

Participant Notice

Ref: PN14/03

Dated: 2nd April 2014

From: Participant Services

Subject: Proposed Disciplinary and Sanctions policy

This Notice sets out the policy that BATS Chi-X Europe ("BATS") intends to apply in the event that a Participant or Issuer is found to be in breach of the Rules.

Participants are invited to comment on the proposed policy by Wednesday 17th April 2014. Any comments or queries on the proposed policy should be addressed to Participant Services at ParticipantServicesEurope@bats.com or +44 (0) 20 7012 8927.

Disciplinary Policy

The BATS Rulebook permits BATS to take a variety of forms of disciplinary action against Participants and Issuers including private and public warnings, suspension or termination of access or admission and the application of financial penalties. In addition, BATS may also introduce fixed penalties for minor Rule breaches from time to time. This document sets out BATS's policy with respect to sanctions and in particular sets out its approach to levying financial penalties.

In setting its approach to taking disciplinary action, BATS categorises Rule breaches as being of low, medium or high severity. These classifications are defined as follows:

- Low severity – breaches of Rules that in isolation do not have the potential to damage market integrity and have had a de-minimis financial impact (less than £5,000) on one or more other market participants. Market participants for the purposes of these categorisations should be understood to include all those involved both directly and indirectly in trading activity on BATS, including end investors and other infrastructure providers such as CCPs.

Examples could include non-material technical breaches and unintentional errors such as the submission of erroneous trade reports or minor control failures. However, ongoing failures may indicate weak Participant controls that could raise the severity to medium/high.

Guideline sanctions in this category include private warning, public warning and/or a fine of up to £5,000.

- Medium severity – material breaches of the Rules, including breaches that have, or could have, affected the efficient running of the market or have a financial impact of between £5,000 - £50,000 on one or more other market participants. Examples could include breaches of

procedures governing the exchange's facilities or where the Participant or Issuer has been negligent in complying with the Rule.

Guideline sanctions include private warning, public warning or fine of between £5,000 and £50,000.

- High severity – serious breaches of Rules that have, or could have, a negative impact on market integrity, damage the reputation of BATS, or have a significant financial impact (more than £50,000) on one or more other market participants. BATS may also consider a breach to be of high severity where there is clear evidence that the Participant or Issuer intended to breach the Rule, has misled BATS or any other relevant authority about the breach, or has been reckless or negligent. Examples could include market abuse or conduct likely to lead to a degradation of BATS's trading systems.

Guideline sanctions include a fine of between £50,000 and £250,000; and/or suspension or termination of BATS membership.

In relation to the above scenarios, the sanctions to be applied will take into account any aggravating circumstances - for example, repeated breaches by the Participant or Issuer; or where it has made a financial gain or avoided a financial loss as a result of the breach - or mitigating circumstances – for example, the degree of co-operation and assistance. An additional amount up to the value of any gain made or loss avoided may also be levied, plus any compensation due to other market participants. Fines may be levied per incident or breach.

The discretion of the Disciplinary Committee, or any appeal body, will not be fettered by these guideline sanctions.

Fixed Penalties

BATS may introduce a fixed penalty regime for minor or technical breaches of the Rules of low severity. The level of such fixed penalties, not exceeding £1000 per incident, will be published from time to time by Participant Notice.

Private warning

Private warnings may be given for breaches of low or medium severity where the Participant or Issuer has not been the subject of disciplinary action for the same breach before.

Public warning

A public warning may be given for a breach of low or medium severity where a private warning has previously been given or where the Disciplinary Committee believes that the breach warrants public censure.

Settlement proceedings

Following a request by the Participant, settlement proceedings may be instigated at the discretion of BATS. Settlement discussions will be between BATS staff and the Participant and will not involve the Disciplinary Committee. Settlement proceedings can be terminated at the request of either party. If a settlement is reached between the parties, any fine or suspension imposed will be reduced by 30%.

Consequences of non-payment of a fine

A Participant that fails to pay a fine will be dealt with in accordance with Rule 7 of the BATS Rulebook. Consequences could include the Participant's suspension or termination.

Use of Fine Income

Fine income will be used to offset the cost of the investigation, including all staff costs and any related professional fees. Where there is any excess, it will be used to cover the general costs of, and investment in, BATS's market surveillance capabilities. Any excess above this will be used for the general benefit of the users of BATS.

Fixed Penalty – Breaches of the Negotiated Transaction rule

BATS monitors Participants' compliance with its Negotiated Transaction rule, and in particular the price requirement for shares that are admitted to trading on an EEA Regulated Market under Rule 11.1.4. It is proposed that BATS will levy a fine of £500 when 5% or more of a Participant's reports breach the requirement in any calendar month. A higher fine of £1000 will be levied for a repeated breach in the same calendar year. Persistent breaches indicating systemic failures by a participant will fall under the full disciplinary policy.