July 3, 2012

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

RE: SR-BATS-2012-015

Ms. Murphy:

BATS Exchange, Inc. ("BATS" or "the Exchange") is responding to a comment letter[1] submitted by Citadel Securities ("the Firm") in response to the above-referenced rule filing[2] ("the Rule Filing") to amend the fee schedule of BATS' options market ("BATS Options").

The Rule Filing modified the Exchange's options pricing in a number of ways. The Exchange made fees and rebates applicable to executions of options classes subject to the penny pilot program ("Penny Pilot Securities") separate and distinct from the fees and rebates for all other options classes and adopted fees and rebates for executions in non-Penny Pilot Securities. It modified the fees charged by the Exchange to remove liquidity from the Exchange's options platform in Penny Pilot Securities; modified the rebates paid to Customer orders that add liquidity to BATS Options; and modified the Quoting Incentive Program ("QIP"), which is a program intended to incentivize sustained, aggressive quoting on BATS Options.

In its comments, the Firm raises three criticisms of the Rule Filing. All three issues concern the level of fees and rebates adopted by the Rule in non-Penny Pilot Securities. The first criticism relates to the level of fees charged for access to the Exchange's protected quotation in non-Penny Pilot Securities, terming it "excessive"[3]; the second notes that excessive take fees distort the true prices of options; the third posits that the level of take fees on BATS Options hinders market quality. BATS appreciates the Firm's concern for the quality of the options markets and takes the opportunity, here, to respond to each of the criticisms in turn.

With the Rule Filing, the Exchange does substantially increase the rebate and the take fee associated with non-Penny Pilot Securities. For Professionals, Firms and Market Markers, the Rule Filing sets the take fee at $.80 per contract, while also increasing the rebate to $.70 per

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1 See Letter from John C. Nagel, Managing Director and General Counsel, Citadel Securities, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, dated May 9, 2012 (the "Letter").

