

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73296; File No. SR-BATS-2014-044)

October 3, 2014

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rules 11.13 and 21.9 of BATS Exchange, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 25, 2014, 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<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> 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. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to amend Rule 11.13(a) regarding the handling of orders that have been posted to the order book (“BATS Book”)<sup>5</sup> of the Exchange’s cash equities trading platform (“BATS Equities”) that are subsequently locked or crossed by other Trading Centers. Consistent with its practice of offering similar functionality for the Exchange’s equity options trading platform (“BATS Options”) as it does for BATS Equities, the Exchange also proposes to

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>5</sup> As defined in Rule 1.5(e).

amend Rule 21.9(a) to make similar changes with respect to BATS Options.

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 provide Users of the Exchange with additional options with respect to the Exchange's method of processing the unfilled balance of a routable limit order that is posted to the BATS Book.

With respect to BATS Equities, the Exchange currently allows Users to submit various types of limit orders to the Exchange that are processed pursuant to Exchange Rules 11.13(a)(1) and 11.13(a)(2)(B), as set forth below. Rule 11.13(a)(1) describes the process by which an incoming order would execute against the BATS Book for BATS Equities. To the extent an order has not been executed in its entirety against the BATS Book, Rule 11.13(a)(2)(B) then

describes the process of routing marketable limit orders<sup>6</sup> to one or more Trading Centers, including a description of how the Exchange treats any unfilled balance that returns to the Exchange following the first attempt to fill the order through the routing process. If not filled through routing, and based on the order instructions, the unfilled balance of the order may be posted to the BATS Book.

Similarly, with respect to BATS Options, Rule 21.8 describes the process by which an incoming order would execute against the BATS Options Book.<sup>7</sup> To the extent an order has not been executed in its entirety against the BATS Options Book, Rule 21.9(a)(1) then describes the process of routing marketable limit orders<sup>8</sup> to one or more other options exchanges, including a description of how the Exchange treats any unfilled balance that returns to the Exchange following the first attempt to fill the order through the routing process. If not filled through routing, and based on the order instructions, the unfilled balance of the order may be posted to the BATS Options Book.

Pursuant to current Exchange rules,<sup>9</sup> to the extent the unfilled balance of an order has been posted to the BATS Book, should the order subsequently be locked or crossed by another accessible Trading Center, the System<sup>10</sup> shall route the order to the locking or crossing Trading Center if instructed to do so by the User (the “RECYCLE Option”). The Exchange proposes to

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<sup>6</sup> Market orders are also routed away pursuant to Rule 11.13(a)(2)(A), however the Exchange is not proposing any changes to the treatment of routed market orders at this time.

<sup>7</sup> As defined in Rule 16.1(a)(9).

<sup>8</sup> Market orders are also routed away pursuant to Rule 21.9(a)(1), however the Exchange is not proposing any changes to the treatment of routed market orders at this time.

<sup>9</sup> See Rule 11.13(a)(2) for BATS Equities and Rule 21.9(a)(1) for BATS Options.

<sup>10</sup> As defined in Rule 1.5(aa), the System is the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away.

modify the RECYCLE Option as set forth below. At the outset, the Exchange notes that it proposes to re-name the RECYCLE Option as Re-Route instructions.

### BATS Equities

The Exchange currently offers only one form of RECYCLE, namely, that an order will be subject to the RECYCLE Option if it is either locked or crossed. The Exchange proposes to retain this functionality and to name such functionality the Super Aggressive Re-Route instruction, which reference reflects the willingness of the routable order posted to the BATS Book to route to away Trading Centers and to remove liquidity from such Trading Centers any time such order is locked or crossed (i.e., rather than passively waiting for an execution on the BATS Book). The Exchange also proposes to add new optional functionality that will allow a User to instruct the Exchange to apply the Super Aggressive Re-Route instruction solely to routable orders posted to the BATS Book with remaining size of less than one round lot.

In addition to the Super Aggressive Re-Route instruction described above, the Exchange proposes to add a second option, the Aggressive Re-Route instruction, which would subject an order to the routing process after being posted to the BATS Book only if the order is subsequently crossed by another Trading Center (rather than if the order is locked or crossed).

The Exchange proposes to retain language making clear that unless otherwise specified the Re-Route options described above may be combined with any of the System routing options specified in paragraph (a)(3) of Rule 11.13.

### Examples

#### Example 1 – Aggressive Re-Route

As an example of an order with an Aggressive Re-Route instruction, assume the Exchange receives an order to buy 300 shares of a security at \$10.10 per share. Assume further

that the NBBO is \$10.09 by \$10.10 when the order is received, and the Exchange's lowest priced offer is priced at \$10.11. The Exchange will route the order away from the Exchange as a bid to buy 300 shares at \$10.10. Assume that the order obtains one 100 share execution through the routing process and then returns to the Exchange. The Exchange will post the order as a bid to buy 200 shares at \$10.10. If displayed liquidity then appears at one or more Trading Centers priced at \$10.09 or lower (i.e., crossing the posted bid to buy at \$10.10), the Exchange will take the displayed bid off of the BATS Book and again route such order to the displayed liquidity at other Trading Centers.

