

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73093; File No. SR-BATS-2014-037)

September 15, 2014

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Rules 11.9 and 21.1 of BATS Exchange, Inc.

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 September 3, 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, II and III 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 the Substance of the Proposed Rule Change

The Exchange is proposing to add Rule 11.24, entitled “Opening Process for Non-BATS-Listed Securities,” as well as to make several corresponding changes in order to modify the manner in which the Exchange opens trading for non-BATS-listed securities at the beginning of the day and after trading halts.

The text of the proposed rule addition 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 amend Exchange Rules 11.9(b), 11.18(f), and 11.23(a)(22), and to add new Rule 11.24 in order to allow for the entry of Regular Hours Only orders in non-BATS-listed securities and to amend the process by which the Exchange opens trading for non-BATS-listed securities at the beginning of the day and after trading halts. Specifically, the Exchange is proposing to accept Regular Hours Only orders in all non-BATS-listed securities for queuing throughout the Pre-Opening Session,³ as well as to establish a process for handling queued orders in order to open trading on the Exchange for Regular Trading Hours⁴ and following a halt. The Exchange is proposing this rule change in order to create a more orderly opening of trading in non-BATS-listed securities and to facilitate the price formation process at the open of trading in non-BATS-listed securities by allowing Users to enter orders during the Pre-Market Session and during a halt rather than requiring them to submit a flood of orders to the Exchange immediately following the beginning of Regular Trading Hours or the resumption of trading following a halt.

Currently, the Exchange begins accepting orders in non-BATS-listed securities for trading at the beginning of the Pre-Opening Session and any such orders received by the

³ Pre-Opening Session is defined in BATS Rule 1.5(r).

⁴ Regular Trading Hours is defined in BATS Rule 1.5(w).

Exchange are immediately eligible for execution. Any such orders that are on the BATS Book⁵ at the beginning of Regular Trading Hours remain on the BATS Book, subject to the User's instruction, and trading continues into Regular Trading Hours without any transition period. Upon a halt, the Exchange currently cancels all orders on the BATS Book, except Eligible Auction Orders,⁶ and does not accept any orders until the halt is lifted. The time-in-force of Regular Hours Only⁷ that the Exchange currently offers is only available in BATS-listed securities.

The Exchange is proposing to implement a process by which the Exchange will accept and queue orders that have a time-in-force of Regular Hours Only (or "RHO")⁸ during the Pre-Opening Session for execution at the midpoint of the NBBO⁹ shortly after the beginning of Regular Trading Hours (the "Opening Process"). The Exchange is also proposing to implement a similar opening process after a halt, suspension, or pause (a "Halt" and the "Halt Opening Process") in which a User's orders will remain on the BATS Book, unless the User has designated that its orders be cancelled upon a halt, as further described below.

As mentioned above, the Exchange is proposing to delete current rule 11.23(a)(22) defining Regular Hours Only and simultaneously adding Rule 11.9(b)(7) which would define RHO as a time-in-force that applies to all securities, both BATS-listed and non-BATS-listed. Specifically, the Exchange is proposing that RHO means a limit or market order that is

⁵ BATS Book is defined in BATS Rule 1.5(e).

⁶ Eligible Auction Order is defined in BATS Rule 11.23(a)(8).

⁷ Regular Hours Only is defined in BATS Rule 11.23(a)(22).

⁸ The Exchange is proposing to amend the definition of Regular Hours Only to include non-BATS-listed securities and to move the rule text from Rule 11.23(a)(22) to Proposed Rule 11.9(b)(7).

⁹ NBBO is defined in BATS Rule 1.5(o).

designated for execution only during Regular Trading Hours, which includes the Opening Auction, the Closing Auction, and IPO/Halt Auctions for BATS-listed securities and the Opening Process for non-BATS-listed securities (as such terms are defined in Rule 11.23 and 11.24). Any portion of a market RHO order will be cancelled immediately following any auction in which it is not executed. The Exchange is also proposing to make a non-substantive change to Rule 11.9(b) in order to delete the word “limit” because an RHO order can be both a limit order or a market order. Each other time-in-force clearly states that it applies only to limit orders.

The Exchange proposes that prior to the beginning of Regular Trading Hours, Users¹⁰ that wish to participate in the Opening Process may enter orders to buy or sell with a time in force of Regular Hours Only. Orders cancelled before the completion of the Opening Process will not participate in the Opening Process. Any order that is not designated as RHO will not be eligible for participation in the Opening Process. Proposed Rule 11.24(a)(2) provides that all orders that are marked as RHO may participate in the Opening Process except BATS Post Only Orders,¹¹ Partial Post Only at Limit Orders,¹² ISO¹³ orders not modified by Rule 11.24(a)(1), as described below, and Minimum Quantity Orders.¹⁴ Because RHO orders received prior to the completion of the Opening Process are not immediately executable, but rather queued for later participation in the Opening Process, BATS Post Only Orders, Partial Post Only at Limit Orders, and Minimum Quantity Orders marked as RHO do not make sense in the context of the Opening

¹⁰ User is defined in BATS Rule 1.5(cc).

