SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69387; File No. SR-BATS-2013-023)

April 17, 2013

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt a Market Order Collar for BATS Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on April 10, 2013, BATS Exchange, Inc. (the "Exchange" or "BATS") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act[3] and Rule 19b-4(f)(6) thereunder,[4] which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. <u>Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change</u>

The Exchange filed a proposal for the BATS Options Market ("BATS Options") to amend BATS Rule 21.1(d)(5) in order to add system functionality that will cancel any portion of a market order submitted to BATS Options (a "BATS Market Order") that would execute at a price that is more than 50 cents or 5 percent worse than the NBBO at the time the order initially reaches BATS Options (the "Initial NBBO"), whichever is greater (a "Market Order Collar"). The Exchange is also proposing to make two clean-up changes by eliminating references to discretionary orders in Rule 21.8.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A).

4 17 CFR 240.19b-4(f)(6).

The text of the proposed rule change is available at the Exchange's website at http://www.batstrading.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 parts of such statements.

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

1. Purpose

The purpose of the proposed rule change is to implement a Market Order Collar on BATS Options and to make two clean-up changes by eliminating references to discretionary orders in Rule 21.8.

The Exchange is proposing to protect market participants from executions at prices that are significantly worse than the NBBO at the time of order entry by amending the rules of BATS Options such that any portion of a BATS Market Order that would execute at a price that is the greater of 50 cents or 5 percentage points worse than the Initial NBBO will be cancelled by the BATS Options system (the "System"). Any portion of a BATS Market Order that would otherwise execute outside of these thresholds will be immediately cancelled back to the User.[5] The Exchange believes that Users who submit market orders on BATS Options generally intend

[5] A User defined in Exchange Rule 1.5(cc) as any Member or sponsored participant with access to the Exchange.

to receive executions for the full size of their orders at or near the Initial NBBO and are not always aware that there may not be enough liquidity at that price to fill the entire size of their orders. This could result in executions occurring at prices that have little or no relation to the theoretical price of the option.

Accordingly, the Exchange is proposing to adopt a mechanism that will help prevent dramatic price swings and, potentially, executions qualifying as obvious errors[6] on BATS Options. The following example demonstrates how the Market Order Collar would operate:

Away Exchange Quotes:

Exchange	Bid Size	Bid Price	Offer Price	Offer Size
PHLX	10	$1.00	$1.05	10
NYSE Arca	10	$1.00	$1.05	10
NYSE MKT	10	$1.00	$1.10	10
BOX	10	$1.00	$1.15	10

BATS Options Price Levels:

Exchange	Bid Size	Bid Price	Offer Price	Offer Size
BATS	10	$1.00	$1.05	10
BATS			$1.10	10
BATS			$1.60	10
BATS			$1.70	10

6 See BATS Rule 20.6.

If BATS Options receives a routable market order to buy 80 contracts, the System will respond as described below:

- 10 contracts will be executed at $1.05 on BATS Options
- 10 contracts will be routed to PHLX at $1.05
- 10 contracts will be routed to NYSE Arca at $1.05
- 10 contracts will be executed at $1.10 on BATS Options
- 10 contracts will be routed to NYSE MKT at $1.10
- 10 contracts will be routed to BOX at $1.15

Assuming all orders routed away were in fact executed by such venues, the remaining shares of the BATS Market Order would be cancelled back to the User because the liquidity on BATS Options at the $1.60 price level exceeds the BATS Market Order thresholds set forth in proposed Rule 21.1(d)(5) and such order is also not eligible for routing outside of such thresholds. Such BATS Market Order could only be executed or routed by the Exchange up to and including a price of $1.55 ($0.50 worse than the Initial NBBO). To be clear, System behavior would be the exact same if all of the orders executed entirely in the above example were entered and executed on BATS Options.

Those Users who intend to trade against liquidity at multiple price points from the Initial NBBO beyond the BATS market order thresholds proposed in this rule filing can clearly and unambiguously specify that intent by submitting a marketable limit order to the Exchange. For example, using the scenario described above, if the User submitted a limit order to buy 80 contracts with a limit price of $2.00, such order would be executed up to its full size.

