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SECURITIES

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COMMISSION

| OMB APPROVAL                                     |                |
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

| SEC FILE NUMBER |
|-----------------|
| 8-67043         |

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/2013 AND ENDING 12/31/2013  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Bats Trading, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

8050 Marshall Drive, Suite 120

(No. and Street)

Lenexa

KS

66214

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Brian Schell

913-815-7126

(Area Code - Telephone Number)

| OFFICIAL USE ONLY |
|-------------------|
| FIRM I.D. NO.     |

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG, LLP

(Name - if individual, state last, first, middle name)

1000 Walnut Street, Suite 1000

Kansas City, MO 64106

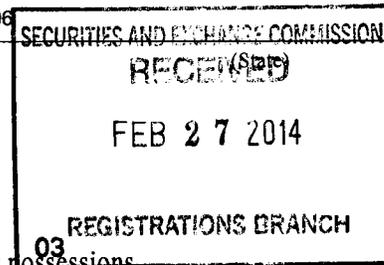
(Address)

(City)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions



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|-----------------------|
|                       |

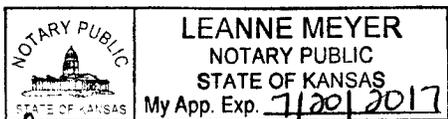
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

*Handwritten signature*

OATH OR AFFIRMATION

I, Brian Schell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BATS Trading, Inc., as of December 31, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

N/A



Leanne Meyer  
Notary Public

[Signature]  
Signature  
EVP, Chief Financial Officer  
Title

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**BATS TRADING, INC.**

Financial Statements and Schedules

(With Report of Independent Registered Public Accounting Firm Thereon)

December 31, 2013

# BATS TRADING, INC.

## Table of Contents

|  | <b>Page</b> |
|--|-------------|
| Report of Independent Registered Public Accounting Firm  |             |
| Financial Statements:  |             |
| Statement of Financial Condition   | 1           |
| Statement of Income  | 2           |
| Statement of Stockholder's Equity  | 3           |
| Statement of Cash Flows  | 4           |
| Notes to Financial Statements  | 5           |
| <b>Supplementary Schedules</b>   |             |
| Schedule 1 – Computation of Net Capital Pursuant to Rule 15c3-1  | 11          |
| Schedule 2 – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3             | 12          |
| Schedule 3 – Information for Possession or Control Requirements under Rule 15c3-3                      | 13          |
| Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5 |             |



**KPMG LLP**  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors  
BATS Trading, Inc.:

We have audited the accompanying financial statements of BATS Trading, Inc., which comprise the statement of financial condition as of December 31, 2013, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of BATS Trading, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in Schedules 1, 2, and 3 is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in Schedules 1, 2, and 3 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Schedules 1, 2, and 3 is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

February 25, 2014

**BATS TRADING, INC.**  
Statement of Financial Condition  
December 31, 2013

**Assets**

|                                 |    |            |
|---------------------------------|----|------------|
| Cash and cash equivalents       | \$ | 3,301,260  |
| Receivables:                    |    |            |
| Noncustomers                    |    | 4,131,249  |
| Other                           |    | 21,750     |
| Total receivables               |    | 4,152,999  |
| Securities owned, at fair value |    | 7,003,561  |
| Deferred income taxes, net      |    | 111,909    |
| Other assets                    |    | 71,791     |
| Total assets                    | \$ | 14,641,520 |

**Liabilities and Stockholder's Equity**

|  |    |            |
|--|----|------------|
| Liabilities:   |    |            |
| Accounts payable and accrued expenses  | \$ | 3,786,325  |
| Accounts payable and accrued expenses to broker dealers                                    |    | 6,223      |
| Income tax payable   |    | 102,869    |
| Total liabilities  |    | 3,895,417  |
| Commitments and contingencies (note 7)   |    |            |
| Stockholder's equity:  |    |            |
| Common stock, \$0.01 par value. 1,000 shares authorized; 100 shares issued and outstanding |    | 1          |
| Additional paid-in capital   |    | 10,650,228 |
| Retained earnings  |    | 95,874     |
| Total stockholder's equity   |    | 10,746,103 |
| Total liabilities and stockholder's equity   | \$ | 14,641,520 |

See accompanying notes to financial statements.

