

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79162; File No. SR-BatsBZX-2016-61)

October 26, 2016

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend Exchange Rule 11.23, Auctions, to Enhance the Reopening Auction Process Following a Trading Halt Declared Pursuant to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS

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 October 13, 2016, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 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 Exchange Rule 11.23, Auctions, to enhance the reopening auction process following a trading halt declared pursuant to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan” or “Plan”).<sup>3</sup> The Exchange also proposes to amend Rule 11.17, Clearly Erroneous Executions, to exclude executions that are a result of a Halt Auction from being reviewed as clearly erroneous.

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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> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (the “Limit Up-Limit Down Release”).

The text of the proposed rule change is available at the Exchange's website at [www.batstrading.com](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 Exchange proposes to amend Exchange Rule 11.23, Auctions, to enhance the reopening auction process following a trading halt declared pursuant to the Limit Up-Limit Down Plan. The Exchange also proposes to amend Rule 11.17, Clearly Erroneous Executions, to exclude executions that are a result of a Halt Auction from being reviewed as clearly erroneous.

Background

The Operating Committee for the Plan, with input from the Advisory Committee to the Plan and staff of the Commission, has identified a number of enhancements to the reopening process following a Trading Pause that will be addressed in a combination of a proposed

amendment to the Plan and amendments to the rules of the Primary Listing Exchanges.<sup>4</sup> The Exchange is a Participant of the Plan and a member of the Operating Committee.

The Participants submitted to the Commission a proposal to amend the Plan to provide that a Trading Pause will continue until the Primary Listing Exchange has reopened trading using its established reopening procedures and reports a Reopening Price.<sup>5</sup> The Participants further proposed to eliminate the current allowance for a trading center to resume trading in an NMS Stock following a Trading Pause if the Primary Listing Exchange has not reported a Reopening Price within ten minutes after the declaration of a Trading Pause and has not declared a Regulatory Halt. In addition, to close any gaps of potential scenarios when trading may resume without Price Bands, the Participants proposed to amend the Plan to provide that a trading center may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. To address potential scenarios of when there may not be a Reopening Price from the Primary Listing Exchange from which to calculate Price Bands, the Participants propose to make related amendments to the Plan to address when trading may resume if the Primary Listing Exchange is unable to reopen due to a systems or technology issue and how the Reference Price would be determined either under such circumstances or if the Primary Listing Exchange reopens trading on a zero bid or zero quote, or both.

In connection with the proposed Plan amendments, the Participants have agreed on a standardized approach for how the Primary Listing Exchanges should conduct certain aspects of an automated reopening following a Trading Pause. Specifically, because trading centers would

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<sup>4</sup> Unless otherwise specified, capitalized terms used herein have the same meaning as set forth in the Plan or in Exchange rules.

<sup>5</sup> See letter from Elizabeth K. King, General Counsel, NYSE, to Brent J. Fields, Secretary, Commission, dated September 16, 2016 (“Amendment No. 12”).

not be permitted to resume trading in an NMS Stock until there is a Reopening Price, the Participants believe it is appropriate for the Primary Listing Exchanges to adopt uniform standards for determining whether and when to conduct such automated reopenings, including what price collar thresholds would be applicable to such automated reopenings and how to provide for extensions of when a reopening auction would be conducted. The goal of such changes would be to ensure that all market order interest could be satisfied in an automated reopening auction.

More specifically, the Participants have agreed that if there is an imbalance of market orders, or if the Reopening Price would be outside of specified price collar thresholds, the Trading Pause would be extended an additional five minutes in order to provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within price collar thresholds or if the reopening auction would be priced outside of the applicable price collar thresholds, the Primary Listing Exchange would extend the Trading Pause an additional five minutes. With each such extension, the Participants have agreed that it would be appropriate to widen the price collar threshold on the side of the market on which there is buying or selling pressure.

