



BATS February 2012 Market Update

Dear BATS Customers and Members of the Trading Community,

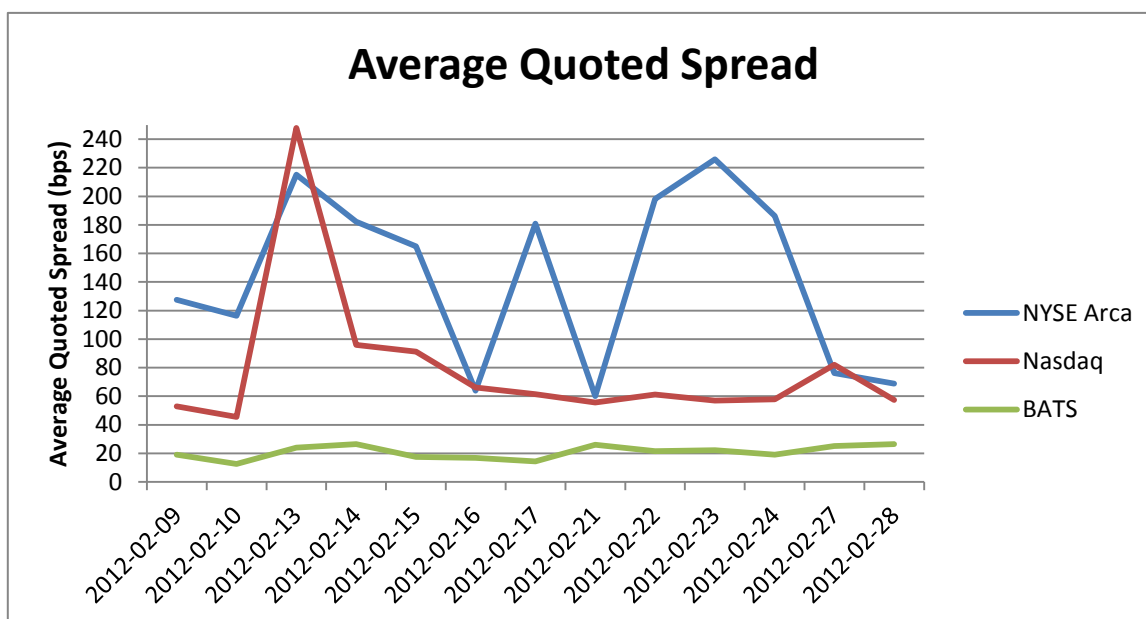
In this edition of the BATS Market Update:

1. BATS Competitive Liquidity Provider Program (CLP) – Making Markets Better in BATS-listed names through open competition
2. BATS Chi-X Europe Integration Update
3. 2012 – The Year of Key Market Structure Changes

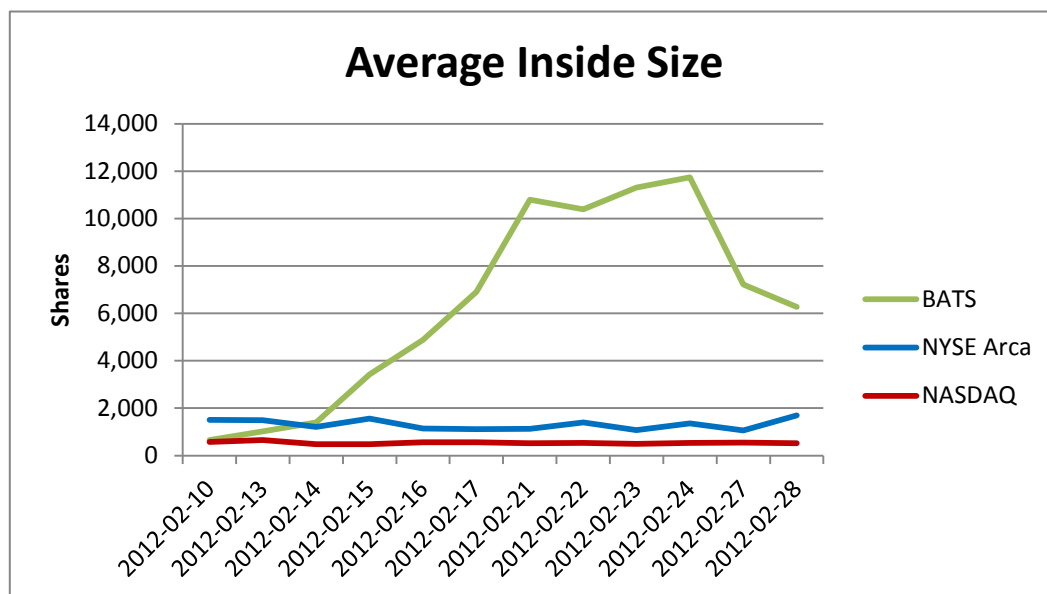
BATS Competitive Liquidity Provider Program (CLP) –Making Markets Better in BATS-listed names through open competition

For the first six years of our history we focused solely on secondary trading, first in U.S. equities, then European equities, and most recently U.S. Options. Over time, however, we have come to recognize the need for innovation and fresh competition in the primary listings business in the U.S. and we launched our offering in December of last year.

