



Opening Remarks by Joe Ratterman, President & CEO, BATS Global Markets and BATS Exchange. Prepared for the panel discussion before the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues, held on June 22, 2010 at 1:15 PM ET.

I would like to thank Chairman Schapiro, Chairman Gensler, and the Committee members for inviting me to speak today about the events of May 6th.

Technological and regulatory evolution in our markets in recent years has resulted in healthy competition between market centers, and no single destination lays claim to a significant portion of market share across the spectrum of listed securities.

We believe, and academic studies support, that investors have considerably benefited from this competition and the resulting advancements. The events of May 6th, however, serve as a reminder that we must remain vigilant about optimizing our market structure to keep pace with industry changes.

In reconstructing the trading activity that day on the BATS Exchange, we saw a confluence of factors. From a long term and macro perspective, major US equity index values pointed to a seriously overbought condition. The markets were on the tail end of a 14 month unrestrained bull market run from the March 2009 lows. Significant global events, including debt concerns in Europe and a massive oil spill in the gulf, contributed to high volatility and downward trending markets for most of the day. The result was an unbalanced amount of selling interest in many securities, and a significant reduction of liquidity in some of these securities, including reductions resulting from market centers that either went into “slow mode” or were experiencing systems problems.

Following is a timeline of May 6th events we saw on the BATS Exchange:

From 1:16 to 1:32 pm, we began to see a substantial increase in Liquidity Replenishment Points invoked on the NYSE (also called LRPs), followed by a spike in price decline surveillance alerts on BATS. During this time, we saw our first market participant pull its bids and offers from the BATS Book. The S&P 500



was down 1.4%.

From 1:40 to 1:46 pm, we began to see a further dramatic increase in the number of LRPs invoked by the NYSE, and further spikes in price decline surveillance alerts on BATS.

Starting at 2:00, we began to receive an unusually large volume of sell orders routed to us from another exchange.

At 2:20, orders we routed to a particular ATS began to be **stuck** (in other words the ATS failed to deliver order acknowledgements in a timely fashion).

At 2:36, Nasdaq declared self-help against Arca. The S&P was down 3.7%.

At 2:38, orders we routed to another ATS began to be stuck.

At 2:40, we began to receive an unusually large volume of sell limit IOC orders from two large broker-dealers. The S&P was down 4.2%.

From 2:42 to 2:45 pm, we saw an additional dramatic increase in the number of LRPs at the NYSE. An additional market participant pulled all of its bids and offers from the BATS Book.

At 2:45, the CME initiated a brief trading pause in the E-mini S&P 500 futures. Marketable orders that we routed to Arca began to be rejected by Arca, and orders we routed to a third ATS began to be stuck. We noted a significant overall reduction in liquidity supplied on our market. The S&P was down 7%.

At 2:49, after experiencing over 1,800 reject messages on marketable orders routed to Arca during the preceding 5 minute period, we declared self-help on Arca.

At 2:54, approximately 5 minutes after we declared self help on Arca, and as the market began to recover, BATS revoked self-help against Arca. The S&P was down 3.9%.



While it is difficult to distinguish cause from effect, what is clear is that a dramatic liquidity imbalance occurred on May 6th leading to a severe but temporary drop in the values of hundreds of securities. We suspect the drop was exacerbated by a few additional factors, namely – smart order routers, agnostic about price, sending sell orders to the best available bid, which in some cases was a 1 penny “stub quote bid;” some market centers automatically refreshing stub quotes and, hence, repeatedly executing against 1 penny bids; and the likely triggering of a large number of stop loss orders, which were converted to market sell orders and sent into the market.

In the immediate aftermath of May 6th, the exchanges, FINRA and the SEC have worked jointly to implement stock by stock circuit breakers as well as make more transparent the circumstances under which market centers will declare trades to be clearly erroneous. Long term, we believe it is vital for the industry to quickly move away from circuit breakers and instead implement trading limits, which we believe will eliminate clearly erroneous transactions from happening in the first place.

BATS Exchange is one of many US equity market centers serving a broad range of trading participants – professional, retail, and institutional alike. In that context, it is critical that market centers don’t use extreme market conditions as a basis upon which to compete with one another – such efforts will lead to further problems in times of market stress. To that end, we do not support individualized efforts by the listing markets to maintain separate trading pauses within the newly defined broad-market circuit breakers. These stand-alone market specific mechanisms only serve to remove liquidity from the broader marketplace at the moment when it may most be needed. We believe instead that under times of market stress, all markets should operate under the same rules, with no exceptions, for the greater good of orderly markets and enhanced investor confidence.

Thank you and I look forward answering any questions and participating in today’s panel discussion.