

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2012 - * 018

Amendment No. (req. for Amendments *)

Proposed Rule Change by BATS Y-Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	19b-4(f)(1)	19b-4(f)(2)	19b-4(f)(3)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
					19b-4(f)(4)
					<input type="checkbox"/>
					19b-4(f)(5)
					<input type="checkbox"/>
					19b-4(f)(6)
					<input checked="" type="checkbox"/>

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Proposal to modify the operation of the Exchange's price sliding functionality and to make related changes.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Anders Last Name * Franzon

Title * VP, Associate General Counsel

E-mail * afranzon@batstrading.com

Telephone * (913) 815-7154 Fax (913) 815-7119

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 08/03/2012

By Anders Franzon
(Name *)

VP, Associate General Counsel

(Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Anders Franzon,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change (required)

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

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Exhibit 3 - Form, Report, or Questionnaire

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

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Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² BATS Y-Exchange, Inc. (the “Exchange” or “BYX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend Rule 11.9, entitled “Orders and Modifiers” to modify the operation of the Exchange’s price sliding functionality described in Rule 11.9. The Exchange also proposes other minor changes, including changes to the terms used to describe price sliding and a cross-reference contained in Rule 11.13. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.³

(a) The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in brackets.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on September 27, 2010. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6)(iii).

Questions regarding this rule filing may be directed to Eric Swanson, Senior Vice President and General Counsel of the Exchange at (913) 815-7000.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

(a) Purpose

Background

The Exchange currently offers various forms of sliding which, in all cases, result in the re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange currently offers price sliding to ensure compliance with Regulation NMS and Regulation SHO. Price sliding currently offered by the Exchange re-prices and displays an order upon entry and in certain cases again re-prices and re-displays an order at a more aggressive price one time if and when permissible, but does not continually re-price an order based on changes in the national best bid ("NBB") or national best offer ("NBO", and together with the NBB, the "NBBO"). The Exchange proposes to modify both forms of price sliding in order to create an optional order handling behavior functionality that will continue to re-price, re-rank and/or re-display an order based on changes to the NBBO ("multiple price sliding"), as further described below. Multiple price sliding in the contexts for which it is being proposed will have to be elected by a User⁴ in order to be applied by the Exchange. If a User elects to apply multiple price sliding to an order submitted to the Exchange, multiple price sliding will apply with respect to both display-price sliding and short sale price sliding in connection

⁴ As defined in BYX Rule 1.5(cc), a User is "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3."

with the handling of the order by the Exchange. The Exchange also proposes to add language to make clear that display-price sliding is based on Protected Quotations⁵ at equities exchanges other than the Exchange. If the Exchange has a Protected Quotation that an incoming order to the Exchange locks or crosses then such order either executes against the resting order, or, if the incoming order is a BATS Post Only Order or Partial Post Only at Limit Order, such order is executed in accordance with Rules 11.9(c)(6) and (c)(7), respectively, or cancelled back to the entering User, as described in further detail below.

Display-Price Sliding

With respect to price sliding offered to ensure compliance with Regulation NMS (“display-price sliding”),⁶ under the Exchange’s current rules, if, at the time of entry, a non-routable order would cross a Protected Quotation displayed by another trading center the Exchange re-prices and ranks such order at the locking price, and displays such order at one minimum price variation below the NBO for bids and above the NBB for offers. Similarly, in the event a non-routable order that, at the time of entry, would lock a Protected Quotation displayed by another trading center, the Exchange displays such order at one minimum price variation below the NBO for bids and above the NBB for offers.

⁵ As defined in BYX Rule 1.5(t), a “Protected Quotation” is “a quotation that is a Protected Bid or Protected Offer.” In turn, the term “Protected Bid” or “Protected Offer” means “a bid or offer in a stock that is (i) displayed by an automated trading center; (ii) disseminated pursuant to an effective national market system plan; and (iii) an automated quotation that is the best bid or best offer of a national securities exchange or association.”

⁶ The Exchange’s Rules currently describe this functionality as “NMS price sliding” but the Exchange proposes to rename such functionality “display-price sliding.”

As an example of display-price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.13 per share. Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable bid to buy 100 shares at \$10.12 per share the Exchange will rank the order to buy at \$10.12 and display the order at \$10.11 because displaying the bid at \$10.12 would lock an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy and display it at its ranked price (and limit price) of \$10.12.

The Exchange proposes to modify the description of price sliding to make clear that price sliding is generally applied to orders that are eligible for display, as such orders would violate Rule 610(d) of Regulation NMS if they were displayed by the Exchange at a price that locked or crossed a Protected Quotation. As described in further detail below, certain price sliding is also applied to Non-Displayed Orders, and the Exchange has proposed certain changes intended to clarify the application of such price sliding.

The Exchange currently permits Users to instruct the Exchange not to apply price sliding functionality to their orders. As one variation of this instruction, the Exchange currently allows Users to elect to apply display-price sliding only to the extent a display-eligible order at the time of entry would create a violation of Rule 610(d) of Regulation NMS by locking a Protected Quotation of an external market ("lock-only display-price sliding"). For Users that select this order handling, price sliding is not applied and any display-eligible order is instead cancelled if, upon entry, such order would create a violation of Rule 610(d) of Regulation NMS by crossing a Protected Quotation of an external market. The lock-only display-price sliding option is a variation of display-price

sliding that is intended to allow Users to re-evaluate their orders and/or strategies in the event they are submitting orders to the Exchange that are crossing the market. Consistent with the goal of increasing the clarity of its price sliding rule, the Exchange proposes to modify its description of display-price sliding to clearly define the lock-only display-price sliding option.

As an example of lock-only display-price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.14 per share. Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable bid to buy 100 shares at \$10.13 per share and the User has elected lock-only display-price sliding, the Exchange will cancel the order back to the User. To reiterate a basic example of display-price sliding, if instead the User applied display-price sliding (and not lock-only display-price sliding), the Exchange would rank the order to buy at \$10.12 and display the order at \$10.11 because displaying the bid at \$10.13 would cross an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy and display it at \$10.12.