2 See Securities Exchange Act Release No. 66794 (April 12, 2012), 77 FR 23307 (April 18, 2012) (SR-BATS-2012-015).

3 See Letter.

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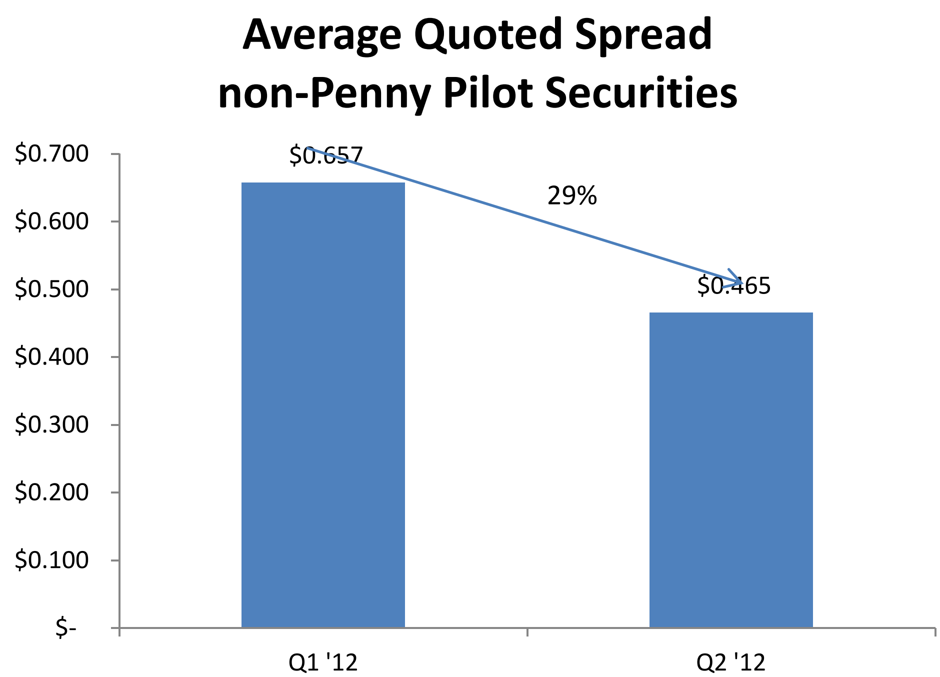
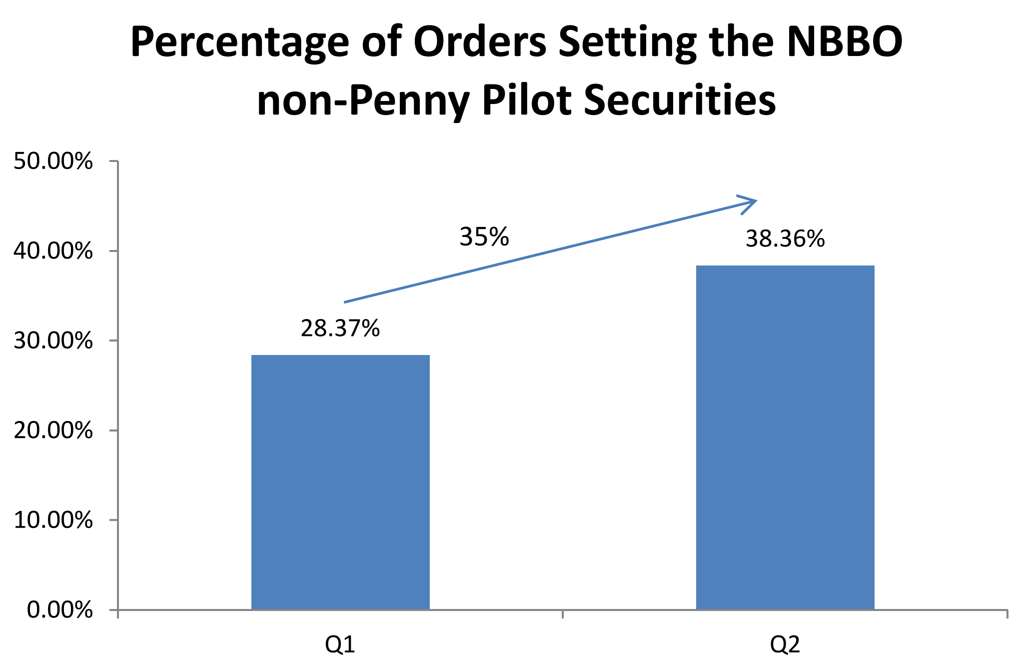
contract. For Customer orders, the Rule Filing increases the take fee and rebate to $.75. This level of fee and rebate *is* substantively higher than what the Exchange had previously charged. However, that in and of itself does not make it "excessive". The Exchange notes that even at its highest ($0.80 per contract) the take fee charged in non-Penny Pilot securities is less than 20% of the value of the minimum quoting increment, which BATS submits on its face is not excessive.

