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BY EMAIL TO: rule-comments@sec.gov

June 30, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: SR-BATS-2011-009: Proposed Rule Change To Create a Directed Order Program

Dear Ms. Murphy:

The Securities Industry and Financial Markets Association's ("SIFMA")[1] Equity Options Trading Committee ("Committee," "We") appreciates the opportunity to comment on the above referenced proposal ("Proposal") of BATS Exchange, Inc. ("BATS"). BATS proposes, among other things, to establish a program whereby market makers can execute against orders directed to them without first exposing the orders to other market participants. At the outset, we wish to note the unique nature of the U.S. options markets and clarify that our comments herein apply just to those markets and not necessarily to U.S. markets trading other securities products. Because of the unique nature of the options markets, we believe that BATS' Proposal will result in inadequate exposure of directed orders and discourage competition in the options markets' price improvement process. We therefore urge the Commission to follow the precedent it has established for other options exchanges, and inform BATS that it needs to amend its Proposal to allow for orders to be exposed for at least one second and to require that the 40 percent limit on execution guarantees on directed market makers be implemented.

BATS proposes to implement an order type called a "Market Maker Price Improving Order" ("MMPIO"). The MMPIO would be an order from a BATS market maker to transact an option that has a displayed price and size, and a non-displayed price better than the NBBO at which the market maker is willing to trade with a directed order from another BATS market participant that the BATS market maker has pre-selected. The non-displayed price is only executable against a marketable directed order if the displayed

[1] SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to develop policies and practices which strengthen financial markets and which encourage capital availability, job creation and economic growth while building trust and confidence in the financial industry. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association ("GFMA"). For more information, visit www.sifma.org.

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price is at the national best bid (for a directed order to sell) or national best offer (for a directed order to buy). Significantly, there is no exposure of a directed order. For other BATS market participants to execute against a marketable directed order before it is matched against the non-displayed price of an MMPIO, they must:

1. have pre-existing displayed or non-displayed orders on the BATS order book at prices equal to or better than the non-displayed price of the MMPIO; and

2. be above the minimum price increment of the respective series ($0.01 in penny classes and $0.05 in all others).

Therefore, in those options with penny-trading increments, BATS market makers will be able to internalize 100% of the orders directed to them at prices that improve upon the best bid or offer by only $0.01, and will be able to internalize 100% of all other orders directed to them that improve upon the best bid or offer by only $0.05. It appears that BATS market makers will be able to internalize directed orders without giving other BATS market participants a meaningful opportunity to participate in the execution of the orders. Since there is no exposure of the directed order before it is matched against a MMPIO, there is no opportunity for other BATS market participants to effectively compete for the orders at the same or better prices than the BATS market maker to whom the order was directed.

We note that there are many different, acceptable models for price improvement in the U.S. securities markets, particularly in the equities markets, that contribute to the vibrancy of, and liquidity in, those markets. However, for purposes of the U.S. options markets and the unique trading paradigms therein, we believe that the BATS proposed order type is not an appropriate model for price improvement. We believe that the BATS Proposal attempts to introduce a form of internalization that is not conducive to price competition in the options market. Unlike the stock market, the options market relies heavily on a relatively small handful of market maker firms to generate most of the displayed liquidity, especially in the thousands of less-liquid options classes that depend almost exclusively on market maker quotes. The large, traditional options markets have historically met the need of incentivizing market makers to quote aggressively in large sizes by providing an opportunity for pro-rata participation at the best displayed prices. Thus, options market makers can publicly quote on these exchanges with the general expectation that, by providing better displayed prices and larger displayed sizes, they can participate more often in parity situations. BATS' Proposal, however, would undermine this structure by reducing such expectations and, by extension, negatively impact best execution in the options market by discouraging displayed market maker liquidity.

We strongly believe that the sources for the provision of liquidity that do exist in the options markets, which are much less numerous and diverse than in the stock markets, should be preserved and, indeed, fostered. Accordingly, we believe that the BATS Proposal would discourage market makers on the options exchanges from quoting larger and more aggressive displayed sizes, which would pose a real risk to the provision of liquidity in the options markets and in turn have adverse consequences for investors, both large and small.

The Committee believes that the Proposal also severely limits the opportunities that other BATS participants will have to interact with directed order flow. The BATS Proposal therefore does not appear to be designed to foster competition, but to assure that the pre-selected BATS market makers will be able to internalize 100% of the orders directed to them without exposing them to other BATS market participants' prices.

Finally, the Commission in the past has required that options market makers cede priority at the NBBO when they decide not to provide price improvement to orders directed to them. As a result, there is a "cost" to the market makers in exchange for receiving the opportunity to trade with directed order flow. This cost has been eliminated in the BATS Proposal, as there is no consequence when an order is directed to a market maker that has not entered an MMPIO. Therefore, a BATS market maker could determine, on a quote-by-quote basis, whether it is necessary or not for it to offer price improvement in order to interact with orders directed to it. Thus, there will be no need for a BATS market maker to enter an MMPIO when the market maker has priority on the BATS book.

For the reasons discussed above, we request that the Commission inform BATS of the need to amend its Proposal as suggested above, or not approve the Proposal because it allows orders to be directed to BATS market makers without a meaningful opportunity for other BATS participants to participate in the execution of the orders and does not provide for the order exposure that the Commission has required of other options exchanges. If you have any questions, please do not hesitate to call me at 212-313-1260.

Sincerely,

Thomas F. Price

Thomas F. Price
Managing Director

cc: Robert W. Cook, Division of Trading and Markets
James A. Brigagliano, Division of Trading and Markets
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