The Exchange proposes to modify the description of display-price sliding so that any order subject to display-price sliding will retain its original limit price irrespective of the prices at which such order is ranked and displayed. Accordingly, the Exchange also proposes to clarify language throughout its descriptions of display-price sliding to refer to the ranking and display of an order rather than using the term re-price. In order to ensure compliance with Regulation NMS, as it does today, the Exchange will rank orders subject to display-price sliding at the locking price and will display such orders at one minimum

price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers).

The Exchange also proposes to amend its existing description of display-price sliding to state that when an order is displayed by the Exchange through the display-price sliding process the Exchange will display such order at the most aggressive permissible price. The Exchange's current description of display-price sliding states that orders that are re-displayed by the Exchange receive new timestamps when this new display price is established. The Exchange proposes to retain this language but also to make clear that all orders that are re-ranked and re-displayed pursuant to display-price sliding will retain their priority as compared to other orders subject to display-price sliding based upon the time such orders were initially received by the Exchange. Finally, the proposed description of price sliding also states that following the initial ranking and display of an order subject to display-price sliding, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

In order to offer multiple price sliding to Exchange Users, the Exchange proposes to make clear that the ranked and displayed prices of an order subject to display-price sliding may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. As noted above, multiple price sliding is optional and must be explicitly selected by a User before it will be applied. The Exchange proposes to make clear that the default display-price sliding process will only adjust the ranked and displayed prices of an order upon entry and then the displayed price one time following a change to the prevailing NBBO. As explained throughout this filing, orders subject to multiple price sliding will be permitted to move all the way back to their most

aggressive price, whereas orders subject to the current handling may not be adjusted to their most aggressive price, depending upon market conditions.

As an example of multiple price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.14 per share. Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable bid to buy 100 shares at \$10.13 per share, the Exchange would rank the order to buy at \$10.12 and display the order at \$10.11 because displaying the bid at \$10.13 would cross an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy, rank it at \$10.13 and display it at \$10.12. Under current price sliding functionality, the Exchange would not further adjust the ranked or displayed price following this un-slide. However, under multiple price sliding, if the NBO then moved to \$10.14, the Exchange would un-slide the bid to buy and display it at its full limit price of \$10.13.

The Exchange offers display-price sliding functionality to avoid locking or crossing other markets' Protected Quotations, but does not price slide to avoid executions on the Exchange's order book ("BATS Book").⁷ Specifically, when the Exchange

⁷ The Exchange notes that it inadvertently constructed an example in a previous rule filing that contradicts this statement. Specifically, in Example 5 of SR-BYX-2011-009, in order to establish the possibility of an order that has been price slid and has a working price ranked at the same price as an order displayed by the Exchange on the opposite side of the market, the Exchange explained that an incoming BATS Post Only bid at \$10.11 would price slide if it locked an offer displayed by the Exchange at \$10.11. See Securities Exchange Act Release No. 64476 (May 12, 2011), 76 FR 28826, 28828 (May 18, 2011) (SR-BYX-2011-009) (the "Order Handling Filing"). However, at the time of the Order Handling Filing, under the current behavior, and as proposed, the Exchange would not price

receives an incoming order that could execute against resting displayed liquidity but an execution does not occur because such incoming order is designated as an order that will not remove liquidity (i.e., a BATS Post Only Order),⁸ then the Exchange will cancel the incoming order. The Exchange proposes to make clear in the description of display-price sliding that any display-eligible BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will not be price slid upon entry but will be executed as set forth in Rule 11.9(c)(6) or cancelled. Similarly, the Exchange proposes to make clear that any display-eligible Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(7) or cancelled. The Exchange also proposes to make clear that any display-eligible BATS Post Only Order or Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process. Consistent with the principal of

slide a BATS Post Only order to avoid an execution against an order displayed by the Exchange. The Exchange notes that Example 5 from the Order Handling Filing would be accurate if instead the incoming bid at \$10.11 locked a protected offer *displayed by an external market and not also displayed by the Exchange*, was price slid and displayed at \$10.10, ranked at \$10.11, and BATS subsequently received a BATS Post Only offer at \$10.11. In other words, the outcome would be the same as set forth in Example 5, insofar as the price slid order could ultimately have a ranked price that locks the contra-side, however the sequence leading up to that outcome neither is nor was possible as described because the Exchange does not price slide to avoid executions against the BATS Book.

⁸ The Exchange notes that it recently proposed and implemented a change to Rule 11.9(c)(6) regarding the Exchange's handling of BATS Post Only Orders to permit such orders to remove liquidity from the BATS Book if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BATS Book and subsequently provided liquidity. See Securities Exchange Act Release No. 67092 (June 1, 2012), 77 FR 33800 (June 7, 2012) (SR-BYX-2012-009).

not price sliding to avoid executions, in the event the NBBO changes such that a BATS Post Only Order subject to display-price sliding would un-slide and would be ranked at a price at which it could remove displayed liquidity from the BATS Book (i.e., when the Exchange is at the NBB or NBO) the Exchange proposes to execute⁹ or cancel such order.

The Exchange previously proposed changes to its existing order handling procedures to permit BATS Post Only Orders to be posted to the BATS Book to join the NBB or NBO, as applicable, even when such orders would be posted at prices equal to opposite-side orders ranked at the same price.¹⁰ Consistent with this previously adopted change, the Exchange proposes to add language stating that BATS Post Only Orders will be permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. As is the case today, in the event an order subject to display-price sliding is ranked on the BATS Book with a price equal to an opposite side order displayed by the Exchange, it will be subject to processing as set forth in Rule 11.13(a)(1).

As an example of the Exchange's handling of BATS Post Only Orders in the context of price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.12 per share. Assume the NBBO (including Protected Quotations of other external markets) is also \$10.10 by \$10.12. If the Exchange receives a BATS Post Only Order bid to buy 100 shares at \$10.12 per share, unless executed pursuant to Rule

⁹ As noted above, the Exchange will execute a BATS Post Only Order in certain circumstances where it would receive price improvement. See id.