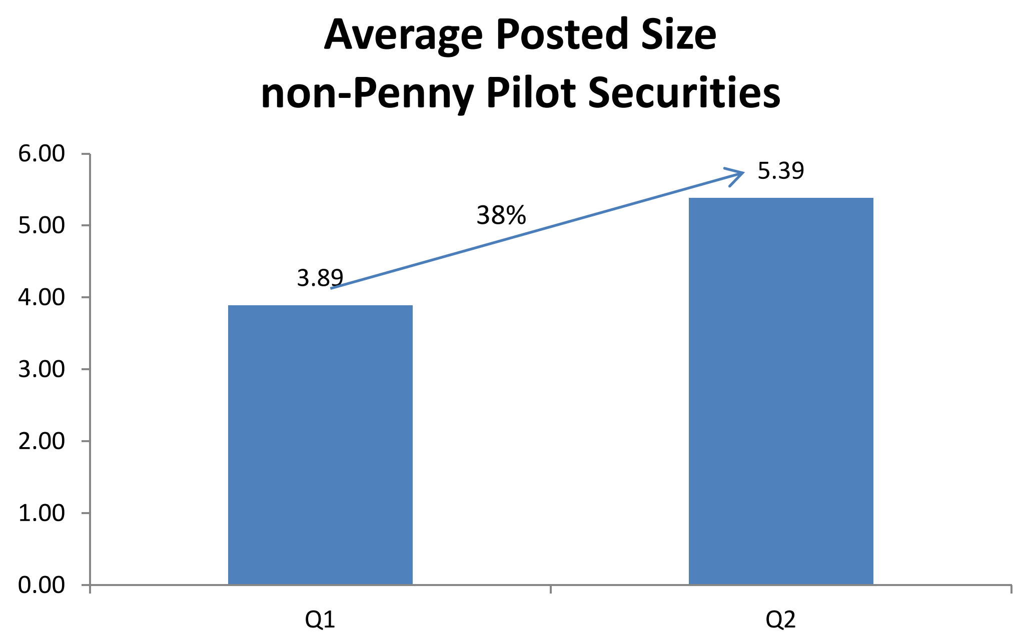
By way of further explanation, as the Exchange notes in its Filing, it is appropriate for fees and rebates to be relative to the tick increment of the security being traded. A $.45 take fee is common among exchanges in Penny Pilot securities. When an option is priced one penny – one tick – better, the penny change in price equates to $1.00 of economic value – the price of the option multiplied by 100 underlying shares. A trading participant paying a $.45 take fee for a one penny better priced execution is receiving at least $.55 of economic improvement. A participant executing at a $.05 better price – one tick, in non-Penny Pilot options – is receiving $5.00 in economic value. Even when paying a $.75 or $.80 take fee, a participant would be better by at least $4.20 when able to execute at an improved price.

To the Firm's second point, that excessively high take fees distort the true price of options, BATS notes that this can be the case not just for take fees, but for all fees and rebates associated with exchange pricing. Fees and rebates are not reflected in an exchange's quotes. All of the fees and rebates associated with a transaction can and do have a direct impact on the quotes that are available on and the order flow that is directed to exchanges. This includes make-take fees like those BATS Options charges and also includes payment for order flow (PFOF), "marketing fees", and the full range of charges and inducements available to exchanges. BATS Options reiterates here, that we are not against a fee cap being applied to the options markets. It is important, though, that if and when a fee cap is considered that it takes into account *all* of the fees and inducements associated with transactions on the options exchanges.

Regarding the Firm's final point, that an excessive take fee "hinders liquidity" and is detrimental to market quality, BATS Options can point to data that shows a substantial improvement in liquidity since the introduction of these fees. When looking at average quoted spread, percentage of orders that are tightening the NBBO and even the average size of posted orders, all of these metrics show that the pricing changes in question are having a beneficial impact on market quality. All of the data referenced here is presented as Q1 versus Q2. Q1 is measured from January 3, 2012 through March 30, 2012. Q2 measures April 2, 2012 through June 22, 2012 the latest date data was available at time of analysis. The pricing in question went into effect April 2, 2012. With the new pricing, the average quoted spread in non-Penny Pilot securities on BATS Options fell by nearly 30%, from $.0657 to $.0465. The percentage of orders that set the NBBO increased by 10% points (35% on a relative basis); from 28.37% of orders to 38.36% of orders. The average size of orders posted in non-Penny Pilot securities increased from 3.89 contracts to 5.39 contracts, an increase of nearly 40%. Each of these data points is presented graphically below, for additional clarity.


Average Quoted Spread
non-Penny Pilot Securities
$0.700
$0.600
$0.500
$0.400
$0.300
$0.200
$0.100
$-
$0.657
29%
$0.465
Q1 '12
Q2 '12


Percentage of Orders Setting the NBBO
non-Penny Pilot Securities
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
35%
38.36%
28.37%
Q1
Q2



Taken separately or collectively, BATS Options finds it hard to find any measurable degradation of market quality since the introduction of the fees in question. In fact, BATS Options believes the market quality has improved in these non-Penny Pilot Securities.

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BATS appreciates the opportunity to provide this response to the comments received on its rule filing. Please feel free to contact me if you have any questions in connection with this matter.

Sincerely,

Jeromee Johnson