



Participant Notice

Ref: PN17/02

Dated: 16th June 2017

From: Participant Services

Subject: Consultation on upcoming changes to the Periodic Auction Book.

Bats encourages Participants to submit feedback on the proposals outlined below by 30th June 2017, to: participantserviceeurope@bats.com.

Maximum duration

Bats is proposing to move from a minimum duration period to a maximum duration period in its Periodic Auction Book (PAB). However, and as per the guidance note on Bats' website, participants are reminded that the start of an auction call period is not disseminated.

Instead of providing a minimum duration and random end timings for auction call periods, Bats will be introducing a fully randomised auction call time up to a specified maximum duration. The maximum duration for an auction will be available on the symbol file and calculated for each instrument based on liquidity. This maximum auction time will allow participants to know how long they should rest orders in order to be guaranteed to have at least one potential auction match. Unexecuted eligible orders will be rolled into the next auction call period.

Broker preferencing

Bats is also consulting and inviting comments on the introduction of a new functionality on orders submitted to its PAB.

Participants will be able to select a broker preferencing attribute at port level where orders submitted to the PAB will be executed in priority against each other at execution allocation phase.

The PAB algorithm comprises two steps – price determination followed by execution allocation.

The price determination phase determines the equilibrium price – within the EBBO – that would maximise executable volume at the end of the auction call period. Bats disseminates an indicative matching volume and price in real time during the auction call period which is updated to reflect any new orders, cancellations or amendments sent to the PAB.

At the end of the auction call period – once the equilibrium price has been determined for the maximised volume and information is disseminated, the execution allocation takes place.

Broker preferencing will take effect at this point and will move the allocation priority from price / size / time to broker / price / size / time for all orders submitted with this attribute only. Broker Preferencing orders will be uncrossed starting from the non-surplus side – at the equilibrium price and within the indicative volume previously disseminated.

Once broker preferencing has been applied, any residual amounts from broker preferencing orders will be re-sequenced according to standard priority and the execution allocation will continue, with all remaining orders being executed in the normal way.

Worked example:

The below example is taken after the price determination phase with an equilibrium price at 12:30 and indicative volume of 500 with orders sequenced with price / size priority:

Non-surplus side = 500				Surplus side = 570		
Indicative executable quantity = 500						
Trade ID	Broker	Bid size	Price	Ask size	Broker	Trade ID
B.1		100	12.30			
B.2	XYZ	100	12.30			
B.3		100	12.30			
B.4		100	12.30	50		S.11
B.5		100	12.30	50		S.10
			12.30	70		S.9
			12.30	100		S.8
			12.30	100	XYZ	S.7
			12.30	200		S.6

Execution allocation:

- *100 at 12:30: B.2 vs S.7 with Broker Preferencing for Broker XYZ
- *100 at 12:30: B.1 vs S.6
- *100 at 12:30: B.3 vs S.6
- *100 at 12:30: B.4 vs S.8
- *70 at 12:30: B.5 vs S.9
- *30 at 12:30: B.5 vs S.10

Result: 500 executed at 12:30.

In the interest of clarity and by comparison, execution allocation where none of the orders have a broker preferencing attribute would have been as follows:

- *100 at 12:30: B.1 vs S.6
- *100 at 12:30: B.2 vs S.6
- *100 at 12:30: B.3 vs S.7
- *100 at 12:30: B.4 vs S.8
- *70 at 12:30: B.5 vs S.9
- *30 at 12:30: B.5 vs S.10

Bats would like to remind participants that the introduction of this new functionality does not exempt them from performing their obligations under MiFIR/D II. Pre-arranged trades executed under Broker Preferencing functionality may be regarded as internalised trades and therefore subject to the SI regime.

The proposed amendments to the Participant Manual is attached to this Notice and will also be made available on the Bats website at the following link: <http://www.bats.com/europe/equities/regulation/documents/> . A summary of the changes is provided in the table below

Participants are invited to comment on the proposed changes by 30th June 2017. Any comments or queries on the proposed changes should be addressed to Participant Services at ParticipantServicesEurope@bats.com or +44 (0) 20 7012 8927.

Participant Manual: summary of amendments between RIE version 27 and RIE version 28

Page	Amendment
Cover	Change of date, change of version number
Page 6	Description of the maximum duration and broker preferencing functionality