¹⁰ See Order Handling Filing, supra note 7.

11.9(c)(6),¹¹ the Exchange would cancel the order back to the User because absent the BATS Post Only designation the \$10.12 bid would be able to remove the \$10.12 offer, and, as explained above, the Exchange does not offer price sliding to avoid executions against orders displayed by the Exchange.

If the Exchange did not have a displayed offer to sell at \$10.12 in the example above, but instead the best offer on the Exchange's book was \$10.13, the Exchange would apply price sliding to the incoming bid by ranking such order at \$10.12 and displaying the order at \$10.11. The Exchange's order book would now be displayed as \$10.11 by \$10.13. Assume, however, that after price sliding the incoming bid from \$10.12 to a display price of \$10.11, the Exchange received a BATS Post Only offer to sell for \$10.12, thus joining the NBO. As noted above, pursuant to previously adopted changes, BATS Post Only Orders are permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. Accordingly, the Exchange would allow such the incoming BATS Post Only offer at \$10.12 to post and display on the Exchange's order book, as described above, with an opposite side price slid order ranked at \$10.12 but displayed at \$10.11. Assume that next the Protected Offers displayed by all external markets other than the Exchange moved to \$10.13. In this situation the Exchange would un-slide but then cancel the bid at \$10.12 because, as proposed, in the event the NBBO changes such that a BATS Post Only Order subject to display-price sliding would un-slide and would be ranked at a price at which it could remove displayed

¹¹ See supra note 8.

liquidity from the BATS Book (i.e., when the Exchange is at the NBB or NBO) the Exchange proposes to execute¹² or cancel such order.

The Exchange currently applies display-price sliding to Non-Displayed Orders that cross Protected Quotations of external markets as well. The Exchange proposes language that makes clear that this functionality is offered both upon entry and once an order has been posted to the Exchange's order book in order to avoid potentially trading through Protected Quotations of external markets. The proposed rule states that Non-Displayed Orders that are subject to display-price sliding are ranked at the locking price on entry. The proposed description also makes clear that display-price sliding for Non-Displayed Orders is functionally equivalent to the handling of displayable orders except that such orders will not have a displayed price and will not be re-priced again unless such orders cross a Protected Quotation of an external market (i.e., such orders are not unslid).

As an example of the Exchange's handling of Non-Displayed Orders in the context of price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.13 per share. Assume the NBBO is \$10.10 by \$10.11. If the Exchange receives a Non-Displayed Order bid to buy 100 shares at \$10.12 per share, the Exchange would re-price the order to a \$10.11 bid to buy to avoid potentially trading through the \$10.11 offer displayed as the NBO (i.e., to ensure the Exchange will not allow the bid to trade at \$10.12 per share). In the event the NBBO moved to \$10.09 by \$10.10, the

¹² As noted above, the Exchange will execute a BATS Post Only Order in certain circumstances where it would receive price improvement. See supra note 8.

Exchange would again re-price the Non-Displayed bid to buy 100 shares to \$10.10 per share. If the NBBO then moved to \$10.10 by \$10.11, the Non-Displayed bid would not be re-priced to \$10.11, but would remain on the Exchange's order book at \$10.10.

As described above, the Exchange has proposed to offer multiple price sliding to Exchange Users that opt-in to the functionality. The remaining changes described above are intended to clarify and expand upon the written description of display-price sliding, but do not represent changes to the existing functionality offered by the Exchange. Consistent with achieving better clarity, the Exchange has proposed structural changes to the description of display-price sliding by separating the description into several sub-paragraphs.

Short Sale Price Sliding

With respect to price sliding offered to ensure compliance with Regulation SHO ("short sale price sliding"), when an order cannot be executed or displayed in compliance with Rule 201 of Regulation SHO¹³, the Exchange currently re-prices short sale orders to one minimum price variation above the current NBB ("Permitted Price"). In order to describe this re-pricing, the Exchange proposes to add the term "Permitted Price" to its description of short sale price sliding. In order to offer multiple price sliding in the short sale price sliding context, the Exchange proposes to amend its rules to state that depending upon the instructions of a User, to reflect declines in the NBB the System will continue to re-price a short sale order at the Permitted Price down to the order's original limit price. Accordingly, short sale orders subject to multiple price sliding that are adjusted to lower price levels due to a decline to the NBB will be priced at one minimum

¹³ 17 CFR 242.201.

price variation above the current NBB. As is true for display-price sliding, multiple price sliding is optional and must be explicitly selected by a User before it will be applied. The Exchange's default short sale sliding process will only re-price an order upon entry. Accordingly, there will be no change to existing Users of short sale price sliding due to the proposed introduction of multiple price sliding unless such Users opt-in to the functionality.

As an example of the Exchange's current short sale price sliding, which adjusts the price of an order only upon entry, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.13 per share.¹⁴ Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable offer to sell 100 shares at \$10.10 per share and the order is marked "short" the Exchange will rank and display the order to sell at \$10.11 because executing the short sale at \$10.10, the NBB, would be in contravention of Regulation SHO. The result would be the same if the Exchange had no bids at \$10.10 because the Exchange cannot display an order marked "short" at the current NBB (such display would also lock the protected quote of an external market). If the NBB then moved to \$10.09, under existing handling, the Exchange would not re-price or re-display the order, but instead would leave it as a displayed offer to sell 100 shares at \$10.11. Under multiple price sliding, however, the Exchange would re-price and display the offer at \$10.10 if the NBB moved to \$10.09. If, in the example above, the NBB instead moved upwards to \$10.11, the Exchange would not re-price or restrict execution of the resting

¹⁴ For purposes of these examples, Rule 201's short sale price test is assumed to be in effect for the security at the time.

\$10.11 offer under either type of short sale price sliding. The Exchange notes that if this were the case, its quotation would be locked.

