

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

### Rules of BATS Y-Exchange, Inc.

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## CHAPTER XI. TRADING RULES

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### Rule 11.9. Orders and Modifiers

(No changes.)

(a) – (e) (No changes.)

(f) *[Member] Match Trade Prevention (“[M]MTP”) Modifiers.* Any incoming order designated with an [M]MTP modifier will be prevented from executing against a resting opposite side order also designated with an [M]MTP modifier and originating from the same market participant identifier (“MPID”), Exchange Member identifier or Exchange Sponsored Participant identifier (any such identifier, a “Unique Identifier”). Subject to the exception contained in paragraph (3) below, the [M]MTP modifier on the incoming order controls the interaction between two orders marked with [M]MTP modifiers.

(1) [M]MTP Cancel Newest (“MCN”). An incoming order marked with the “MCN” modifier will not execute against opposite side resting interest marked with any [M]MTP modifier originating from the same Unique Identifier. The incoming order marked with the MCN modifier will be cancelled back to the originating User(s). The resting order marked with an [M]MTP modifier will remain on the BATS Book.

(2) [M]MTP Cancel Oldest (“MCO”). An incoming order marked with the “MCO” modifier will not execute against opposite side resting interest marked with any [M]MTP modifier originating from the same Unique Identifier. The resting order marked with the [M]MTP modifier will be cancelled back to the originating User(s). The incoming order marked with the MCO modifier will remain on the BATS Book.

(3) [M]MTP Decrement and Cancel (“MDC”). An incoming order marked with the “MDC” modifier will not execute against opposite side resting interest marked with any [M]MTP modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User(s). If the orders are not equivalent in size, the equivalent size will be cancelled back to the originating User(s) and the larger order will be decremented by the size of the smaller order, with the balance remaining on the BATS Book[; provided, however, that]. Notwithstanding the foregoing, unless a User instructs the Exchange not to do so, both orders will be cancelled back to the originating User(s) if the resting order is marked with any [M]MTP modifier other than MDC[, ] and the incoming order is smaller in size than the resting order [then both orders will be cancelled back to the originating User(s)].

(4) [M]MTP Cancel Both (“MCB”). An incoming order marked with the “MCB” modifier will not execute against opposite side resting interest marked with any [M]MTP modifier originating from the same Unique Identifier. The entire size of both orders will be cancelled back to the originating User(s).

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#### Rule 11.13. Order Execution

(No changes.)

(a) *Execution and Routing.*

(1) (No changes.)

(2) *Routing to Away Trading Centers.* Depending on the instructions set by the User when the incoming order was originally entered, if a market or marketable limit order has not been executed in its entirety pursuant to paragraph (a)(1) above, the order shall be eligible for additional processing under one or more of the [following] routing options listed under paragraph (a)(3) below.[:

(A) *Routing of Market Orders.* The System will designate market orders as IOCs and will cause such orders to be routed to one or more Trading Centers (as defined in Rule 2.11) for potential execution, per the entering User’s instructions, in compliance with Rule 611 under Regulation NMS. After the System receives responses to orders that were routed away, to the extent an order is not executed in full through the routing process, the System will process the balance of such order as follows. Depending on parameters set by the User when the incoming order was originally entered, the System will either: (i) process the unfilled balance of an order as a BATS Only Order pursuant to Rule 11.9(c)(4), or (ii) repeat the process described in paragraph (a)(1) above and this paragraph (a)(2)(A) by executing against the BATS Book and/or routing orders to other Trading Centers until the original, incoming order is executed in its entirety.

(B) *Routing of Marketable Limit Orders.]* The System will designate [limit] orders as IOCs and will cause such orders to be routed to one or more Trading Centers (as defined in Rule 2.11) for potential execution, per the entering User’s instructions, in compliance with Rule 611 under Regulation NMS. After the System receives responses to orders that were routed away, to the extent an order is not executed in full through the routing process [at or better than the initial price at which the order was routed], the System will process the balance of such order as follows. Depending on parameters set by the User when the incoming order was originally entered, the System will either: [(i) process]

(A) If a limit order, post the unfilled balance of the order [as a BATS Only Order pursuant to Rule 11.9(c)(4)] to the BATS Book, subject to the displayed price sliding process as defined in paragraph (c)(4) of Rule 11.9; [(ii)]