The Exchange notes that the proposed rule change is directly based on the Exchange's rule that collars market orders submitted to the Exchange's cash equities platform ("BATS Equities"). Specifically, pursuant to Rule 11.9(a), the Exchange collars for BATS Equities any portion of a BATS Market Order that would execute at a price that is the greater of 50 cents or 5 percentage points worse than the Initial NBBO. The Exchange believes that the proposed collar is reasonable and appropriate for BATS Options based largely upon the experience the Exchange has had in maintaining the collar for BATS Equities for several years. Due to the prices of most options trading on the Exchange, the Exchange notes that the collar will likely be triggered more frequently at the $0.50 level than at the 5% level (i.e., there are fewer options that trade above $10.00 than trade below $10.00). In addition to believing the collar to be reasonable based on its experience in administering the collar for BATS Equities, the Exchange also believes that the collar is reasonable and appropriate because many market participants that are familiar with the collar on BATS Equities are also market participants trading on BATS Options.

In addition to the above proposed change, the Exchange is proposing to eliminate two instances in Rule 21.8 which refer to the handling of the discretionary portion of discretionary orders. The Exchange is proposing to eliminate these references because the Exchange has removed discretionary orders from the types of orders allowed by BATS Options,[7] making the references to the handling of discretionary orders obsolete. Specifically, the Exchange is proposing to delete Rules 21.8(a)(1)(B) and 21.8(a)(2)(C).

7 See Securities Exchange Act Release No. 68752 (January 29, 2013), 78 FR 7826 (February 4, 2013) (SR-BATS-2013-003) (notice of filing and immediate effectiveness of proposed rule change to amend BATS rules in connection with the elimination of discretionary orders for BATS Options).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[8] in general, and furthers the objectives of Section 6(b)(5) of the Act[9] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by helping to avoid executions of market orders on BATS Options at prices that are significantly worse than the NBBO at the time an order is initially received by BATS Options. The Exchange also believes that the Initial NBBO is a fair representation of then-available prices and accordingly provides for an appropriate pricing mechanism such that BATS Market Orders should not be executed at a significantly worse price. Also, this proposal is consistent with existing BATS Options rules that allow for the breaking of trades meeting the definition of an obvious error[10] as well as a recently adopted change to the rules of BATS Options to reject market orders received when the underlying security is subject to a "Limit State" or "Straddle State", as defined in the Limit Up-Limit Down Plan.[11] Accordingly, the Exchange believes that this proposal is designed to promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

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8 15 U.S.C. 78f(b).

9 15 U.S.C. 78f(b)(5).

10 See BATS Rule 20.6.

11 See Securities Exchange Act Release No. 69121 (March 12, 2013), 78 FR 16750 (March 18, 2013) (SR-BATS-2013-014) (notice of filing and immediate effectiveness of proposed rule change to modify the operation of market orders for BATS Options).

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal will provide market participants with additional protection from anomalous executions. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act[12] and Rule 19b-4(f)(6) thereunder.[13]

A proposed rule change filed under Rule 19b-4(f)(6)[14] normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule

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12 15 U.S.C. 78s(b)(3)(A).

13 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

14 17 CFR 240.19b-4(f)(6).

19b4(f)(6)(iii),[15] the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the Exchange may implement the protections proposed herein as soon as possible. The Exchange states that such waiver would benefit investors and market participants by providing additional protection from certain executions under all market conditions, but particularly in volatile market conditions, especially for market orders on BATS Options at prices that are significantly worse than the NBBO at the time the Exchange receives such orders. The Exchange further notes that waiver of the 30-day operative delay will permit the Exchange to collar market orders on BATS Options in the same manner that it currently collars market orders for BATS Equities. The Commission notes that waiving the 30-day operative delay would allow investors and market participants to benefit immediately from the proposed collar protection for market orders, and believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.[16] Therefore, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.

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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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15 17 CFR 240.19b-4(f)(6)(iii).

16 For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 e-mail to rule-comments@sec.gov. Please include File Number SR-BATS-2013-023 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BATS-2013-023. This file number should be included on the subject line if e-mail 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; the

Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BATS-2013-023 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[17]

Kevin M. O'Neill
Deputy Secretary

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[17] 17 CFR 200.30-3(a)(12).