

Note: Proposed new language is underlined. Proposed deletions are enclosed in [brackets].

**Rules of BATS Exchange, Inc.**

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**CHAPTER XXII. MARKET PARTICIPANTS**

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Rule 22.10. (Reserved.)[Limitations on Dealings

(a) General Rule.

A Market Maker on BATS Options may engage in Other Business Activities, or it may be affiliated with a broker-dealer that engages in Other Business Activities, only if there is an Information Barrier between the market making activities and the Other Business Activities. “Other Business Activities” means:

- (1) conducting an investment banking or public securities business;
  - (2) making markets in the stocks underlying the options in which it makes markets; or
  - (3) functioning as an Order Entry Firm, except where such Market Maker, or broker-dealer with which such Market Maker is affiliated: (A) engages solely in proprietary trading and does not, under any circumstance, maintain customer accounts or solicit or accept orders or funds from or on behalf of customers, including broker-dealers and other securities firms; and (B) does not place or accept or utilize any order types which call for the participation of, or interaction with, public customers, including broker-dealers and other securities firms.
- (b) “Information Barrier”.

For the purposes of this Rule, an Information Barrier is an organizational structure in which:

- (1) The market making functions are conducted in a physical location separate from the locations in which the Other Business Activities are conducted, in a manner that effectively impedes the free flow of communications between designated representatives of an Options Member performing the function of a Market Maker and persons conducting the Other Business Activities. However, upon request and not on his own initiative, a designated representative of an Options Member performing the function of a Market Maker may furnish to a person performing the function of an OEF or other persons at the same firm or an affiliated firm (“affiliated persons”), the same market or trading information, so long as the Market Maker also may make available such

information to non-affiliated persons with whom the Market Maker may have the same type of business relationship. The designated representative of a Market Maker must provide such information to affiliated persons in the same manner that he would make such information available to a non-affiliated person.

(2) There are procedures implemented to prevent the use of material nonpublic corporate or market information in the possession of persons on one side of the barrier from influencing the conduct of persons on the other side of the barrier. These procedures, at a minimum, must provide that:

(A) the designated representative of an Options Member performing the function of a Market Maker does not take advantage of knowledge of pending transactions, order flow information, corporate information or recommendations arising from the Other Business Activities; and

(B) all information pertaining to the Market Maker's positions and trading activities is kept confidential and not made available to persons on the other side of the Information Barrier, except as provided in Paragraph (b)(1) of this Rule.

(C) Persons on one side of the barrier may not exercise influence or control over persons on the other side of the barrier, provided that:

(i) the market making function and the Other Business Activities may be under common management as long as any general management oversight does not conflict with or compromise the Market Maker's responsibilities under Exchange Rules; and

(ii) the same person or persons (the "Supervisor") may be responsible for the supervision of the market making and OEF functions of the same firm or affiliated firms in order to monitor the overall risk exposure of the firm or affiliated firms. While the Supervisor may establish general trading parameters with respect to both market making and other proprietary trading other than on an order-specific basis, the Supervisor may not:

1) actually perform the function of either a Market Maker or OEF;

2) provide to any person performing the function of an OEF any information relating to market making activity beyond the information that a designated representative of an Options Member performing the function of a Market Maker may provide under subparagraph (b)(1), above; nor

3) provide a designated representative of an Options Member performing the function of Market Maker with specific information regarding the firm's pending transactions or order flow arising out of its OEF activities.

(D) Documenting and Reporting of Information Barrier Procedures. An Options Member implementing an Information Barrier pursuant to this Rule shall submit to BATS Options a written statement setting forth:

(i) The manner in which it intends to satisfy the conditions in paragraph (b) of this Rule, and the compliance and audit procedures it proposes to implement to ensure that the Information Barrier is maintained;

(ii) The names and titles of the person or persons responsible for maintenance and surveillance of the procedures;

(iii) A commitment to provide the Exchange with such information and reports as the Exchange may request relating to its transactions;

(iv) A commitment to take appropriate remedial action against any person violating this Rule or the Options Member's internal compliance and audit procedures adopted pursuant to paragraph (c)(1) of this Rule, and that it recognizes that the Exchange may take appropriate remedial action, including (without limitation) reallocation of securities in which it serves as a Market Maker, in the event of such a violation;

(v) Whether the Options Member or an affiliate intends to clear its proprietary trades and, if so, the procedures established to ensure that information with respect to such clearing activities will not be used to compromise the Options Member's Information Barrier, which procedures, at a minimum, must be the same as those used by the Options Member or the affiliate to clear for unaffiliated third parties; and

(vi) That it recognizes that any trading by a person while in possession of material, non-public information received as a result of the breach of the internal controls required under this Rule may be a violation of Rules 10b-5 and 14e-3 under the Exchange Act or one or more other provisions of the Exchange Act, the Rules thereunder or Exchange Rules, and that the Exchange intends to review carefully any such trading of which it becomes aware to determine whether a violation has occurred.

(E) Exchange Approval of Information Barrier Procedures. The written statement required by paragraph (D) of this Rule must detail the internal controls

that the Options Member will implement to satisfy each of the conditions stated in that Rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If the Exchange determines that the organizational structure and the compliance and audit procedures proposed by the Options Member are acceptable under this Rule, the Exchange shall so inform the Options Member, in writing. Absent the Exchange finding an Options Member's Information Barrier procedures acceptable, a Market Maker may not conduct Other Business Activities.

(F) Clearing Arrangements. Paragraph (D)(v) permits an Options Member or an affiliate of the Options Member to clear the Member's Market Maker transactions if it establishes procedures to ensure that information with respect to such clearing activities will not be used to compromise the Information Barrier. In this regard:

(i) The procedures must provide that any information pertaining to Market Maker securities positions and trading activities, and information derived from any clearing and margin financing arrangements, may be made available only to those employees (other than employees actually performing clearing and margin functions) specifically authorized under this Rule to have access to such information or to other employees in senior management positions who are involved in exercising general managerial oversight with respect to the market making activity.

(ii) Any margin financing arrangements must be sufficiently flexible so as not to limit the ability of any Market Maker to meet market making or other obligations under the Exchange's and Rules.]

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