¹¹ BATS Post Only Order is defined in BATS Rule 11.9(c)(6).

¹² Partial Post Only at Limit Order is defined in BATS Rule 11.9(c)(7).

¹³ ISO is defined in BATS Rule 11.9(d).

¹⁴ Minimum Quantity Order is defined in BATS Rule 11.9(c)(5).

Process and, thus, the Exchange is proposing to exclude them from the Opening Process. Similarly, because an order designated as an ISO implies that there is currently a protected bid or offer and there are no protected bids or offers prior to 9:30 a.m. Eastern Time, the Exchange proposes to reject any ISOs designated RHO entered prior to the beginning of Regular Trading Hours. While this functionality is opposite of the way that ISOs are handled on the Exchange's options platform ("BATS Options") (ISOs are converted to non-ISOs and entered for queuing), the Exchange believes that because there is continuous trading during the Pre-Opening Session on the Exchange while orders are also being queued for participation in the Opening Process, an ISO tag could be interpreted in various ways and there is no obvious way to eliminate this confusion and, as such, the order should be rejected. On BATS Options, on the other hand, there is no continuous book and all orders entered prior to 9:30 a.m. Eastern Time are queued for participation in the BATS Options opening process, so an ISO tag simply does not make sense in that context and can reasonably be ignored and converted to a non-ISO for queuing. Consistent with this logic and as further detailed below, the Exchange is also proposing that, prior to a re-opening after a halt, any ISO that is not IOC or FOK be converted into a non-ISO for queuing and participation in the re-opening process because there is no continuous trading while a security is halted.

Limit orders with a Reserve Quantity¹⁵ may participate to the full extent of their displayed size and Reserve Quantity. Discretionary Orders¹⁶ may participate only up to their ranked price for buy orders or down to their ranked price for sell orders. The discretionary range of such orders will not be eligible for participation in the Opening Process. All Pegged Orders

¹⁵ Reserve Quantity is defined in BATS Rule 11.9(c)(1).

¹⁶ Discretionary Order is defined in BATS Rule 11.9(c)(10).

and Mid-Point Peg Orders, as defined in Rule 11.9(c)(8) and (9), will be eligible for execution in the Opening Process based on their pegged prices.

The Exchange will then attempt to perform the Opening Process, as described in proposed Rule 11.24(b), in which the Exchange matches buy and sell orders that are executable at the midpoint of the NBBO as described in proposed Rule 11.24(c) below. All orders eligible to trade at the midpoint will be processed in time sequence, beginning with the order with the oldest time stamp. The Exchange believes that handling orders in time priority makes more sense than price-time priority for the Opening Process because the price of the order is not particularly important to the Opening Process, so long as the order is priced at or more aggressively than the Opening Price and, as such, there is no reason to reward a more aggressive order with priority in the Opening Process. Thus, the Exchange is proposing that all orders that are priced equal to or more aggressively than the Opening Price be matched based only on time priority and will be matched until there is no remaining volume or there is an imbalance of orders (the “Opening Match”). All MTP modifiers, as defined in Rule 11.9(f), will be ignored as it relates to executions occurring as part of the Opening Match because the counterparty against which an order executes is mostly random and completely out of the control of the User entering the order. It does not make sense to cancel an order because the order happens to execute against an order entered using the same MPID, but to allow both orders to execute at the exact same price to the exact same effect where the orders happen to execute against different orders. An imbalance of orders on the buy side or sell side may result in orders that are not executed in whole or in part. Such orders may, in whole or in part, be placed on the BATS Book, cancelled, executed, or routed to other away Trading Centers¹⁷ in accordance with Rule 11.13(a)(2). If no

¹⁷ Trading Center is defined in BATS Rule 2.11(a).

matches can be made, the Opening Process will conclude with all orders that participated in the Opening Process being placed in the BATS Book, cancelled, executed, or routed to away Trading Centers in accordance with Rule 11.13(a)(2) related to order execution and routing. Because an RHO order is not executable until the Opening Process (rather than upon entry), to the extent that any order is not executed during the Opening Process and is placed on the BATS Book, such order will receive a time stamp that reflects the time that the order was placed on the BATS Book during the Opening Process and not the time that the order was entered for queuing.