In addition to changes to the description of short sale price sliding to add the option of multiple price sliding, the Exchange proposes various changes to improve the accuracy and the clarity of the description of short sale price sliding. For instance, the Exchange proposes to make clear that when a short sale price test restriction under Rule 201 of Regulation SHO is in effect, the System may execute a displayed short sale order at a price below the Permitted Price if, at the time of initial display of the short sale order, the order was at a price above the then current NBB. The Exchange also proposes to make clear that orders marked “short exempt” will not be subject to short sale price sliding.

(b) Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.¹⁵ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,¹⁶ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(5).

The Exchange believes that the proposed changes to price sliding are consistent with Section 6(b)(5) of the Act,¹⁷ as well as Rule 610 of Regulation NMS¹⁸ and Rule 201 of Regulation SHO.¹⁹ The Exchange is not modifying the overall functionality of price sliding, which, to avoid locking or crossing quotations of other market centers or to comply with applicable short sale restrictions, displays orders at permissible prices while retaining a price at which the User is willing to buy or sell, in the event display at such price or an execution at such price becomes possible. Instead, the Exchange is making changes to adopt an optional form of price sliding, multiple price sliding, and to clarify portions of its Rules that describe price sliding.

Rule 610(d) requires exchanges to establish, maintain, and enforce rules that require members reasonably to avoid “[d]isplaying quotations that lock or cross any protected quotation in an NMS stock.”²⁰ Such rules must be “reasonably designed to assure the reconciliation of locked or crossed quotations in an NMS stock,” and must “prohibit ... members from engaging in a pattern or practice of displaying quotations that lock or cross any quotation in an NMS stock.”²¹ Thus, display-price sliding offered by the Exchange, assists Users by displaying orders at permissible prices. Similarly, Rule 201 of Regulation SHO²² requires trading centers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display

¹⁷ Id.

¹⁸ 17 CFR 242.610.

¹⁹ 17 CFR 242.201.

²⁰ 17 CFR 242.610(d).

²¹ Id.

²² 17 CFR 242.201.

of a short sale order at a price at or below the current NBB under certain circumstances. The Exchange's short sale price sliding will continue to operate consistent with this rule, however, if a User opts-in to multiple price sliding, the Exchange will re-price a short sale order based on declines to the NBB. If, instead, a User maintains the default form of price sliding, the Exchange will only re-price and display an order subject to short sale price sliding upon entry but will not update the order to reflect declines to the NBB. The Exchange notes that the proposed descriptions of price sliding will also more closely mirror the description used by at least one of its competitors, the Nasdaq Stock Market LLC ("Nasdaq"), and thus will help to avoid confusion amongst Exchange Users that also utilize analogous functionality at Nasdaq.

4. Self-Regulatory Organization's Statement on Burden on Competition

The proposed rule change does not impose any burden on competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act²³ and paragraph (f)(6) of Rule 19b-4 thereunder.²⁴ The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4.

investors or the public interest, (2) will not impose any significant burden on competition, and (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing, or such shorter time as designated by the Commission.²⁵ The Exchange notes that this proposal does not propose any new policies or provisions that are unique or unproven, as all changes proposed herein are changes to the Exchange's rules based on the rules of another self-regulatory organization, as described in further detail below.²⁶ The Exchange also notes that post only orders on other exchanges have traditionally been excluded from multiple price sliding functionality. The Exchange is not aware of any policy reasons that are presented by offering such functionality for BATS Post Only orders, as such orders do not have any higher priority as a result of price sliding, but rather, believes that this exclusion has been implemented by other exchanges for technical reasons. The Exchange has proposed to cancel BATS Post Only orders that could otherwise remove displayed liquidity when such orders are re-ranked due to changes to the NBBO. For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4.

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative

²⁵ 17 CFR 240.19b-4(f)(6)(iii).

²⁶ See Nasdaq Rules 4751(f)(7) and 4763(e); see also EDGA Exchange Rule 11.5(c)(4)(B) and 11.5(c)(4)(C); EDGX Exchange Rule 11.5(c)(4)(B) and 11.5(c)(4)(C); NYSE Arca Rule 7.31(w).

upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act²⁷ and paragraph (f)(6) of Rule 19b-4 thereunder.²⁸ Waiver of this requirement, specified in Rule 19b-4(f)(6),²⁹ will allow the Exchange to immediately offer Exchange Users with multiple price sliding, which is a feature already offered by several of the Exchange's competitors.³⁰ Encouraging competitors to provide higher quality and better value is the essence of a well-functioning competitive marketplace. The Exchange provides these services in a highly competitive market in which participants may avail themselves of a wide variety of options offered by self-regulatory organizations, alternative trading systems, and other broker-dealers. In such an environment, system enhancements such as the changes proposed in this rule filing do not burden competition, because they can succeed in attracting order flow to the Exchange only if they offer investors higher quality and better value than services offered by others. Based on the foregoing, the Exchange believes that its proposal should become immediately effective and requests that the Commission waive the 30-day operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.³¹ Waiver of this requirement is consistent with the protection of investors and the public interest for the reasons described above.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 17 CFR 240.19b-4(f)(6).

²⁹ Id.

³⁰ See supra note 26.

³¹ 17 CFR 240.19b-4(f)(6)(iii).

Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

The Exchange's proposal to continuously re-rank and re-display orders based on changes to the NBBO in the context of display-price sliding and short sale price sliding are based on Nasdaq Rules 4751(f)(7) and 4763(e), respectively. The Exchange's proposal differs from the analogous Nasdaq rules in that the Exchange proposes to require Users to opt-in to multiple price sliding, whereas multiple price sliding is applied to all orders subject to price sliding as described in Nasdaq Rules 4751(f)(7) and 4763(e). The Exchange proposes to adopt multiple price sliding as an optional functionality because the Exchange currently does not continuously re-price, re-rank and/or re-display orders and wishes to allow Users the option to retain functionality to which they are accustomed (a single rank and display upon entry and then, with respect to display-price sliding, an "unslide" if and when such action is possible due to changes to the NBBO).