(B) repeat the process described in paragraph (a)(1) above and this paragraph (a)(2)(B) by executing against the BATS Book and/or routing orders to other Trading Centers until the original, incoming order is executed in its entirety or, if not executed in its entirety and a limit order, post the unfilled balance of the order in the BATS Book if the order's limit price is reached; or [(iii)]

(C) repeat the process described in paragraph (a)(1) above and this paragraph (a)(2)(B) by executing against the BATS Book and/or routing orders to other Trading Centers, provided that the System will check the BATS Book for liquidity at the order's limit price only one time pursuant to paragraph (a)(1), then route orders at that limit price to other Trading Centers pursuant to this paragraph (a)(2)(B), and then cancel any unfilled balance of the order back to User.

To the extent the unfilled balance of an order has been posted to the BATS Book pursuant to [(a)(2)(B)(ii) of] this paragraph, should the order subsequently be locked or crossed by another accessible Trading Center, the System shall route the order to the locking or crossing Trading Center if instructed to do so by [a]the User (the "RECYCLE Option"). Unless otherwise specified, the RECYCLE Option may be combined with any of the System routing options specified in paragraph (a)(3) below.

(3) Routing Options. The System provides a variety of routing options. Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The System will consider the quotations only of accessible markets. The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The System routing options are:

(A) CYCLE. CYCLE is a routing option under which an order checks the System for available shares and then is sent sequentially to destinations on the System routing table for the full remaining size of such order.

(B) Parallel D. Parallel D is a routing option under which an order checks the System for available shares and then is sent to destinations on the System routing table. The System may route to multiple destinations at a single price level simultaneously through Parallel D routing.

(C) Parallel 2D. Parallel 2D is a routing option under which an order checks the System for available shares and then is sent to destinations on the System

routing table. The System may route to multiple destinations and at multiple price levels simultaneously through Parallel 2D routing.

(D) Parallel T. Parallel T is a routing option under which orders route only to Protected Quotations and only for displayed size. The System may route to multiple destinations and at multiple price levels simultaneously through Parallel T routing.

(E) DRT. DRT is a routing option in which the entering firm instructs the System to first route to alternative trading systems included in the System routing table. DRT can be combined with and function consistent with either the CYCLE, Parallel D or Parallel 2D routing options.

(F) “Destination Specific Orders,” “Modified Destination Specific Orders” and “Directed ISO” orders are routed orders described in Rule 11.9.

(b) – (d) (No changes.)

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#### Rule 11.17. Clearly Erroneous Executions

The provisions of paragraphs (c), (e)(2), (f), and (g) of this Rule, as amended effective as of October 15, 2010, shall be in effect during a pilot period set to end on December 10, 2010. If the pilot is not either extended or approved permanent by December 10, 2010, the prior versions of paragraphs (c), (e)(2), (f), and (g) shall be in effect.

(a)-(b) (No changes.)

(c) *Thresholds.* Determinations of whether an execution is clearly erroneous will be made as follows [based on all relevant factors on a case by case basis including, but not limited to, the following]:

(1) Numerical Guidelines. Subject to the provisions of paragraph (c)(3) below, a [A] transaction executed during Regular Trading Hours or during the Pre-Opening or After Hours Session shall [may] be found to be clearly erroneous [only] if the price of the transaction to buy (sell) that is the subject of the complaint is greater than (less than) the Reference Price by an amount that equals or exceeds the Numerical Guidelines set forth below. The execution time of the transaction under review determines whether the [guidance] threshold is Regular Trading Hours or Pre-Opening or After Hours Trading Sessions (which occur before and after the Regular Trading Hours). The Reference Price will be equal to the consolidated last sale immediately prior to the execution(s) under review except for: (A) Multi-Stock Events involving twenty or more securities, [in Unusual Circumstances] as described in paragraph (c)(2) below; (B) transactions not involving a Multi-Stock Event as described in paragraph (c)(2) that trigger a trading pause and subsequent transactions, as described in paragraph (c)(4)

below, in which case the Reference Price shall be determined in accordance with that paragraph (c)(4); and (C) in other circumstances, such as, for example, relevant news impacting a security or securities, periods of extreme market volatility, sustained illiquidity, or widespread system issues, where use of a different Reference Price is necessary for the maintenance of a fair and orderly market and the protection of investors and the public interest.

