



BZX Regulatory Circular 15-003
BYX Regulatory Circular 15-003

Date: February 24, 2015

To: Members of BATS Exchange, Inc. and BATS Y-Exchange, Inc.

From: Membership Services

Re: Front Running of Block Transactions

BATS Exchange, Inc. (“BZX”) and BATS Y-Exchange, Inc. (“BYX”, and collectively with BZX each referred to as the “Exchanges”) would like to inform its Members of a recent change to adopt Rule 12.14, “Front Running of Block Transactions”. Rule 12.14 is substantially the same as FINRA Rule 5270; however, as adopted, the Rule extends the prohibitions against front running to other types of orders that place the financial interests of the Member ahead of those of its customer. Rule 12.14 is identical to EDGX Exchange, Inc. and EDGA Exchange, Inc. Rule 12.14. The effective date of the Rule is **March 23, 2015**.

Front Running of Block Transactions:

Under the Rule, no Member or person associated with a Member shall cause to be executed an order to buy or sell a security or a related financial instrument when the Member or person associated with the Member causing the order to be executed has material, non-public market information concerning an imminent block transaction¹ in that security, a related financial instrument² or a security underlying the related financial instrument prior to the time information concerning the block transaction has been made publicly available or has otherwise become stale or obsolete. The Rule applies to orders caused to be executed for (1) any account in which the Member or person associated with the Member has an interest, (2) any account with respect to which the Member or person associated with the Member exercises investment discretion, and (3) any account of customers or affiliates of the Member when the customer or affiliate has been provided such material, non-public market information by the Member or any person associated with the Member.

FINRA Rule 5270 sets forth three broad categories of permitted transactions: (1) transactions that a firm can demonstrate are unrelated to the customer block order, (2) transactions that are

¹ Pursuant to Supplementary Material .03 to FINRA Rule 5270, that, for purposes of equity securities, a transaction involving 10,000 shares or more of a security, an underlying security, or a related financial instrument overlying such number of shares, is generally deemed to be a block transaction; however, a transaction of fewer than 10,000 shares could be considered a block transaction in some cases.

² The term “related financial instrument” is defined as any option, derivative, security-based swap or other financial instrument overlying a security, the value of which is materially related to, or otherwise acts as a substitute for, the security, as well as any contract that is the functional economic equivalent of a position in such security. See FINRA Rule 5270(c).

undertaken to fulfill or facilitate the execution of the customer block order, and (3) transactions that are executed, in whole or in part, on a national securities exchange and comply with the marketplace rules of that exchange.

FINRA Rule 5270 does not provide an exhaustive list of prohibited front running activity, and Supplementary Material .05 clarifies that the front running of other types of orders that may not be “imminent block transactions” may nonetheless be considered conduct inconsistent with just and equitable principles of trade and may violate other FINRA rules or provisions of the federal securities laws.

Front Running of Non-Block Transactions:

Although the prohibitions in FINRA Rule 5270 are limited to imminent block transactions, the front running of other types of orders that place the financial interests of the Member or persons associated with a Member ahead of those of its customer or the misuse of knowledge of an imminent customer order may violate other Exchange rules, including Rule 3.1 and Rule 12.6, or provisions of the federal securities laws.

See [SR-BATS-2015-16](#)

See [SR-BYX-2015-13](#)

Please contact Membership Services at 913.815.7002 with any inquiries regarding this Regulatory Circular.