In addition to the Nasdaq rules cited above, the proposed rules are similar to price sliding functionality offered by NYSE Arca, EDGA Exchange ("EDGA"), EDGX Exchange ("EDGX"). NYSE Arca offers multiple price sliding for orders that would lock or cross protected quotations, as set forth in NYSE Arca Rule 7.31(w). EDGA and EDGX both offer multiple price sliding for short sale orders similar to the short sale multiple price sliding proposed by the Exchange, as set forth in EDGA and EDGX Rule 11.5(c)(4)(B). EDGA and EDGX also offer the option for an order subject to short sale price sliding to be re-priced and displayed only upon entry, an option that the Exchange currently offers and proposes to continue offering, as well an option for an order subject

to short sale price sliding to be re-priced and displayed upon entry and then one additional time, which the Exchange does not propose to offer.

9. Exhibits

Exhibit 1: Completed Notice of the Proposed Rule Change for publication in the Federal Register.

Exhibits 2 – 4: Not applicable.

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____; File No. SR-BYX-2012-018)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by BATS Y-Exchange, Inc. to Amend BYX Rules Related to Price Sliding Functionality.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 3, 2012, BATS Y-Exchange, Inc. (the “Exchange” or “BYX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6)(iii) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 11.9, entitled “Orders and Modifiers” to modify the operation of the Exchange’s price sliding functionality described in Rule 11.9. The Exchange also proposes other minor changes, including changes to the terms used to describe price sliding and a cross-reference contained in Rule 11.13.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Background

The Exchange currently offers various forms of sliding which, in all cases, result in the re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange currently offers price sliding to ensure compliance with Regulation NMS and Regulation SHO. Price sliding currently offered by the Exchange re-prices and displays an order upon entry and in certain cases again re-prices and re-displays an order at a more aggressive price one time if and when permissible, but does not continually re-price an order based on changes in the national best bid ("NBB") or national best offer ("NBO", and together with the NBB, the "NBBO"). The Exchange proposes to modify both forms of price sliding in order to create an optional order handling behavior functionality that will continue to re-price, re-rank and/or re-display an order based on changes to the NBBO ("multiple price sliding"), as further described below. Multiple price sliding in the contexts for which it is being proposed will have to

be elected by a User⁵ in order to be applied by the Exchange. If a User elects to apply multiple price sliding to an order submitted to the Exchange, multiple price sliding will apply with respect to both display-price sliding and short sale price sliding in connection with the handling of the order by the Exchange. The Exchange also proposes to add language to make clear that display-price sliding is based on Protected Quotations⁶ at equities exchanges other than the Exchange. If the Exchange has a Protected Quotation that an incoming order to the Exchange locks or crosses then such order either executes against the resting order, or, if the incoming order is a BATS Post Only Order or Partial Post Only at Limit Order, such order is executed in accordance with Rules 11.9(c)(6) and (c)(7), respectively, or cancelled back to the entering User, as described in further detail below.

Display-Price Sliding

With respect to price sliding offered to ensure compliance with Regulation NMS (“display-price sliding”),⁷ under the Exchange’s current rules, if, at the time of entry, a non-routable order would cross a Protected Quotation displayed by another trading center the Exchange re-prices and ranks such order at the locking price, and displays such order

⁵ As defined in BYX Rule 1.5(cc), a User is “any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.”

⁶ As defined in BYX Rule 1.5(t), a “Protected Quotation” is “a quotation that is a Protected Bid or Protected Offer.” In turn, the term “Protected Bid” or “Protected Offer” means “a bid or offer in a stock that is (i) displayed by an automated trading center; (ii) disseminated pursuant to an effective national market system plan; and (iii) an automated quotation that is the best bid or best offer of a national securities exchange or association.”

⁷ The Exchange’s Rules currently describe this functionality as “NMS price sliding” but the Exchange proposes to rename such functionality “display-price sliding.”

at one minimum price variation below the NBO for bids and above the NBB for offers. Similarly, in the event a non-routable order that, at the time of entry, would lock a Protected Quotation displayed by another trading center, the Exchange displays such order at one minimum price variation below the NBO for bids and above the NBB for offers.

As an example of display-price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.13 per share. Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable bid to buy 100 shares at \$10.12 per share the Exchange will rank the order to buy at \$10.12 and display the order at \$10.11 because displaying the bid at \$10.12 would lock an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy and display it at its ranked price (and limit price) of \$10.12.

The Exchange proposes to modify the description of price sliding to make clear that price sliding is generally applied to orders that are eligible for display, as such orders would violate Rule 610(d) of Regulation NMS if they were displayed by the Exchange at a price that locked or crossed a Protected Quotation. As described in further detail below, certain price sliding is also applied to Non-Displayed Orders, and the Exchange has proposed certain changes intended to clarify the application of such price sliding.

The Exchange currently permits Users to instruct the Exchange not to apply price sliding functionality to their orders. As one variation of this instruction, the Exchange currently allows Users to elect to apply display-price sliding only to the extent a display-eligible order at the time of entry would create a violation of Rule 610(d) of Regulation

NMS by locking a Protected Quotation of an external market (“lock-only display-price sliding”). For Users that select this order handling, price sliding is not applied and any display-eligible order is instead cancelled if, upon entry, such order would create a violation of Rule 610(d) of Regulation NMS by crossing a Protected Quotation of an external market. The lock-only display-price sliding option is a variation of display-price sliding that is intended to allow Users to re-evaluate their orders and/or strategies in the event they are submitting orders to the Exchange that are crossing the market. Consistent with the goal of increasing the clarity of its price sliding rule, the Exchange proposes to modify its description of display-price sliding to clearly define the lock-only display-price sliding option.

As an example of lock-only display-price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.14 per share. Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable bid to buy 100 shares at \$10.13 per share and the User has elected lock-only display-price sliding, the Exchange will cancel the order back to the User. To reiterate a basic example of display-price sliding, if instead the User applied display-price sliding (and not lock-only display-price sliding), the Exchange would rank the order to buy at \$10.12 and display the order at \$10.11 because displaying the bid at \$10.13 would cross an external market’s Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy and display it at \$10.12.

