

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68951; File No. SR-BATS-2013-012)

February 19, 2013

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Related to Fees for Use 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 February 11, 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, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposed rule change 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 proposes to amend the fee schedule applicable to Members<sup>5</sup> and non-members of the Exchange pursuant to BATS Rules 15.1(a) and (c). Changes to the fee schedule pursuant to this proposal are effective upon filing.

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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)(ii).

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

<sup>5</sup> A Member is any registered broker or dealer that has been admitted to membership in the Exchange.

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 Exchange proposes to modify pricing applicable to the Exchange's options platform ("BATS Options") with respect to orders routed away by the Exchange and executed at BOX Options Exchange LLC ("BOX") and C2 Options Exchange, Inc. ("C2"). The Exchange also proposes to modify BATS Options pricing for certain directed intermarket sweep orders ("Directed ISOs") routed to BOX [sic], C2, NYSE Arca, Inc. ("ARCA") and NASDAQ OMX BX, Inc. ("BX Options"), as further described below.

BATS Options currently charges certain flat rates for routing to other options exchanges that have been placed into groups based on the approximate cost of routing to such venues. The grouping of away options exchanges is based on the cost of transaction fees assessed by each venue as well as costs to the Exchange for routing (i.e., clearing

fees, connectivity and other infrastructure costs, membership fees, etc.) (collectively, “Routing Costs”). As explained below, the Exchange proposes to impose the same pricing for executions at C2 as is currently charged by the Exchange for orders routed to and executed at BX Options in non-Penny Pilot Securities and to eliminate fees for Customer orders executed at BOX.<sup>6</sup>

Based on applicable Routing Costs, the Exchange currently charges \$0.11 per contract for Customer<sup>7</sup> orders executed at BOX, NYSE MKT LLC (“AMEX”), Chicago Board Options Exchange, Inc. (“CBOE”), the MIAX Options Exchange (“MIAX”), BX Options in Penny Pilot Securities, International Securities Exchange, LLC (“ISE”) in Classic issues, and NASDAQ OMX PHLX LLC (“PHLX”). The Exchange currently charges \$0.57 per contract for Professional,<sup>8</sup> Firm, and Market Maker<sup>9</sup> orders executed at

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<sup>6</sup> The Exchange currently charges different fees and provides different rebates depending on whether an options class is an options class that qualifies as a Penny Pilot Security pursuant to Exchange Rule 21.5, Interpretation and Policy .01 or is a non-Penny Pilot Security. Certain other options exchanges also have different pricing for Penny Pilot Securities and non-Penny Pilot Securities. Accordingly, in certain cases, the Exchange’s routing fees also vary with respect to the fees for orders executed at such exchanges. However, in order to maintain a simple routing table, depending on the level of applicable fees and the affect of such fees upon Exchange Routing Costs, the Exchange has also chosen to charge all executions at certain venues a flat rate rather than differentiating between Penny Pilot Securities and non-Penny Pilot Securities. This is the case with respect to routing to BOX and C2, as proposed to be amended by this filing.

<sup>7</sup> As defined on the Exchange’s fee schedule, a “Customer” order is any transaction identified by a Member for clearing in the Customer range at the Options Clearing Corporation (“OCC”), except for those designated as “Professional”.

<sup>8</sup> The term “Professional” is defined in Exchange Rule 16.1 to mean any person or entity that (A) is not a broker or dealer in securities, and (B) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

<sup>9</sup> As defined on the Exchange’s fee schedule, the terms “Firm” and “Market Maker” apply to any transaction identified by a member for clearing in the Firm

BOX, AMEX, CBOE, MIAX, BX Options in Penny Pilot Securities, ISE in Classic issues, and PHLX. BOX currently charges an initial base fee for transactions that remove liquidity and then certain credits are applied to such transactions that remove liquidity. This results in variable rebates for Customer orders routed by the Exchange to BOX. Based on this fee structure, the Exchange proposes to provide routing of Customer orders to BOX without imposing a fee, which is the same pricing currently applied by the Exchange to executions of Customer orders routed to BX Options in non-Penny Pilot Securities, which, like BOX, also provides rebates for Customer orders. The Exchange is not proposing to change pricing for executions for Professional, Firm and Market Maker orders at BOX and will continue to charge \$0.57 per contract for such orders.

Based on applicable Routing Costs, the Exchange currently charges \$0.52 per contract for Customer orders executed at C2, ARCA in Penny Pilot Securities, and the NASDAQ Options Market (“NOM”) in Penny Pilot Securities. The Exchange currently charges \$0.57 per contract for Professional, Firm, and Market Maker orders executed at C2, ARCA in Penny Pilot Securities, and NOM in Penny Pilot Securities. Recent pricing changes by C2 will result in a maximum fee of \$0.85 per contract for Professional, Firm and Market Maker orders executed at C2 and rebates or free executions for Customer orders executed at C2. Based on such changes, the Exchange proposes to align the pricing for orders routed to and executed at C2 with the pricing currently charged by the Exchange for orders routed to and executed at BX Options in non-Penny Pilot Securities. Accordingly, with respect to orders routed to C2, the Exchange proposes to provide

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or Market Maker range, respectively, at the Options Clearing Corporation (“OCC”).

executions of Customer orders without imposing a fee and to charge \$0.95 per contract for Professional, Firm and Market Maker orders.