With respect to price collar thresholds, the Participants have agreed that the reference price for calculating price collar thresholds would be the price of the limit state that preceded the Trading Pause, i.e., either the Lower or Upper Price Band price. If there is selling pressure, for NMS Stocks priced more than \$3.00, the lower collar for the auction would be the Lower Price Band minus five percent and the upper collar would be the Upper Price Band; if there is buying pressure, the upper collar for the auction would be the Upper Price Band plus five percent and the lower collar would be the Lower Price Band. For each extension, the collars would be

widened an additional five percent, but only on the side of the Impermissible Price (as defined and discussed below).<sup>6</sup> The Participants believe that widening collars only in the direction of the Impermissible Price would address issues relating to the concept of mean reversion.

Finally, the Participants have agreed that the proposed new procedures for reopening trading following a Trading Pause reduces the potential that an order or orders entered by one or more Members caused such execution to be clearly erroneous. Specifically, the Participants believe that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous.

As a Primary Listing Exchange, the Exchange proposes to amend Rule 11.23(d) to implement the proposed uniform trading practices with respect to reopening a security following a Trading Pause and amend Rule 11.17, Clearly Erroneous Executions, to preclude Members from requesting a review of a Trading Halt Auction as a clearly erroneous execution, as described below.

#### Description of Changes to the Halt Auction Process

To effect the proposed enhancements that would be implemented by all Primary Listing Exchanges, the Exchange proposes to incorporate the above items that were agreed to amongst the Participants under Exchange Rule 11.23(d), IPO and Halt Auctions. First, the Exchange proposes to adopt new paragraph (C) under Rule 11.23(d)(2) titled “Incremental Quote Period

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<sup>6</sup> For NMS Stocks that are priced \$3.00 and under, the price collar threshold would be \$0.15.

Extensions for Halt Auctions Following a Trading Pause.”<sup>7</sup> Under Exchange Rule 11.23(d)(1)(A), the Quote-Only Period<sup>8</sup> with respect to a Halt Auction commences five (5) minutes prior to such Halt Auction. Proposed Rule 11.23(d)(2)(C) would provide for the Quote-Only Period to be extended an additional five (5) minutes should a Halt Auction be unable to be performed due to Market Order<sup>9</sup> imbalance under 11.23(d)(2)(B)(i)<sup>10</sup> or the Indicative Price,<sup>11</sup> before being adjusted for Halt Auction Collars, is outside the Halt Auction Collars set forth in proposed subparagraphs (i) and (ii) to Exchange Rule 11.23(d)(2)(C) discussed below (either, an “Impermissible Price”) (“Initial Extension Period”).<sup>12</sup>

After the Initial Extension Period, the Quote-Only Period shall be extended for additional five (5) minute periods should a Halt Auction be unable to be performed due to an Impermissible Price (“Additional Extension Period”) until a Halt Auction occurs. The Exchange shall attempt to conduct a Halt Auction during the course of each Additional Extension Period. The Halt Auction will be cancelled at 3:50 p.m. eastern time, at which time the auction for the security shall be conducted pursuant to the Volatility Closing Auction process under section (e) of

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<sup>7</sup> The Exchange proposes to renumber current paragraphs (C) and (D) under Rule 11.23(d)(2) as (D) and (E), respectively.

<sup>8</sup> “Quote-Only Period” is defined as “a designated period of time prior to a Halt Auction, a Volatility Closing Auction, or an IPO Auction during which Users may submit orders to the Exchange for participation in the auction.” See Exchange Rule 11.23(a)(17).

<sup>9</sup> See Exchange Rule 11.9(a)(2).

<sup>10</sup> Under 11.23(d)(2)(B)(i), the Quote-Only Period may be extended where there are unmatched Market Orders on the Auction Book associated with the auction.

<sup>11</sup> “Indicative Price” is defined as “the price at which the most shares from the Auction Book and the Continuous Book would match.” See Exchange Rule 11.23(a)(10).

<sup>12</sup> The Quote-Only Period would not be extended and the Halt Auction may occur where there is a Limit Order imbalance, but no Market Order imbalance exists and the Indicative Price is inside the thresholds set forth in proposed subparagraphs (i) and (ii) to Exchange Rule 11.23(d)(2)(C).