**BATS TRADING, INC.**  
Statement of Income  
Year ended December 31, 2013

|   |  |                          |
|---|--|--------------------------|
| Revenues:   |  |                          |
| Routing fees from affiliates  |  | \$ 50,637,917            |
| Operating expenses:   |  |                          |
| Clearing and execution fees, including \$3,372,845 to affiliated broker dealers |  | 46,807,164               |
| Telecommunications and data   |  | 1,108,660                |
| General and administrative  |  | 489,107                  |
| Compensation and benefits   |  | 447,299                  |
| Legal and professional  |  | 227,702                  |
| Occupancy   |  | 60,495                   |
|   | Total operating expenses                 | <u>49,140,427</u>        |
|   | Operating income                         | <u>1,497,490</u>         |
| Other income:   |  |                          |
| Interest income   |  | 8,344                    |
| Other   |  | 1,136                    |
|   | Other income                             | <u>9,480</u>             |
|   | Income before provision for income taxes | 1,506,970                |
| Provision for income taxes  |  | <u>607,382</u>           |
|   | Net income                               | <u><u>\$ 899,588</u></u> |

See accompanying notes to financial statements.

**BATS TRADING, INC.**

Statement of Changes in Stockholder's Equity

Year ended December 31, 2013

|  | <b>Common stock</b> |               | <b>Additional<br/>paid-in capital</b> | <b>Retained<br/>earnings</b> | <b>Total<br/>stockholder's<br/>equity</b> |
|--|---------------------|---------------|---------------------------------------|------------------------------|---|
|  | <b>Shares</b>       | <b>Amount</b> |                                       |                              |   |
| Balance at December 31, 2012           | 100                 | \$ 1          | \$ 11,115,081                         | 2,401                        | 11,117,483                                |
| Distributions to the Parent            | —                   | —             | (393,885)                             | (806,115)                    | (1,200,000)                               |
| Tax sharing allocation with the Parent | —                   | —             | (70,968)                              | —                            | (70,968)                                  |
| Net income                             | —                   | —             | —                                     | 899,588                      | 899,588                                   |
| Balance at December 31, 2013           | <u>100</u>          | <u>\$ 1</u>   | <u>\$ 10,650,228</u>                  | <u>\$ 95,874</u>             | <u>\$ 10,746,103</u>                      |

See accompanying notes to financial statements.

**BATS TRADING, INC.**  
Statement of Cash Flows  
Year ended December 31, 2013

|   |    |             |
|---|----|-------------|
| Cash flows from operating activities:   |    |             |
| Net income  | \$ | 899,588     |
| Adjustments to reconcile net income to net cash provided by operating activities: |    |             |
| Deferred income taxes   |    | 688         |
| Tax amnesty payment   |    | 12,616      |
| Provision for income taxes – deemed capital distribution                          |    | (70,968)    |
| Changes in assets and liabilities:  |    |             |
| Income tax payable  |    | (153,862)   |
| Receivables   |    | 510,276     |
| Securities owned  |    | 493,565     |
| Other assets  |    | (62,458)    |
| Accounts payable and accrued expenses   |    | (633,043)   |
| Net cash provided by operating activities   |    | 996,402     |
| Cash flow from financing activity:  |    |             |
| Distributions to the Parent   |    | (1,200,000) |
| Net cash used in financing activities   |    | (1,200,000) |
| Decrease in cash and cash equivalents   |    | (203,598)   |
| Cash and cash equivalents:  |    |             |
| Beginning of year   |    | 3,504,858   |
| End of year   | \$ | 3,301,260   |
| Supplemental disclosure of cash flow information:                                 |    |             |
| Cash paid during the year for income taxes  | \$ | 717,207     |
| Supplemental disclosure of cash flow information:                                 |    |             |
| Amounts paid in lieu of income taxes  | \$ | 70,968      |

See accompanying notes to financial statements.