In order to cover the cost of removing liquidity in non-Penny Pilot Securities at NOM, including Routing Costs, the Exchange currently charges a flat fee of \$0.95 per contract for all executions of Directed ISOs routed to NOM in non-Penny Pilot Securities. This is the same fee as the Exchange charges for executions of Professional, Firm and Market Maker orders routed to NOM in non-Penny Pilot Securities generally. The fee of \$0.95 per contract is slightly more than the Exchange's standard fee of \$0.90 per contract for Customer orders executed at NOM in non-Penny Pilot Securities.

In order to achieve consistency with the Exchange's fees for Directed ISOs routed to NOM, the Exchange proposes to extend its Directed ISO pricing to all other types of routed executions for which the Exchange charges a routing fee of \$0.90 or more. Specifically, in addition to continuing to charge \$0.95 per contract for all executions of Directed ISOs routed to NOM in non-Penny Pilot Securities, the Exchange proposes to charge a flat fee of \$0.95 per contract for Directed ISOs routed to and executed by: (1) ARCA in non-Penny Pilot Securities, (2) BX Options in non-Penny Pilot Securities to the extent such Directed ISOs are Professional, Firm or Market Maker orders, and (3) C2 to the extent such Directed ISOs are Professional, Firm or Market Maker orders.

The Exchange will continue to impose a flat fee of \$0.60 per contract for any other Directed ISO.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a

national securities exchange, and, in particular, with the requirements of Section 6 of the Act.<sup>10</sup> Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>11</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and other persons using any facility or system which the Exchange operates or controls. The Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues or providers of routing services if they deem fee levels to be excessive.

As explained above, the Exchange generally attempts to approximate the cost of routing to other options exchanges, including other applicable costs to the Exchange for routing. The Exchange believes that a pricing model based on approximate Routing Costs is a reasonable, fair and equitable approach to pricing. Specifically, the Exchange believes that its proposal to modify fees to BOX and C2 is fair, equitable and reasonable because the fees are generally an approximation of the cost to the Exchange for routing orders to such exchanges. The Exchange believes that its flat fee structure for orders routed to various venues is a fair and equitable approach to pricing, as it provides certainty with respect to execution fees at groups of away options exchanges. Under its flat fee structure, taking all costs to the Exchange into account, the Exchange may operate at a slight gain or a slight loss for orders routed to and executed at C2 and will operate at a gain for Customer orders routed to BOX. As a general matter, the Exchange believes that the proposed fees will allow it to recoup and cover its costs of providing routing services to such exchanges. The Exchange also believes that the proposed fee structure

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<sup>10</sup> 15 U.S.C. 78f.

<sup>11</sup> 15 U.S.C. 78f(b)(4).

for orders routed to and executed at these away options exchanges is fair and equitable and not unreasonably discriminatory in that it applies equally to all Members.

The Exchange notes that under their pricing models, BOX and C2 provide certain rebates for executions that the Exchange is not proposing to pass on to the entering Member; instead, the Exchange proposes to provide such executions free of charge. The Exchange specifically believes that its pricing structure for Customer orders routed to BOX and C2 is reasonable because, although not an approximation of the cost of routing per se, Customer orders will still receive executions free of charge, whereas all other routed orders (other than Customer orders to BX Options) are charged a fee that includes applicable Routing Costs. The Exchange believes that the proposed pricing for Customer orders routed to BOX and C2 is fair and equitable and non-discriminatory because it will apply equally to all Members, and because Members can and will likely route directly to BX Options to the extent they are specifically seeking the rebate provided for such orders. Finally, the Exchange believes that its proposed fee for routing of Professional, Firm and Market Maker orders to C2 is reasonable because it is an approximation of the maximum fees the Exchange will be charged for such executions, including Routing Costs.

As explained above, the Exchange has also proposed to increase fees for Directed ISO's to ARCA in non-Penny Pilot Securities, to BX Options in non-Penny Pilot Securities (Professional, Firm or Market Maker orders only), and to C2 (Professional, Firm or Market Maker orders) to \$0.95 per contract (from the current charge of \$0.60 per contract for all Directed ISO's other than in non-Penny Pilot Securities routed to NOM). The Exchange believes that this increase is fair, equitable and reasonable because the fees

are also an approximation of the cost to the Exchange for routing orders to such options exchanges. The Exchange also believes that the proposed fee structure for orders routed to and executed at these away options exchanges is fair and equitable and not unreasonably discriminatory in that it applies equally to all Members.

The Exchange reiterates that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels to be excessive or providers of routing services if they deem fee levels to be excessive. Finally, the Exchange notes that it constantly evaluates its routing fees, including profit and loss attributable to routing, as applicable, in connection with the operation of a flat fee routing service, and would consider future adjustments to the proposed pricing structure to the extent it was recouping a significant profit from routing to another options exchange.

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 not necessary or appropriate in furtherance of the purposes of the Act. The proposed changes will assist the Exchange in recouping costs for routing orders to other options exchanges on behalf of its participants. The Exchange also notes that Members may choose to mark their orders as ineligible for routing to avoid incurring routing fees.<sup>12</sup> As stated above, the Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to

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<sup>12</sup> See BATS Rule 21.1(d)(8) (describing "BATS Only" orders for BATS Options) and BATS Rule 21.9(a)(1) (describing the BATS Options routing process, which requires orders to be designated as available for routing).



competing venues if they deem fee levels to be excessive or providers of routing services if they deem fee levels to be excessive.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

Pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>13</sup> and Rule 19b-4(f)(2) thereunder,<sup>14</sup> the Exchange has designated this proposal as establishing or changing a due, fee, or other charge applicable to the Exchange's Members and non-members, which renders the proposed rule change effective 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.

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:

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>14</sup> 17 CFR 240.19b-4(f)(2).

- 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-2013-012 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-2013-012. 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-2013-012 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>15</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).