Exchange Rule 11.23. Renumbered paragraph (D) of Rule 11.23(d)(2) would also be amended to make clear that the Exchange will notify market participants of the circumstances and length of an extension of the Quote-Only Period as proposed herein.

Under proposed subparagraph (i) to Rule 11.23(d)(2)(C), the Halt Auction Reference Price shall equal the price of the Upper or Lower Price Band that triggered the halt. If the Halt Auction Reference Price is the Lower (Upper) Price Band, the initial lower (upper) Halt Auction Collar shall be five (5) percent less (greater) than the Halt Auction Reference Price, rounded to the nearest minimum price variation and the upper (lower) Halt Auction Collar shall be the Upper (Lower) Price Band. For securities with a Halt Auction Reference Price of \$3.00 or less, the initial lower (upper) Halt Auction Collar shall be \$0.15 less (greater) than the Halt Auction Reference Price, rounded to the nearest minimum price variation and the upper(lower) Halt Auction Collar shall be the Upper (Lower) Price Band.

Proposed subparagraph (ii) to Rule 11.23(d)(2)(C) would state that at the beginning of the Initial Extension Period, the upper(lower) Halt Auction Collar shall be increased(decreased) by five (5) percent in the direction of the Impermissible Price rounded to the nearest minimum price variation. For securities with a Halt Auction Reference Price of \$3.00 or less, the Halt Auction Collar shall be increased (decreased) in \$0.15 increments in the direction of Impermissible Price. At the beginning of each Additional Extension Period, the Halt Auction Collar shall be widened by the same amount as the Initial Extension Period.

In addition, the Exchange proposes to amend paragraph (d)(2)(A) of Rule 11.23 regarding the publication of BZX Auction information. Under Rule 11.23(d)(2)(A), coinciding with the beginning of the Quote-Only Period for a security and updated every five seconds

thereafter, the Reference Price,<sup>13</sup> Indicative Price, Auction Only Price,<sup>14</sup> and the lesser of Reference Buy Shares<sup>15</sup> and Reference Sell Shares<sup>16</sup> associated with the Halt Auction are disseminated via electronic means. The Exchange proposes to amend paragraph (d)(2)(A) of Rule 11.23 to include the Halt Auction Reference Price and Halt Auction Collars as part of the information to be publicly disseminated as part of the Halt Auction process.

Renumbered paragraph (E) of Rule 11.23(d)(2) describes how the Exchange determines the price of an IPO and Halt Auction and states that orders will be executed at the price that maximizes the number of shares executed in the auction. The Exchange proposes to amend renumbered paragraph (E) of Rule 11.23(d)(2) to separately describe how the price of an IPO and Halt Auction are calculated. As amended, for IPO Auctions for ETPs, orders will continue to be executed at the price level within the Collar Price Range that maximizes the number of shares executed in the auction. For Halt Auctions for ETPs, orders will be executed at the price level within the Halt Auction Collars that maximizes the number of shares executed in the auction.

The Exchange also proposes to add new paragraph (F) under Exchange Rule 11.23(d)(2). Proposed paragraph (F) to Rule 11.23(d)(2) would state if a Trading Pause is triggered by the Exchange or if the Exchange is unable to reopen trading at the end of the Trading Pause due to a systems or technology issue, the Exchange will immediately notify the single plan processor responsible for consolidation of information for the security pursuant to Rule 603 of Regulation NMS under the Securities Exchange Act of 1934.

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<sup>13</sup> See Exchange Rule 11.23(a)(19).

<sup>14</sup> See Exchange Rule 11.23(a)(2).

<sup>15</sup> See Exchange Rule 11.23(a)(18).

<sup>16</sup> See Exchange Rule 11.23(a)(21).