## BATS TRADING, INC.

### Notes to Financial Statements

December 31, 2013

#### (1) Nature of Business

BATS Trading, Inc. (the Company or BATS) is registered with the U.S. Securities and Exchange Commission (SEC) as a securities broker-dealer. The sole function of BATS is to route orders to other market centers on behalf of BATS Exchange, Inc. (BATS Exchange) and BATS Y-Exchange, Inc. (together, the Exchanges or Affiliates), which operate as national stock and option exchanges. BATS and the Exchanges are wholly owned by BATS Global Markets, Inc. (the Parent).

#### (2) Summary of Significant Accounting Policies

##### (a) Principles of Accounting

The financial statements are presented in conformity with generally accepted accounting principles in the United States (GAAP) as established by the Financial Accounting Standards Board (FASB). References to GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC or Codification).

##### (b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of the amounts of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Current market conditions increase the risks and complexities of the judgments in these estimates.

##### (c) Cash and Cash Equivalents

The Company considers all liquid investments with original or acquired maturities of three months or less to be cash equivalents. The Company maintains cash at both various financial institutions and brokerage firms that, at times, may be in excess of the federal depository insurance limit. The Company's management regularly monitors the institutions and believes that the potential for future loss is minimal.

##### (d) Receivables

Receivables are carried at cost and primarily represent amounts due from noncustomers.

##### (e) Securities Owned

Securities owned are recorded at fair value. Realized and unrealized gains and losses are included in interest income. Securities owned as of December 31, 2013 consist of U.S. Treasury securities.

##### (f) Income Taxes

The Company is included in the consolidated federal tax return filed by the Parent. The provision for income taxes is based on income reported for financial statement purposes. Intercompany taxes are settled with the Parent on a pro rata basis with the difference between the stand-alone tax computation and the intercompany settlement recorded to additional paid-in capital. Current taxes

**BATS TRADING, INC.**  
Notes to Financial Statements  
December 31, 2013

and uncertain tax positions are calculated on a separate return basis utilizing currently enacted tax laws and rates.

Deferred taxes are recorded on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense are recognized on the full amount of deferred benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in the provision for income taxes within the statement of income.

**(g) Revenue Recognition**

Routing fee revenue, consisting of fees earned on any share that is routed out to another market center on behalf of the Exchanges, is recognized on a trade date basis. Routing fee revenue and the corresponding clearing and execution fees are recorded on a gross basis in revenues and expenses, as the Company is considered the primary obligor.

The Company is assessed regulatory transaction fees by other market centers. Regulatory transaction fees are collected from customers by the Exchanges on behalf of the Company. The Company acts as the agent versus the principal on these transactions, and therefore these transactions are reported net in the statement of income.

**(3) Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; fair value is determined through the use of models or other valuation

**BATS TRADING, INC.**  
Notes to Financial Statements  
December 31, 2013

methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

Securities owned as of December 31, 2013 consist of highly liquid U.S. Treasury securities. These securities are valued by obtaining feeds from a number of live data sources, including active market makers and inter-dealer brokers.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2013:

| <u>Description</u>       | <u>Total</u>        | <u>Level 1</u>   | <u>Level 2</u> | <u>Level 3</u> |
|--------------------------|---------------------|------------------|----------------|----------------|
| Securities owned:        |                     |                  |                |                |
| U.S. Treasury securities | \$ 7,003,561        | 7,003,561        | —              | —              |
| Total                    | <u>\$ 7,003,561</u> | <u>7,003,561</u> | <u>—</u>       | <u>—</u>       |

**(4) Net Capital Requirements**

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital. The SEC's requirement also provides that equity capital may not be withdrawn or cash dividend paid if certain minimum net capital requirements are not met. The Company computes its net capital requirements under the basic method provided for in SEC Rule 15c3-1, which, as of December 31, 2013, requires the Company to maintain net capital equal to greater of 6-2/3% of aggregate indebtedness items, as defined, or \$100,000. At December 31, 2013, the Company had net capital of \$6,355,628 which was \$6,095,933 in excess of its required net capital of \$259,695. The ratio of aggregate indebtedness to net capital is 0.61 to 1.

**(5) Related Party Transactions**

The Company maintains brokerage accounts with affiliates of stockholders of the Parent. As of December 31, 2013, \$8,983,328 in cash and cash equivalents and securities owned were held in such accounts.