<u>Reference Price, Circumstance or Product</u>	<u>Regular Trading Hours Numerical Guidelines (Subject transaction's % difference from the Reference Price):</u>	<u>Pre-Opening and After Hours Trading Session Numerical Guidelines (Subject transaction's % difference from the Reference Price):</u>
Greater than \$0.00 up to and including \$25.00	10%	20%
Greater than \$25.00 up to and including \$50.00	5%	10%
Greater than \$50.00	3%	6%
Multi-Stock Event – Filings involving five or more, <u>but less than twenty, securities whose executions occurred within a period of five minutes or less</u> [by the same Member will be aggregated into a single filing]	10%	10%
Multi-Stock Event – Filings involving <u>twenty or more securities whose executions occurred within a period of five minutes or less</u>	<u>30%, subject to the terms of paragraph (c)(2) below</u>	<u>30%, subject to the terms of paragraph (c)(2) below</u>
Leveraged ETF/ETN securities	Regular Trading Hours Numerical Guidelines multiplied by the leverage multiplier ( <i>i.e.</i> , 2x)	Regular Trading Hours Numerical Guidelines multiplied by the leverage multiplier ( <i>i.e.</i> 2x)

(2) [Unusual Circumstances and Joint Market Rulings. In Unusual Circumstances, which may include periods of extreme market volatility, sustained

illiquidity, or widespread system issues, the Exchange may, in its discretion and with a view toward maintaining a fair and orderly market and the protection of investors and the public interest, use a Reference Price other than the consolidated last sale. Other Reference Prices may include the consolidated inside price, the consolidated opening price, the consolidated prior close, or the consolidated last sale prior to a series of executions. It may also be necessary to use a higher Numerical Guideline if, after market participants have been alerted to the existence of erroneous activity, the price of the security returns toward its prior trading range but continues to trade beyond the price at which trades would normally be broken. The Exchange also may use a different Reference Price and/or higher Numerical Guideline in events that involve other markets in an effort to coordinate a Reference Price and/or Numerical Guideline that is consistent across markets. In order to achieve consistent results across markets, when a ruling is made in conjunction with another market center it may be determined that] Multi-Stock Events Involving Twenty or More Securities. During Multi-Stock Events involving twenty or more securities the number of affected transactions [is] may be such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. In such circumstances, the Exchange may use a Reference Price other than consolidated last sale. With the exception of those securities under review that are subject to an individual stock trading pause as described in paragraph (c)(4) below, and to ensure consistent application across market centers when this paragraph is invoked, the Exchange will promptly coordinate with the other market centers to determine the appropriate review period, which may be greater than the period of five minutes or less that triggered application of this paragraph, as well as select one or more specific points in time prior to the transactions in question and use transaction prices at or immediately prior to the one or more specific points in time selected as the Reference Price. The Exchange will nullify as clearly erroneous all transactions that are at prices equal to or greater than 30% away from the Reference Price in each affected security during the review period selected by the Exchange and other markets consistent with this paragraph.

(3) Additional Factors. Except in the context of a Multi-Stock Event involving five or more securities, and individual stock trading pauses as described in paragraph (c)(4) below an [An] Official may also consider additional factors to determine whether an execution is clearly erroneous, including but not limited to, system malfunctions or disruptions, volume and volatility for the security, derivative securities products that correspond to greater than 100% in the direction of a tracking index, news released for the security, whether trading in the security was recently halted/resumed, whether the security is an initial public offering, whether the security was subject to a stock-split, reorganization, or other corporate action, overall market conditions, Pre-Opening or After Hours Session executions, validity of the consolidated tapes trades and quotes, consideration of primary market indications, and executions inconsistent with the trading pattern in the stock. Each additional factor shall be considered with a view toward maintaining a fair and orderly market and the protection of investors and the public interest.

[(4) Numerical Guidelines Applicable to Volatile Market Opens. The Exchange may expand the Numerical Guidelines applicable to transactions occurring between 9:30 a.m. and 10:00 a.m. (all times Eastern) based on the disseminated value of the S&P 500 Futures at 9:15 a.m.

(A) When the S&P 500 Futures are up or down from 3% up to but not including 5% at 9:15 a.m. the Numerical Guidelines (calculated pursuant to paragraph (c)(1) above) are doubled for executions occurring between 9:30 a.m. and 10:00 a.m.