Lastly, the Exchange proposes to amend Rule 11.17, Clearly Erroneous Executions, to provide that Members may not request a review of a Trading Halt Auction under Rule 11.17(b), which specifies the procedures for a Member to request a review of an execution as clearly erroneous. The Exchange believes that this proposed rule text would implement the proposed standardized trading practice that reopening auctions would not be eligible for review by Members as a clearly erroneous execution.<sup>17</sup>

### Implementation Date

The Exchange proposes to implement the proposed rule change following the Commission's approval of Amendment No. 12 to the Plan. The Exchange will announce the implementation date via a trading notice to be issued after the Commission's approval of this proposed rule change.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>18</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>19</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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. The Exchange believes that the proposed rule change,

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<sup>17</sup> The Participants will be engaging in a more comprehensive review of Rule 11.17 in connection with amendments to the Plan relating to tiering of securities and applicable percentage parameters. The Exchange proposes to make this limited amendment to Rule 11.17 as an initial step to eliminating its clearly erroneous executions rules in their current form.

<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(5).

together with the proposed amendments to the Plan, are necessary or appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to and perfect the mechanisms of, a national market system, or otherwise in furtherance of the purposes of the Act.

The Exchange believes the proposed changes would 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, because they are designed, together with the proposed amendments to the Plan, to address the issues experienced on August 24, 2015 by reducing the number of repeat Trading Pauses in a single NMS Stock. The proposed Plan amendments are an essential component to Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium Reopening Price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The proposed Plan amendments support this initiative by requiring trading centers to wait to resume trading following Trading Pause until there is a Reopening Price.

This proposed rule change further supports this initiative by proposing uniform trading practices for reopening trading following a Trading Pause. The Exchange believes that the proposed standardized approach for how the Primary Listing Exchanges would conduct certain aspects of an automated reopening following a Trading Pause would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide certainty for market participants regarding how a security would reopen following a Trading Pause, regardless of the listing exchange. The Exchange further believes that the proposed changes would remove impediments to and perfect the mechanism of a free and open

market and a national market system and protect investors and the public interest because the goal of the proposed changes is to ensure that all Market Order interest could be satisfied in an automated reopening auction while at the same time reducing the potential for multiple Trading Pauses in a single security due to a large order imbalance.

The Exchange further believes that the standardized proposal to extend a Trading Pause an additional five minutes would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting liquidity. If at the end of such extension, Market Orders still cannot be satisfied within the applicable price collar thresholds or if the reopening auction would be priced outside of the applicable price collar thresholds, the Primary Listing Exchange would extend the Trading Pause an additional five minutes, which the Exchange believes would further protect investors and the public interest by reducing the potential for significant price disparity in post-auction trading, which could otherwise trigger another Trading Pause. With each such extension, the Exchange believes that widening the price collar threshold on the side of the market on which there is buying or selling pressure would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting interest while at the same time addressing that an imbalance may not be resolved within the prior auction collars.

With respect to price collar thresholds, the Exchange believes that using the price of the limit state that preceded the Trading Pause, i.e., either the Lower or Upper Price Band price, would better reflect the most recent price of the security and therefore should be used as the reference price for determining the auction collars for such Halt Auction. The Exchange believes that widening auction collars only in the direction of the imbalance would address issues

relating to the concept of mean reversion, which would protect investors and the public interest by reducing the potential for wide price swings following a Halt Auction.

Finally, the Exchange believes that precluding Members from requesting review of a Halt Auction as a clearly erroneous execution would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed new procedures for reopening trading following a Trading Pause would reduce the possibility that an order(s) from a Member caused a Trading Halt Auction be clearly erroneous. Specifically, the Exchange believes that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous.

(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 that the proposed rule change is not designed to address any competitive issues, but rather, to achieve the Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium reopening price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The Exchange believes that the proposed rule change reduces the burden on competition for market participants because it promotes a transparent and consistent process for reopening trading following a Trading Pause regardless of where a security may be listed. The Exchange further believes that the proposed rule change would not impose any burden on competition

because they are designed to increase transparency regarding the Exchange's Trading Halt Auction process while at the same time increase the ability for offsetting interest to participate in an auction, which would assist in achieving pricing equilibrium for such an auction.

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

Written comments were neither solicited nor received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be 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-BatsBZX-2016-61 on the subject line.

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-BatsBZX-2016-61. 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-BatsBZX-2016-61 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>20</sup>

Brent J. Fields  
Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).