Routing fee revenue consists of fees earned on any share that is routed out to another market center on behalf of the Exchanges. As a result, all routing revenues represent transactions with Affiliates.

## BATS TRADING, INC.

### Notes to Financial Statements

December 31, 2013

The Company enters into clearing and execution fee transactions with affiliated broker dealers in the normal course of business. These affiliated broker dealers are stockholders of the Parent or are affiliated with stockholders of the Parent.

The Company has entered into an Administrative Services and Support Agreement with BATS Exchange and BATS Y-Exchange. Pursuant to the agreements, BATS Exchange and BATS Y-Exchange provide certain administrative and support services to the Company for an administrative fee. Also, the Company pays employee costs to BATS Exchange equal to 2% of actual salaries, bonuses, and other payroll related expenses incurred by BATS Exchange each month.

The following table presents the Company's allocation of expenses from BATS Exchange and BATS Y-Exchange for the year ended December 31, 2013:

|                             |    |                  |
|-----------------------------|----|------------------|
| Telecommunications and data | \$ | 430,314          |
| General and administrative  |    | 229,919          |
| Compensation and benefits   |    | 447,299          |
| Legal and professional      |    | 177,664          |
| Occupancy                   |    | 60,495           |
|                             |    | <u>1,345,691</u> |
|                             | \$ | <u>1,345,691</u> |

#### (6) Income Taxes

Net deferred tax assets consist of the following components as of December 31, 2013:

|                                |    |                |
|--------------------------------|----|----------------|
| Deferred tax assets:           |    |                |
| Start-up costs                 | \$ | 27,619         |
| Intangibles                    |    | 45,436         |
| Unrecognized tax benefits      |    | 41,522         |
|                                |    | <u>114,577</u> |
| Total deferred tax assets      |    | <u>114,577</u> |
| Deferred tax liabilities:      |    |                |
| Prepaid expenses               |    | 2,668          |
|                                |    | <u>2,668</u>   |
| Total deferred tax liabilities |    | <u>2,668</u>   |
| Net deferred tax assets        | \$ | <u>111,909</u> |

**BATS TRADING, INC.**  
Notes to Financial Statements  
December 31, 2013

Management believes it is more likely than not that the deferred tax assets will be realized based upon expectations of future taxable income. A reconciliation of the unrecognized tax benefits for the year ended December 31, 2013 is as follows:

|  | <b>Unrecognized<br/>tax benefit</b> |
|--|-------------------------------------|
| Balance at December 31, 2012             | \$ 138,279                          |
| Additions for current year tax positions | 12,305                              |
| Additions for prior year tax positions   | 37                                  |
| Reductions for prior year tax positions  | (49,893)                            |
| Balance at December 31, 2013             | \$ 100,728                          |

The Company anticipates that \$22,120 of unrecognized tax benefit will be realized in the next twelve months. At December 31, 2013, the Company had \$74,986 of unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company had accrued interest and penalties of \$15,780. Total interest and penalties decreased by \$7,302 during 2013.

As of December 31, 2013, the Company had \$102,869 of income tax payable recorded of which the balance principally relates to amounts due to Affiliates for its share federal and state income taxes. The Company's share of income taxes is calculated based on the Company's tax sharing agreement with the Parent.

The Company files consolidated federal and state income tax returns with the Parent and separate company state tax returns in jurisdictions that do not permit the Company to file on a consolidated basis. The Company's open tax years are 2010 through 2013.

