



BZX Regulatory Circular 16-002
BYX Regulatory Circular 16-002
EDGX Regulatory Circular 16-002
EDGA Regulatory Circular 16-002

Date: April 1, 2016

To: Members of Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGX Exchange, Inc., and Bats EDGA Exchange, Inc.

From: Membership Services

Re: **Notice of Immediate Effectiveness of Rules 8.17 and 12.15 to Halt Clear and Obvious Layering and Spoofing Activity**

Background

Bats BZX Exchange, Inc. ("BZX") Rules 8.17 and 12.15 were approved by the Securities and Exchange Commission on February 18, 2016 and are now effective. Bats BYX Exchange, Inc. ("BYX"), Bats EDGX Exchange, Inc. ("EDGX"), and Bats EDGA Exchange, Inc. ("EDGA") (collectively with BZX, the "Exchanges" or each the "Exchange") filed identical Rules 8.17 and 12.15 recently that became immediately effective on the date of filing. All Members of the Exchanges are now subject to the respective Exchanges' Rules 8.17 and 12.15.

These new rules provide the Exchanges with additional tools to put a stop to illegal layering and spoofing activity. First, the Exchanges have identified clear and obvious layering and spoofing patterns and now expressly prohibit those activities as "disruptive quoting and trading activity" under Rule 12.15. Members should note that "disruptive quoting and trading" does not define all instances of layering and spoofing – only the most clear and obvious subset. Second, under Rule 8.17 the Exchanges now have the ability to enforce the prohibitions of Rule 12.15 by suspending offending Members in an expedited proceeding and directing a Member to cease violating Rule 12.15 or to cease providing access to the Exchanges to a client of a Member that is causing violations of Rule 12.15.

Rule 12.15 Prohibits Disruptive Quoting and Trading Activity

Rule 12.15 prohibits Exchange Members from engaging in "disruptive quoting and trading activity" on the Exchanges as defined by the Rule. Disruptive quoting and trading is defined as including a frequent pattern of the following activity:

- Disruptive Quoting and Trading Activity Type 1:
 - (1) a party enters multiple limit orders on one side of the market at various price levels (the "Displayed Orders"); and

- (2) following the entry of the Displayed Orders, the level of supply and demand for the security changes; and
 - (3) the party enters one or more orders on the opposite side of the market of the Displayed Orders (the “Contra-Side Orders”) that are subsequently executed; and
 - (4) following the execution of the Contra-Side Orders, the party cancels the Displayed Orders.
- Disruptive Quoting and Trading Activity Type 2:
 - (1) a party narrows the spread for a security by placing an order inside the NBBO; and
 - (2) the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described above.

The order of events indicating the pattern evidencing disruptive quoting and trading activity does not modify the applicability of the Rule. Further, disruptive quoting and trading activity includes a pattern or practice in which all of the quoting and trading activity is conducted on the Exchange as well as a pattern or practice in which some portion of the quoting or trading activity is conducted on the Exchange and the other portions of the quoting or trading activity is conducted on one or more other exchanges.

Expedited Client Suspension Proceedings for Violations of Rule 12.15

To enforce Rule 12.15, Rule 8.17 provides the Exchange the ability to initiate an expedited proceeding to halt disruptive quoting and trading activity. Under Rule 8.17, the Exchanges have the authority, upon expedited notice to the subject Member, to institute an expedited hearing before a hearing panel to suspend a Member.

Under Rule 8.17, a suspension order shall be imposed if the hearing panel finds:

- (a) by a preponderance of the evidence that the alleged violation [of Rule 12.15] specified in the notice has occurred; and
- (b) that the violative conduct or continuation thereof is likely to result in significant market disruption or other significant harm to investors.

A suspension order shall:

- (a) be limited to: (i) ordering a Respondent to cease and desist from violating Rule 12.15, and/or (ii) ordering a Respondent to cease and desist from providing access to the Exchange to a client of Respondent that is causing violations of Rule 12.15;
- (b) set forth the alleged violation and the significant market disruption or other significant harm to investors that is likely to result without the issuance of an order;
- (c) describe in reasonable detail the act or acts the Respondent is to take or refrain from taking and to suspend the Respondent unless and until such action is taken or refrained from; and
- (d) include the date and hour of its issuance.

After a suspension order issues, a Member may apply to have the order reviewed by the hearing panel to demonstrate that it has taken appropriate corrective action to remedy potential future violations of Rule 12.15.

It is important to note that Rule 8.17 will not supplant the Exchange's current investigative and enforcement process. Currently, when Exchange surveillance staff identifies a pattern of potentially disruptive quoting and trading activity, the staff conducts an initial analysis and investigation of that activity. After the initial investigation, the Exchange then contacts the Member responsible for the orders that caused the activity to request an explanation of the activity as well as any additional relevant information, including the source of the activity. The Exchange will continue this practice. The Exchange will only seek an expedited suspension when - after multiple requests to a Member for an explanation of activity - it continues to see the same pattern of manipulation from the same Member and the source of the activity is the same or has been previously identified as a frequent source of disruptive quoting and trading activity.

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