The Exchange proposes to modify the description of display-price sliding so that any order subject to display-price sliding will retain its original limit price irrespective of

the prices at which such order is ranked and displayed. Accordingly, the Exchange also proposes to clarify language throughout its descriptions of display-price sliding to refer to the ranking and display of an order rather than using the term re-price. In order to ensure compliance with Regulation NMS, as it does today, the Exchange will rank orders subject to display-price sliding at the locking price and will display such orders at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers).

The Exchange also proposes to amend its existing description of display-price sliding to state that when an order is displayed by the Exchange through the display-price sliding process the Exchange will display such order at the most aggressive permissible price. The Exchange's current description of display-price sliding states that orders that are re-displayed by the Exchange receive new timestamps when this new display price is established. The Exchange proposes to retain this language but also to make clear that all orders that are re-ranked and re-displayed pursuant to display-price sliding will retain their priority as compared to other orders subject to display-price sliding based upon the time such orders were initially received by the Exchange. Finally, the proposed description of price sliding also states that following the initial ranking and display of an order subject to display-price sliding, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

In order to offer multiple price sliding to Exchange Users, the Exchange proposes to make clear that the ranked and displayed prices of an order subject to display-price sliding may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. As noted above, multiple price sliding is optional

and must be explicitly selected by a User before it will be applied. The Exchange proposes to make clear that the default display-price sliding process will only adjust the ranked and displayed prices of an order upon entry and then the displayed price one time following a change to the prevailing NBBO. As explained throughout this filing, orders subject to multiple price sliding will be permitted to move all the way back to their most aggressive price, whereas orders subject to the current handling may not be adjusted to their most aggressive price, depending upon market conditions.

As an example of multiple price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.14 per share. Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable bid to buy 100 shares at \$10.13 per share, the Exchange would rank the order to buy at \$10.12 and display the order at \$10.11 because displaying the bid at \$10.13 would cross an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy, rank it at \$10.13 and display it at \$10.12. Under current price sliding functionality, the Exchange would not further adjust the ranked or displayed price following this un-slide. However, under multiple price sliding, if the NBO then moved to \$10.14, the Exchange would un-slide the bid to buy and display it at its full limit price of \$10.13.

The Exchange offers display-price sliding functionality to avoid locking or crossing other markets' Protected Quotations, but does not price slide to avoid executions

on the Exchange's order book ("BATS Book").⁸ Specifically, when the Exchange receives an incoming order that could execute against resting displayed liquidity but an execution does not occur because such incoming order is designated as an order that will not remove liquidity (i.e., a BATS Post Only Order),⁹ then the Exchange will cancel the incoming order. The Exchange proposes to make clear in the description of display-price sliding that any display-eligible BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will not be price slid upon entry but will be executed as set forth in Rule 11.9(c)(6) or cancelled. Similarly, the Exchange

⁸ The Exchange notes that it inadvertently constructed an example in a previous rule filing that contradicts this statement. Specifically, in Example 5 of SR-BYX-2011-009, in order to establish the possibility of an order that has been price slid and has a working price ranked at the same price as an order displayed by the Exchange on the opposite side of the market, the Exchange explained that an incoming BATS Post Only bid at \$10.11 would price slide if it locked an offer displayed by the Exchange at \$10.11. See Securities Exchange Act Release No. 64476 (May 12, 2011), 76 FR 28826, 28828 (May 18, 2011) (SR-BYX-2011-009) (the "Order Handling Filing"). However, at the time of the Order Handling Filing, under the current behavior, and as proposed, the Exchange would not price slide a BATS Post Only order to avoid an execution against an order displayed by the Exchange. The Exchange notes that Example 5 from the Order Handling Filing would be accurate if instead the incoming bid at \$10.11 locked a protected offer *displayed by an external market and not also displayed by the Exchange*, was price slid and displayed at \$10.10, ranked at \$10.11, and BATS subsequently received a BATS Post Only offer at \$10.11. In other words, the outcome would be the same as set forth in Example 5, insofar as the price slid order could ultimately have a ranked price that locks the contra-side, however the sequence leading up to that outcome neither is nor was possible as described because the Exchange does not price slide to avoid executions against the BATS Book.

⁹ The Exchange notes that it recently proposed and implemented a change to Rule 11.9(c)(6) regarding the Exchange's handling of BATS Post Only Orders to permit such orders to remove liquidity from the BATS Book if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BATS Book and subsequently provided liquidity. See Securities Exchange Act Release No. 67092 (June 1, 2012), 77 FR 33800 (June 7, 2012) (SR-BYX-2012-009).

proposes to make clear that any display-eligible Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(7) or cancelled. The Exchange also proposes to make clear that any display-eligible BATS Post Only Order or Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process. Consistent with the principal of not price sliding to avoid executions, in the event the NBBO changes such that a BATS Post Only Order subject to display-price sliding would un-slide and would be ranked at a price at which it could remove displayed liquidity from the BATS Book (i.e., when the Exchange is at the NBB or NBO) the Exchange proposes to execute¹⁰ or cancel such order.

The Exchange previously proposed changes to its existing order handling procedures to permit BATS Post Only Orders to be posted to the BATS Book to join the NBB or NBO, as applicable, even when such orders would be posted at prices equal to opposite-side orders ranked at the same price.¹¹ Consistent with this previously adopted change, the Exchange proposes to add language stating that BATS Post Only Orders will be permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. As is the case today, in the event an order subject to display-price sliding is ranked on the BATS Book with a price equal to an opposite side order displayed by the Exchange, it will be subject to processing as set forth in Rule 11.13(a)(1).

¹⁰ As noted above, the Exchange will execute a BATS Post Only Order in certain circumstances where it would receive price improvement. See id.

¹¹ See Order Handling Filing, supra note 8.

