, Innovator Russell 2000 Power Buffer ETF Series, Innovator-100 Ultra Buffer ETF Series, and Innovator Russell 2000 Ultra Buffer ETF Series Under Rule 14.11(i)

September 25, 2019.

I. Introduction

On July 18, 2019, Cboe BZX Exchange, Inc. ("Exchange" or "BZX") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade the shares ("Shares") of the Innovator-100 Buffer ETF Series and Innovator Russell 2000 Buffer ETF Series (collectively, the "Buffer Funds"), Innovator-100 Power Buffer ETF Series and Innovator Russell 2000 Power Buffer ETF Series (collectively, the "Power Buffer Funds"), and Innovator-100 Ultra Buffer ETF Series and Innovator Russell 2000

Ultra Buffer ETF Series (collectively, the "Ultra Buffer Funds," and together with the Buffer Funds and Power Buffer Funds, the "Funds") under BZX Rule 14.11(i). The proposed rule change was published for comment in the **Federal Register** on August 5, 2019.³ On August 29, 2019, the Exchange filed Amendment No. 1 to the proposed rule change. On September 17, 2019, the Commission extended the time period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁴ On September 19, 2019, the Exchange filed Amendment No. 2 to the proposed rule change, which amended and superseded the proposed rule change as modified by Amendment No. 1.⁵ On September 24, 2019, the Exchange filed partial Amendment No. 3 to the proposed rule change.⁶ The Commission has received no comments on the proposed rule change. This order approves the proposed rule change, as modified by Amendment Nos. 2 and 3.

II. Description of the Proposed Rule Change, as Modified by Amendment Nos. 2 and 3

The Exchange proposes to list and trade the Shares under BZX Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. In total, the Exchange is proposing to list and trade Shares of up to twelve monthly series of each of the Funds. The Shares will be offered by Innovator ETFs Trust ("Trust"), a Delaware statutory trust.⁷ The

³ See Securities Exchange Act Release No. 86511 (July 30, 2019), 84 FR 38078.

⁴ See Securities Exchange Act Release No. 86996, 84 FR 49779 (September 23, 2019) (extending the time period to November 3, 2019).

⁵ In Amendment No. 2, the Exchange: (1) Deleted its representation about the index provider implementing and maintaining a firewall; (2) modified the downside protection in the Buffer Funds from 10% to 9%; (3) clarified descriptions about the investment methodology of the Funds; (4) modified descriptive terms on the liquidity and competitive market for options on the reference indexes; (5) identified options exchanges trading standardized and FLEXible EXchange Options ("FLEX Options") on the reference indexes (6) updated volume information on standardized options in the reference indexes; and (7) made other technical, non-substantive changes.

⁶ The amendments to the proposed rule change are available at: <https://www.sec.gov/comments/sr-cboebzx-2019-067/sr-cboebzx2019067.htm>. In partial Amendment No. 3, the Exchange clarified a description related to the Buffer Funds. Because Amendment Nos. 2 and 3 do not materially alter the substance of the proposed rule change or raise unique or novel regulatory issues, Amendment Nos. 2 and 3 are not subject to notice and comment.

⁷ The Trust is registered with the Commission as an investment company and has filed a registration statement for each Fund with the Commission on

¹⁴ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.