(B) When the S&P 500 Futures are up or down 5% or greater at 9:15 a.m. the Numerical Guidelines (calculated pursuant to paragraph (c)(1) above) are tripled for executions occurring between 9:30 a.m. and 10:00 a.m.]

(4) Individual Stock Trading Pauses. For purposes of this paragraph, the phrase “Trading Pause Trigger Price” shall mean the price that triggered a trading pause in any Circuit Breaker Securities as defined in Interpretation and Policy .05 of Rule 11.18. The Trading Pause Trigger Price reflects a price calculated by the primary listing market over a rolling five-minute period and may differ from the execution price of a transaction that triggered a trading pause. In the event a primary listing market issues an individual stock trading pause in any Circuit Breaker Securities, and regardless of whether the security at issue is part of a Multi-Stock Event involving five or more securities as described in paragraphs (c)(1) and (c)(2) above, the Exchange shall utilize the Trading Pause Trigger Price as the Reference Price for any transactions that trigger a trading pause and subsequent transactions occurring before the trading pause is in effect on the Exchange. The Exchange will rely on the primary listing market that issued an individual stock trading pause to determine and communicate the Trading Pause Trigger Price for such stock. Notwithstanding the discretion otherwise provided by the first sentence of paragraph (g) below, the Exchange shall review, on its own motion pursuant to paragraph (g), transactions that trigger a trading pause and subsequent transactions occurring before the trading pause is in effect on the Exchange. In connection with the review of transactions pursuant to this paragraph, the Exchange will apply the Numerical Guidelines set forth in paragraph (c)(1) above other than the Numerical Guidelines applicable to Multi-Stock Events. In conducting this review, and notwithstanding anything to the contrary contained in paragraph (c)(1), where a trading pause was triggered by a price decline (rise), the Exchange will limit its review to transactions that executed at a price lower (higher) than the Trading Pause Trigger Price.

(d) (No changes.)

(e) Review Procedures.

(1) *Determination by Official.* Unless both parties to the disputed transaction agree to withdraw the initial request for review, the transaction under dispute shall be reviewed, and a determination shall be rendered by the Official. If the Official determines that the transaction is not clearly erroneous, the Official shall decline to take

any action in connection with the completed trade. In the event that the Official determines that the transaction in dispute is clearly erroneous, the Official shall declare the transaction null and void. A determination shall be made generally within thirty (30) minutes of receipt of the complaint, but in no case later than the start of Regular Trading Hours on the following day. The parties shall be promptly notified of the determination.

(2) *Appeals.* If a Member affected by a determination made under this Rule so requests within the time permitted below, the Clearly Erroneous Execution Panel (“CEE Panel”) will review decisions made by the Official under this Rule, including whether a clearly erroneous execution occurred and whether the correct determination was made; provided however that the CEE Panel will not review decisions made by an Officer under paragraph (f) of this Rule if such Officer also determines under paragraph (f) of this Rule that the number of the affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest, and further provided that with respect to rulings made by the Exchange in conjunction with one or more additional market centers, the number of affected transactions is similarly such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest and, hence, are also non-appealable.

(A)-(F) (No changes.)

(f) *System Disruption[, ]or Malfunctions [and Review on Motion of Officer].* In the event of any disruption or a malfunction in the [use or] operation of any electronic communications and trading facilities of the Exchange[, or extraordinary market conditions or other circumstances] in which the nullification of transactions may be necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest exist, an Officer of the Exchange or other senior level employee designee, on his or her own motion, may review such transactions and declare such transactions arising out of the [use or] operation of such facilities during such period null and void. In such events, the Officer of the Exchange or such other senior level employee designee will rely on the provisions of paragraph (c)(1)-(3) of this Rule, but in extraordinary circumstances may also use a lower Numerical Guideline if necessary to maintain a fair and orderly market, protect investors and the public interest. Absent extraordinary circumstances, any such action of the Officer of the Exchange or other senior level employee designee pursuant to this paragraph (f) shall be taken within thirty (30) minutes of detection of the erroneous transaction. When extraordinary circumstances exist, any such action of the Officer of the Exchange or senior level employee designee must be taken by no later than the start of Regular Trading Hours on the trading day following the date of execution(s) under review. Each Member involved in the transaction shall be notified as soon as practicable by the Exchange, and the party aggrieved by the action may appeal such action in accordance with the provisions of paragraph (e)(2) above.