As an example of the Exchange's handling of BATS Post Only Orders in the context of price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.12 per share. Assume the NBBO (including Protected Quotations of other external markets) is also \$10.10 by \$10.12. If the Exchange receives a BATS Post Only Order bid to buy 100 shares at \$10.12 per share, unless executed pursuant to Rule 11.9(c)(6),¹² the Exchange would cancel the order back to the User because absent the BATS Post Only designation the \$10.12 bid would be able to remove the \$10.12 offer, and, as explained above, the Exchange does not offer price sliding to avoid executions against orders displayed by the Exchange.

If the Exchange did not have a displayed offer to sell at \$10.12 in the example above, but instead the best offer on the Exchange's book was \$10.13, the Exchange would apply price sliding to the incoming bid by ranking such order at \$10.12 and displaying the order at \$10.11. The Exchange's order book would now be displayed as \$10.11 by \$10.13. Assume, however, that after price sliding the incoming bid from \$10.12 to a display price of \$10.11, the Exchange received a BATS Post Only offer to sell for \$10.12, thus joining the NBO. As noted above, pursuant to previously adopted changes, BATS Post Only Orders are permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. Accordingly, the Exchange would allow such the incoming BATS Post Only offer at \$10.12 to post and display on the Exchange's order book, as described above, with an opposite side price slid order ranked at \$10.12 but displayed at \$10.11. Assume that next the Protected Offers displayed by all

¹² See supra note 9.

external markets other than the Exchange moved to \$10.13. In this situation the Exchange would un-slide but then cancel the bid at \$10.12 because, as proposed, in the event the NBBO changes such that a BATS Post Only Order subject to display-price sliding would un-slide and would be ranked at a price at which it could remove displayed liquidity from the BATS Book (i.e., when the Exchange is at the NBB or NBO) the Exchange proposes to execute¹³ or cancel such order.

The Exchange currently applies display-price sliding to Non-Displayed Orders that cross Protected Quotations of external markets as well. The Exchange proposes language that makes clear that this functionality is offered both upon entry and once an order has been posted to the Exchange's order book in order to avoid potentially trading through Protected Quotations of external markets. The proposed rule states that Non-Displayed Orders that are subject to display-price sliding are ranked at the locking price on entry. The proposed description also makes clear that display-price sliding for Non-Displayed Orders is functionally equivalent to the handling of displayable orders except that such orders will not have a displayed price and will not be re-priced again unless such orders cross a Protected Quotation of an external market (i.e., such orders are not unslid).

As an example of the Exchange's handling of Non-Displayed Orders in the context of price sliding, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.13 per share. Assume the NBBO is \$10.10 by \$10.11. If the Exchange

¹³ As noted above, the Exchange will execute a BATS Post Only Order in certain circumstances where it would receive price improvement. See supra note 9.

receives a Non-Displayed Order bid to buy 100 shares at \$10.12 per share, the Exchange would re-price the order to a \$10.11 bid to buy to avoid potentially trading through the \$10.11 offer displayed as the NBO (i.e., to ensure the Exchange will not allow the bid to trade at \$10.12 per share). In the event the NBBO moved to \$10.09 by \$10.10, the Exchange would again re-price the Non-Displayed bid to buy 100 shares to \$10.10 per share. If the NBBO then moved to \$10.10 by \$10.11, the Non-Displayed bid would not be re-priced to \$10.11, but would remain on the Exchange's order book at \$10.10.

As described above, the Exchange has proposed to offer multiple price sliding to Exchange Users that opt-in to the functionality. The remaining changes described above are intended to clarify and expand upon the written description of display-price sliding, but do not represent changes to the existing functionality offered by the Exchange. Consistent with achieving better clarity, the Exchange has proposed structural changes to the description of display-price sliding by separating the description into several subparagraphs.

Short Sale Price Sliding

With respect to price sliding offered to ensure compliance with Regulation SHO ("short sale price sliding"), when an order cannot be executed or displayed in compliance with Rule 201 of Regulation SHO¹⁴, the Exchange currently re-prices short sale orders to one minimum price variation above the current NBB ("Permitted Price"). In order to describe this re-pricing, the Exchange proposes to add the term "Permitted Price" to its description of short sale price sliding. In order to offer multiple price sliding in the short sale price sliding context, the Exchange proposes to amend its rules to state that

¹⁴ 17 CFR 242.201.

depending upon the instructions of a User, to reflect declines in the NBB the System will continue to re-price a short sale order at the Permitted Price down to the order's original limit price. Accordingly, short sale orders subject to multiple price sliding that are adjusted to lower price levels due to a decline to the NBB will be priced at one minimum price variation above the current NBB. As is true for display-price sliding, multiple price sliding is optional and must be explicitly selected by a User before it will be applied. The Exchange's default short sale sliding process will only re-price an order upon entry. Accordingly, there will be no change to existing Users of short sale price sliding due to the proposed introduction of multiple price sliding unless such Users opt-in to the functionality.

As an example of the Exchange's current short sale price sliding, which adjusts the price of an order only upon entry, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.13 per share.¹⁵ Assume the NBBO is \$10.10 by \$10.12. If the Exchange receives a non-routable offer to sell 100 shares at \$10.10 per share and the order is marked "short" the Exchange will rank and display the order to sell at \$10.11 because executing the short sale at \$10.10, the NBB, would be in contravention of Regulation SHO. The result would be the same if the Exchange had no bids at \$10.10 because the Exchange cannot display an order marked "short" at the current NBB (such display would also lock the protected quote of an external market). If the NBB then moved to \$10.09, under existing handling, the Exchange would not re-price or re-display

¹⁵ For purposes of these examples, Rule 201's short sale price test is assumed to be in effect for the security at the time.

the order, but instead would leave it as a displayed offer to sell 100 shares at \$10.11.

Under multiple price sliding, however, the Exchange would re-price and display the offer at \$10.10 if the NBB moved to \$10.09. If, in the example above, the NBB instead moved upwards to \$10.11, the Exchange would not re-price or restrict execution of the resting \$10.11 offer under either type of short sale price sliding. The Exchange notes that if this were the case, its quotation would be locked.