#### Example 2 – Super Aggressive Re-Route

As an example of an order with a Super Aggressive Re-Route instruction, assume the Exchange receives an order to buy 300 shares of a security at \$10.10 per share designated with such instruction. Assume further that the NBBO is \$10.09 by \$10.10 when the order is received, and the Exchange's lowest priced offer is priced at \$10.11. The Exchange will route the order away from the Exchange as a bid to buy 300 shares at \$10.10. Assume that the order obtains one 100 share execution through the routing process and then returns to the Exchange. The Exchange will post the order as a bid to buy 200 shares at \$10.10. If displayed liquidity then appears in the marketplace priced at \$10.10 or lower, the Exchange will take the displayed bid off of the BATS Book and again route such order to the displayed liquidity at other Trading Centers.

#### Example 3 – Super Aggressive Re-Route for Odd Lots Only

Assuming the facts from Example 2 above that results in a 200 share order posting to the BATS Book after routing away, if a User has elected to apply the Super Aggressive Re-Route instruction solely to routable orders posted to the BATS Book with remaining size of less than

one round lot, then the posted bid to buy 200 shares at \$10.10 would not route off of the BATS Book if displayed liquidity appeared at one or more other Trading Centers priced at \$10.10 or lower. Assume, however, that the posted order to buy 200 shares is later executed on the BATS Book against an incoming order to sell 150 shares at \$10.10, leaving a 50 share order to buy at \$10.10. Such order would now be subject to the Super Aggressive Re-Route functionality and would route to away Trading Centers if locked or crossed.

### BATS Options

In order to maintain consistency between analogous processes offered by BATS Equities and BATS Options, the Exchange proposes to modify the rules of BATS Options to conform to the changes described above related to the Re-Route instruction.

The proposed Re-Route functionality for BATS Options is similar to the proposed functionality for BATS Equities, with the exception of language related to odd lot orders. Because, consistent with other options exchanges, BATS Options does not categorize any orders as odd lot orders or round lot orders, the Exchange has omitted language regarding the proposed optional Re-Route functionality applicable to odd lot orders for BATS Equities. All other changes for BATS Equities, including the rationale and examples described above, are identical for BATS Options.

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>11</sup> and further the objectives of Section 6(b)(5) of the Act<sup>12</sup> because 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, to foster cooperation and

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<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. Specifically, the proposed changes are designed to provide Users with additional control over their orders in the context of a national market system where quotations may lock or cross orders posted to the BATS Book. Thus, the proposals are directly targeted at removing impediments to and perfect [sic] the mechanism of a free and open market and national market system. The proposed rule change also is designed to support the principles of Section 11A(a)(1)<sup>13</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

The proposed rule changes would also provide Users with access to functionality that may result in the efficient execution of such orders and will provide additional flexibility as well as increased functionality to the Exchange's System and its Users.

The Exchange reiterates that the Super Aggressive Re-Route instruction is currently contained in Exchange rules as the RECYCLE Option. The Exchange believes that adding an optional functionality that will only treat orders with size less than a round lot as orders with Super Aggressive Re-Route instruction is reasonable because such orders are not Protected Quotations under the Act, and thus, are more likely to be locked or crossed by external markets. Accordingly, allowing such orders to only apply the Super Aggressive Re-Route instruction will enhance the likelihood of their prompt execution. The Exchange believes that the proposed addition of the Aggressive Re-Route instruction is consistent with the Act as it will provide Users with another option that may result in the efficient execution of such orders and will provide additional flexibility as well as increased functionality to the Exchange's System and its Users.

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<sup>13</sup> 15 U.S.C. 78k-1(a)(1).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that Re-Route functionality generally encourages competition by increasing the likelihood of executions of orders that have been posted to the Exchange.

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<sup>14</sup> and Rule 19b-4(f)(6)(iii) thereunder.<sup>15</sup>

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement would allow the Exchange to immediately offer Exchange Users additional variations of functionality that is already available on the Exchange. The Exchange also stated

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6)(iii). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the 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.



that the addition of a variation of Re-Route functionality that applies only when an order is crossed by an accessible Trading Center and the odd lot variation to the Super-Aggressive Re-Route instruction will benefit market participants and their customers by allowing them greater flexibility in their efforts to fill orders. The Commission believes that the waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative upon filing.<sup>16</sup>

At any time within 60 days of the filing of such 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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>17</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2014-044 on the subject line.

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<sup>16</sup> 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).

<sup>17</sup> 15 U.S.C. 78s(b)(2)(B).

Paper comments:

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

All submissions should refer to File Number SR-BATS-2014-044. 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 am and 3:00 pm. Copies of such filing will also 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-2014-044 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.<sup>18</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).