(g) *Officer Acting on Own Motion.* An Officer of the Exchange or senior level employee designee, acting on his or her own motion, may review potentially erroneous executions and declare trades null and void or shall decline to take any action in connection with the completed trade(s). In such events, the Officer of the Exchange or such other senior level employee designee will rely on the provisions of paragraph (c)(1)-(4)[(3)] of this Rule[, but in

extraordinary circumstances may also use a lower Numerical Guideline if necessary to maintain a fair and orderly market, protect investors and the public interest]. Absent extraordinary circumstances, any such action of the Officer of the Exchange or other senior level employee designee shall be taken in a timely fashion, generally within thirty (30) minutes of the detection of the erroneous transaction. When extraordinary circumstances exist, any such action of the Officer of the Exchange or other senior level employee designee must be taken by no later than the start of Regular Trading Hours on the trading day following the date of execution(s) under review. When such action is taken independently, each party involved in the transaction shall be notified as soon as practicable by the Exchange, and the party aggrieved by the action may appeal such action in accordance with the provisions of paragraph (e)(2) above.

Rule 11.18. Trading Halts Due to Extraordinary Market Volatility

(a) Trading in all stocks will halt on the Exchange and will not reopen for the time periods described in this paragraph (a) if the Dow Jones Industrial Average reaches Level 1 below its closing value on the previous trading day:

- (1) before 2:00 p.m. Eastern Time, for one hour;
- (2) at or after 2:00 p.m. but before 2:30 p.m. Eastern Time, for 30 minutes.

If the Dow Jones Industrial Average reaches Level 1 below its closing value on the previous trading day at or after 2:30 p.m. Eastern Time, trading will continue through the facilities of the Exchange until the close, unless the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day, at which time trading will be halted for the remainder of the day.

(b) Trading in all stocks will halt on the Exchange and will not re-open for the time periods described in this paragraph (b) if the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day:

- (1) before 1:00 Eastern Time, for two hours;
- (2) at or after 1:00 p.m. but before 2:00 p.m. Eastern Time, for one hour;
- (3) at or after 2:00 p.m. Eastern Time, for the remainder of the day.

(c) If the Dow Jones Industrial Average reaches Level 3 below its closing value on the previous trading day, trading in stocks will halt on the Exchange and will not reopen for the remainder of the day.

(d) If a primary listing market issues an individual stock trading pause in any of the Circuit Breaker Securities, as defined in Interpretation and Policy .05 of this Rule, the Exchange will pause trading in that security until trading has resumed on the primary listing market. If, however, trading has not resumed on the primary listing market and ten minutes have passed since the individual stock trading pause message has been received from the responsible single plan processor, the Exchange may resume trading in such stock.

[(d)](e) On the occurrence of any trading halt pursuant to this Rule [11.18], all outstanding orders in the System will be cancelled.

[Commentary] Interpretations and Policies:

.01 Levels 1, 2 and 3 will be calculated at the beginning of each calendar quarter, using the average closing value of the Dow Jones Industrial Average for the month prior to the beginning of the quarter. Level 1 will be 10% of such average closing value calculation; Level 2 will be 20% of such average closing value calculation; Level 3 will be 30% of such average closing value calculation. Each Level will be rounded to the nearest fifty points. The values of Levels 1, 2 and 3 will remain in effect until the next calculation.

.02 The restrictions in this Rule [11.18] will apply whenever the Dow Jones Industrial Average reaches the trigger values notwithstanding the fact that at any given time, the calculation of the value of the average may be based on the prices of less than all of the stocks included in the average.

.03 The reopening of trading following a trading halt under this Rule [11.18] will be conducted pursuant to procedures adopted by the Exchange and communicated by notice to its Members.

.04 Nothing in this Rule [11.18] should be construed to limit the ability of the Exchange to otherwise halt or suspend the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange Rule or policy.

.05 The provisions of paragraph (d) of this Rule shall be in effect during a pilot set to end on December 10, 2010. During the pilot, the term "Circuit Breaker Securities" shall mean the securities included in the S&P 500<sup>®</sup> Index, the Russell 1000<sup>®</sup> Index, as well as a pilot list of Exchange Traded Products.

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