Under proposed Rule 11.24(c), the Exchange will determine the price of the Opening Process by using the midpoint of the NBBO, as follows: (a) when the listing exchange is either the NYSE or NYSE MKT, the Opening Process will be priced at the midpoint of the: (i) first NBBO subsequent to the first reported trade on the listing exchange after 9:30:00 a.m. Eastern Time; or (ii) then prevailing NBBO when the first two-sided quotation is published by the listing exchange after 9:30:00 a.m. Eastern Time if no first trade is reported by the listing exchange within one second of publication of the first two-sided quotation by the listing exchange; or (b) for any other listing market except for the Exchange, the Opening Process will be priced at the midpoint of the first NBBO disseminated after 9:30:00 a.m. Eastern Time. The Exchange is proposing to differentiate the treatment between NYSE and NYSE MKT listed securities and securities listed on any other exchange because NYSE and NYSE MKT do not offer continuous trading prior to 9:30:00 a.m. Eastern Time and the market for trading in securities listed on these exchanges may take a moment to develop. Using the first NBBO disseminated for NYSE and NYSE MKT listed securities to establish the Opening Price may result in executions that are not necessarily reflective of market conditions after the first execution on the listing market or one second after the listing market's first quote. Every other listing exchange allows for continuous

trading prior to 9:30:00 a.m. Eastern Time, which results in a more fully developed market immediately after 9:30:00 a.m. Eastern Time and, thus, a more immediately reliable Opening Price.

Proposed Rule 11.24(a)(1) provides that during the period between 9:30 a.m. Eastern Time and the occurrence of the Opening Process, all non-RHO orders, subject to order instructions, and ISOs designated RHO may execute against eligible Pre-Opening Session contra-side interest resting in the BATS Book. The Exchange will convert any unexecuted portion of an ISO designated RHO entered during this period into a non-ISO and queue the order for participation in the Opening Process.

If the conditions to establish the price of the Opening Process set forth under proposed Rule 11.24(c) do not occur by 9:45:00 a.m. Eastern Time, proposed Rule 11.24(d) describes a contingent opening process (the “Contingent Open Process”) in which instead of matching orders at the midpoint of the NBBO, orders will be handled in time sequence, beginning with the order with the oldest time stamp, and will be placed on the BATS Book, routed, cancelled, or executed in accordance with the terms of the order. Because an RHO order is not executable until the Opening Process (rather than upon entry), any order subject to the Contingent Open Process that is placed on the BATS Book will receive a time stamp that reflects the time that the order was placed on the BATS Book during the Opening Process and not the time that the order was entered for queuing.

In the event of a Halt, the proposed amendment to Rule 11.18(f) provides that, except where a User has designated that its orders be cancelled, all outstanding orders in the System¹⁸ will remain on the BATS Book. Proposed Rule 11.24(e) then provides that the Exchange will

¹⁸ System is defined in BATS Rule 1.5(aa).

accept orders for queuing prior to the resumption of trading in order to participate in the Halt Opening Process. While a non-BATS-listed security is subject to a Halt, the Exchange will accept orders for queuing prior to the resumption of trading in the security for participation in the Halt Opening Process. The Halt Opening Process will occur in the same manner described in proposed Rules 11.24(a)(2) and (b) with the following exceptions: (1) non-RHO orders will be eligible for participation in the re-opening, but IOC,¹⁹ FOK, BATS Post Only Orders, Partial Post Only at Limit Orders, and Minimum Quantity Orders will be cancelled or rejected, as applicable, and any ISO that is not IOC or FOK will be converted into a non-ISO and be queued for participation in the Halt Opening Process; and (2) the re-opening will occur at the midpoint of the: (i) first NBBO subsequent to the first reported trade on the listing exchange following the resumption of trading after a Halt; or (ii) NBBO when the first two-sided quotation is published by the listing exchange following the resumption of trading after a Halt if no first trade is reported by the listing exchange within one second of publication of the first two-sided quotation by the listing exchange. Similar to the rationale for waiting for the sooner of the first execution on the primary or one second to use the midpoint of the NBBO for the Opening Process for NYSE and NYSE MKT, the Exchange is proposing to wait until the sooner of the first execution on the primary or one second to use the midpoint of the NBBO for the Halt Opening Process because there is no continuous trading occurring on any market during a Halt and waiting will provide time for the market to be more fully established before determining the price at which the Halt Opening Process will occur. Where neither of the above conditions required to establish the price of the re-opening have occurred, the security may be opened for trading at the

¹⁹ IOC is defined in BATS Rule 11.9(b)(1).

discretion of the Exchange. Where the security is opened by the Exchange subject to this discretion, orders will be handled in the same manner as the Contingent Open Process.