On January 24th, 2012, Blackrock issued the first BATS-listed security, the iShares MSCI Norway Capped Investable Market Index Fund (BATS: ENOR). Blackrock followed with [eight additional ETFs](#) in the next two weeks. As this rollout completed, BATS received approval from the SEC for our new innovative market maker incentive program called the [Competitive Liquidity Provider Program \(CLP\)](#). In short, the early results of CLP, as measured by average quoted spread and average quoted size at the inside, have been tremendous for these BATS-listed ETFs. As you can see below, the average quoted spread since CLP was introduced on February 9, 2012, has been 53-89% tighter in BATS-listed ETFs as compared to ETFs recently listed on other exchanges.¹



In addition, the quoted size at the inside for these same ETFs has been significantly greater in BATS-listed ETFs as shown below.



When designing CLP, we examined the current market maker incentive programs at other exchanges and found areas for potential dramatic improvement. Some offer significant ongoing incentives to those who are willing to pay for their privileged status but stifle true competition. This caste system creates haves and have-nots among market makers. Other market maker programs offer too few incentives to actually encourage competition. For example, rebates for providing liquidity on executed volume for less active stocks don't adequately incent competitive quoting. Thus, we set out to design a market maker program for BATS-listed securities that would encourage true and transparent competition among market makers and would ultimately benefit issuers and investors with more liquid markets and better prices.

CLP is designed to reward competitive quoting in each BATS-listed security. We allow an unlimited number of CLPs in each security. CLPs must be registered Market Makers on the BATS BZX Exchange. In the case of ETPs and Tier I corporate issues, CLPs compete for a \$250 daily reward. At the end of each day we calculate which CLP had the biggest size at the inside most often and most consistently. The winning CLP wins 80% of the total reward. The second place CLP wins 20% of the daily reward. BATS-listed securities graduate from the CLP program after two years or when they are consistently trading more than 2 million shares per day. In this way, CLP provides an excellent on-ramp for new ETPs and corporate IPOs which may ordinarily struggle to build liquidity in today's market structure.

We are encouraged by the strong early CLP results and look forward to listing more ETPs and corporates in the near future from issuers who recognize and value the innovative way in which we're helping launch new securities into the U.S. capital markets.

BATS Chi-X Europe Integration Update

While we're excited about the early success of our U.S. listings business, which augments our strong U.S. equities and options markets, we continue the swift integration of Chi-X Europe into BATS Chi-X Europe. As many of you are likely aware, the Chi-X Europe lit and dark books will be migrating to BATS technology on April 30th. Customers can already connect and certify to the new platform to ensure a seamless transition. After the integration we'll be running the BATS Europe and Chi-X Europe lit and dark books on BATS technology allowing participants to access four books and approximately 25% of the market through a single connection. Post integration, we plan to offer BATS Chi-X Europe market data from our primary U.S. datacenter similar to the way we currently offer BATS Europe data.

2012 – The Year of Key Market Structure Changes

2012 has started off quite well for investors with many major indices at multi-year highs and volatility abated. It has also started well for BATS with the launch of our listings business and the ongoing BATS Chi-X Europe integration. Meanwhile, as we approach the two-year anniversary of May 6, 2010, we look forward to the actual implementation of key U.S. market structure changes that were born out of that day. We anticipate and welcome limit up/down, new market-wide circuit breakers, and a consolidated audit trail. Completion of these important market-wide initiatives will improve the robustness of our markets for years to come. They will also allow renewed and earnest consideration of key market structure questions raised in the SEC's 2010 Concept Release and 2009 Proposal on Non-Displayed Interest. All of this while many members will be wrestling with the implementation of Dodd-Frank rules, especially the Volcker rule.

Through all this change we remain committed and excited about Making Markets Better as we grow our current markets and enter new businesses. We recognize our success is dependent upon your support and, as always, we welcome your feedback regarding how we can better serve you.

Sincerely,

Chris Isaacson

Chief Operating Officer

BATS...Making Markets Better

¹ETFs compared by listing market

BATS	NYSE Arca	NASDAQ
EDEN	EWHS	AAIT
EFNL	EWSS	AXJS
ENOR	FILL	EEMA
EWAS	PICK	EEME
EWCS	RING	EEML
EWGS	SLVP	EGRW
EWUS	URTH	EMDI
INDA	VEGI	EMEY
SMIN		EVAL