The provision for income taxes for the year ended December 31, 2013 consists of the following:

|  |            |
|--|------------|
| Current tax expense:                   |            |
| Federal                                | \$ 431,629 |
| State                                  | 175,065    |
| Total current income tax expense       | 606,694    |
| Deferred income tax expense (benefit): |            |
| Federal                                | 6,786      |
| State                                  | (6,098)    |
| Total deferred income tax expense      | 688        |
| Total provision for income taxes       | \$ 607,382 |

**BATS TRADING, INC.**  
Notes to Financial Statements  
December 31, 2013

The income tax provision differs from the amount of income tax determined by applying the U.S. federal statutory income tax rate to income before provision for income taxes for the year ended December 31, 2013 due to the following:

|   |    |          |
|---|----|----------|
| Provision for income taxes at statutory tax rate      | \$ | 527,440  |
| (Decrease) increase in income tax resulting from:     |    |          |
| Domestic production activities deduction              |    | (26,182) |
| State income taxes, net of federal tax benefit        |    | 142,948  |
| Unrecognized tax benefits, net of federal tax benefit |    | (35,690) |
| Other   |    | (1,134)  |
| Provision for income taxes                            | \$ | 607,382  |

**(7) Commitments and Contingencies**

The Company is subject to reviews and inspections by the SEC and the Financial Industry Regulatory Authority. Additionally, from time to time the Company is also involved in various legal proceedings arising in the ordinary course of business. The Company does not believe that the outcome of any of these reviews, inspections, or other legal proceedings will have a material impact on the financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance.

The Company uses Wedbush Securities and Morgan Stanley, which are affiliates of stockholders of the Parent, to clear its routed cash equities transactions. Wedbush Securities and Morgan Stanley guarantee the trade until one day after the trade date, after which time the National Securities Clearing Corporation (NSCC) provides a guarantee. In the case of a failure to perform on the part on one of its clearing firms, Wedbush Securities or Morgan Stanley, the Company provides the guarantee to the counterparty to the trade. The Options Clearing Corporation (OCC) acts as a central counterparty on all transactions in listed equity options, and as such, guarantees clearance and settlement of all of the Company's options transactions. The Company believes that any potential requirement for the Company to make payments under these guarantees is remote and accordingly, has not recorded any liability in the financial statements for these guarantees.

**(8) Subsequent Events**

The Company performed an evaluation of events that have occurred subsequent to December 31, 2013 through February 25, 2014 which is the date the financial statements were issued. There have been no subsequent events that have occurred during such period that would require disclosure in the financial statements or would be required to be recognized in the financial statements as of and for the year ending December 31, 2013.

## BATS TRADING, INC.

## Computation of Net Capital Pursuant to Rule 15c3-1

December 31, 2013

|  |                     |
|--|---------------------|
| Total stockholder's equity   | \$ 10,746,103       |
| Less nonallowable assets:  |                     |
| Receivables  | 4,152,999           |
| Other assets   | <u>183,700</u>      |
| Total nonallowable assets  | <u>4,336,699</u>    |
| Net capital before haircuts on securities positions                                | 6,409,404           |
| Less haircuts on U.S. Treasury securities  | <u>(53,776)</u>     |
| Net capital  | 6,355,628           |
| Computation of standard net capital requirement:                                   |                     |
| Net capital requirement (greater of 6 2/3% of aggregate indebtedness or \$100,000) | <u>259,695</u>      |
| Excess net capital   | <u>\$ 6,095,933</u> |
| Aggregate indebtedness   | \$ 3,895,417        |
| Ratio of aggregate indebtedness to net capital                                     | 0.61 to 1           |

There were no material differences between the amounts presented in the computation of net capital set forth above and the amounts as reported in the Company's unaudited Part II-A FOCUS Report as of December 31, 2013, as filed on January 24, 2014.

See accompanying report of independent registered public accounting firm.

**BATS TRADING, INC.**

Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3

December 31, 2013

The Company is exempt from Rule 15c3-3 pursuant to the provisions of subparagraph (k)(2)(ii) of that rule.

See accompanying report of independent registered public accounting firm.

**BATS TRADING, INC.**

Information for Possession or Control Requirements under Rule 15c3-3

December 31, 2013

The Company is exempt from Rule 15c3-3 pursuant to the provisions of subparagraph (k)(2)(ii) of that rule.

See accompanying report of independent registered public accounting firm.



**KPMG LLP**  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## **Report of Independent Registered Public Accounting Firm on Internal Control Pursuant to Securities and Exchange Commission Rule 17a-5**

The Board of Directors  
BATS Trading, Inc.:

In planning and performing our audit of the financial statements of BATS Trading, Inc. (the Company), as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13, and
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

February 25, 2014