2. Statutory Basis

The rule change proposed in this submission 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(b) of the Act.²⁰ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,²¹ 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, and, in general, to protect investors and the public interest. The Exchange believes that allowing for the entry of RHO orders in non-BATS-listed securities during the Pre-Opening Session and transitioning into Regular Trading Hours pursuant to the Opening Process will help to ensure that the Exchange opens trading in a fair and orderly manner. Specifically, the Exchange believes that allowing Users to enter and cancel orders in non-BATS-listed securities during the Pre-Opening Session to be queued for execution at the midpoint of the NBBO and/or entry on to the BATS Book shortly following the beginning of Regular Trading Hours will create a more orderly opening and facilitate the price formation process at the opening of trading because Users are able to enter orders to participate in the Opening Process during the Pre-Market Session rather than having a flood of orders submitted to the Exchange immediately following the beginning of Regular Trading Hours. Similarly, the Exchange believes that implementing substantially similar functionality in non-BATS listed securities for accepting orders during re-opening after a Halt will also create a more orderly opening and facilitate price formation as a security is coming out of a Halt. Additionally, using

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

the midpoint of the NBBO as the price for the Opening Process (regardless of the time at which such NBBO is selected as described under proposed Rule 11.24(c)) will further create a more orderly opening and facilitation of the price formation process by basing the price at which the Opening Process will occur on the best available pricing under current market conditions.

The Exchange also believes that excluding BATS Post Only Orders, Partial Post Only at Limit Orders, ISOs, and Minimum Quantity Orders from participation in the Opening Process 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; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers because, as described above, such order types combined with an RHO time-in-force do not make sense in the context of queuing orders for the Opening Process. Further, the Exchange believes that allowing certain RHO orders and all non-RHO orders to interact with interest (and, in the case of non-RHO orders, to be added to the BATS Book where there is no contra-side interest) from the Pre-Opening Session after 9:30 a.m. Eastern Time, but before the completion of the Opening Process will also create a more orderly opening and facilitate the price formation process because Users will have the option to enter orders that will either participate in the Opening Process or immediately interact with liquidity from the Pre-Opening Session, allowing trading to continue while the Exchange is waiting for the conditions necessary to complete the Opening Process. The Exchange also believes that allowing an ISO marked RHO to execute against eligible Pre-Opening Session interest after 9:30 a.m. Eastern and before completion of the Opening Process and then converting the unexecuted portion of the order into a non-ISO for queuing for participation in the Opening Process is

consistent with the Act because it is consistent with the requirements of Regulation NMS.²² In particular, because after 9:30 a.m. Eastern Time there may be a protected bid or offer displayed by the Exchange that the User entering the order is trying to execute against, the Exchange is proposing to allow an ISO designated as an RHO to interact with liquidity currently on the BATS Book prior to queuing for participation in the Opening Process.

The Exchange also believes that the proposal is designed 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 because it would create a contingent opening process under which the orders queued for participation in the Opening Process would be entered on to the BATS Book in the event that the conditions for determining the price of the Opening Process are not met prior to 9:45:00 a.m. Eastern Time, which will further help to ensure that the Exchange opens trading in a fair and orderly manner by providing a means for trading in a non-BATS-listed security to open where there is no two-sided NBBO in the security for fifteen minutes after the beginning of Regular Trading Hours. The Exchange believes that fifteen minutes is a reasonable amount of time to wait for the establishment of a two-sided NBBO because it marks a point at which the market in a security has had a sufficient amount of time to develop while simultaneously providing a reasonable cut-off point at which the Exchange may open the security for Regular Trading Hours trading. The Exchange also believes that handling all orders queued for participation in the Opening Process in time sequence after fifteen minutes will help to ensure that trading opens in as fair and orderly a manner as possible.

The implementation of the Opening Process will also provide Users with greater control and flexibility with respect to entering orders, allowing them to enter orders for participation

²² 17 CFR 242.600.

during Regular Trading Hours in all non-BATS-listed securities during the Pre-Opening Session, rather than only after Regular Trading Hours begin at 9:30 a.m. Eastern Time. This simplifies the order entry process for Users that do not want to participate in the Pre-Opening Session by allowing them to enter their orders designated as Regular Hours Only prior to Regular Trading Hours, which removes impediments to a free and open market and benefits all Users of the 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. To the contrary, the Exchange's inability to accept orders in non-BATS-listed securities prior to 9:30 a.m. Eastern Time for participation during Regular Trading Hours limits competition in that the listing exchange is able to begin accepting orders in such securities, while the Exchange cannot accept such orders. Thus, approval of the proposed rule change will promote competition because it will allow the Exchange to offer its Users the ability to enter orders prior to the beginning of Regular Trading Hours for queuing and entry during Regular Trading Hours and thus compete more directly with other exchanges for order flow that a User may not have directed to the Exchange if they were not able to enter orders for queuing prior to Regular Trading Hours.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) by order approve or disapprove such 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. Please include File Number SR-BATS-2014-037 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-BATS-2014-037. 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 at 100 F Street, NE, Washington, DC 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such 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-2014-037, 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.²³

Kevin M. O'Neill
Deputy Secretary

²³ 17 CFR 200.30-3(a)(12).