In addition to changes to the description of short sale price sliding to add the option of multiple price sliding, the Exchange proposes various changes to improve the accuracy and the clarity of the description of short sale price sliding. For instance, the Exchange proposes to make clear that when a short sale price test restriction under Rule 201 of Regulation SHO is in effect, the System may execute a displayed short sale order at a price below the Permitted Price if, at the time of initial display of the short sale order, the order was at a price above the then current NBB. The Exchange also proposes to make clear that orders marked “short exempt” will not be subject to short sale price sliding.

2. Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.¹⁶ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,¹⁷ because it is designed to prevent fraudulent and manipulative acts and practices, to promote just

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

The Exchange believes that the proposed changes to price sliding are consistent with Section 6(b)(5) of the Act,¹⁸ as well as Rule 610 of Regulation NMS¹⁹ and Rule 201 of Regulation SHO.²⁰ The Exchange is not modifying the overall functionality of price sliding, which, to avoid locking or crossing quotations of other market centers or to comply with applicable short sale restrictions, displays orders at permissible prices while retaining a price at which the User is willing to buy or sell, in the event display at such price or an execution at such price becomes possible. Instead, the Exchange is making changes to adopt an optional form of price sliding, multiple price sliding, and to clarify portions of its Rules that describe price sliding.

Rule 610(d) requires exchanges to establish, maintain, and enforce rules that require members reasonably to avoid “[d]isplaying quotations that lock or cross any protected quotation in an NMS stock.”²¹ Such rules must be “reasonably designed to assure the reconciliation of locked or crossed quotations in an NMS stock,” and must “prohibit ... members from engaging in a pattern or practice of displaying quotations that lock or cross any quotation in an NMS stock.”²² Thus, display-price sliding offered by the Exchange, assists Users by displaying orders at permissible prices. Similarly, Rule

¹⁸ Id.

¹⁹ 17 CFR 242.610.

²⁰ 17 CFR 242.201.

²¹ 17 CFR 242.610(d).

²² Id.

201 of Regulation SHO²³ requires trading centers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order at a price at or below the current NBB under certain circumstances. The Exchange's short sale price sliding will continue to operate consistent with this rule, however, if a User opts-in to multiple price sliding, the Exchange will re-price a short sale order based on declines to the NBB. If, instead, a User maintains the default form of price sliding, the Exchange will only re-price and display an order subject to short sale price sliding upon entry but will not update the order to reflect declines to the NBB. The Exchange notes that the proposed descriptions of price sliding will also more closely mirror the description used by at least one of its competitors, the Nasdaq Stock Market LLC ("Nasdaq"), and thus will help to avoid confusion amongst Exchange Users that also utilize analogous functionality at Nasdaq.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change imposes any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Changes and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on

²³ 17 CFR 242.201.

competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²⁴ and Rule 19b-4(f)(6)(iii) thereunder.²⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-BYX-2012-018 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BYX-2012-018. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site

²⁴ 15 U.S.C. 78s(b)(3)(A).

²⁵ 17 CFR 240.19b-4(f)(6).

(<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule changes between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BYX-2012-018 and should be submitted on or before [_____]21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Kevin M. O'Neill
Deputy Secretary

²⁶ 17 CFR 200.30-3(a)(12).

Note: Proposed new language is underlined. Proposed deletions are enclosed in [brackets].

Rules of BATS Y-Exchange, Inc.

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CHAPTER XI. TRADING RULES

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Rule 11.9. Orders and Modifiers

(No changes.)

(a)-(f) (No changes.)

(g) *Price Sliding.* The System will process orders, subject to a User's instructions, pursuant to the "price sliding process," as defined below.

(1) [NMS] *Display-Price Sliding.* [An order that, at the time of entry, would cross a Protected Quotation will be repriced to the locking price and ranked at such price in the BATS Book. An order that, at the time of entry, would lock a Protected Quotation will be ranked at its original locking price in the BATS Book.]

(A) An order eligible for display by the Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation NMS by locking or crossing a Protected Quotation of an external market will be ranked at the locking price in the BATS Book and [will be] displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("display-price sliding" ["NMS price sliding"])). A User may elect to have the System only apply display-price sliding to the extent a display-eligible order at the time of entry would create a violation of Rule 610(d) of Regulation NMS by locking a Protected Quotation of an external market. For Users that select this order handling, any order will be cancelled if, upon entry, such order would create a violation of Rule 610(d) of Regulation NMS by crossing a Protected Quotation of an external market.

(B) An order subject to display-price sliding will retain its original limit price irrespective of the prices at which such order is ranked and displayed. [In the event an order subject to NMS price sliding is ranked on the BATS Book with a price equal to an opposite side order displayed by the Exchange, it will be subject to processing as set forth in Rule 11.13(a)(1).] In the event the NBBO changes such that [the] an order [at the original locking price] subject to display-price sliding would not lock or cross a Protected Quotation of an external market, the order [subject to NMS price sliding] will receive a new timestamp, and will be displayed at the [original locking] most aggressive permissible price. All orders that are re-ranked and re-displayed pursuant to display-price sliding will retain their priority as compared to other orders subject to display-price sliding based

upon the time such orders were initially received by the Exchange. Following the initial ranking and display of an order subject to display-price sliding, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

(C) The ranked and displayed prices of an order subject to display-price sliding may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. The Exchange's default display-price sliding process will only adjust the ranked and displayed prices of an order upon entry and then the displayed price one time following a change to the prevailing NBBO.

(D) Any display-eligible BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(6) or cancelled. Any display-eligible Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(7) or cancelled. Any display-eligible BATS Post Only Order or Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by an external market upon entry will be subject to the display-price sliding process described in this paragraph (g)(1). In the event the NBBO changes such that a BATS Post Only Order subject to display-price sliding would be ranked at a price at which it could remove displayed liquidity from the BATS Book, the order will be executed as set forth in Rule 11.9(c)(7) or cancelled.

(E) BATS Post Only Orders will be permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. In the event an order subject to display-price sliding is ranked on the BATS Book with a price equal to an opposite side order displayed by the Exchange, it will be subject to processing as set forth in Rule 11.13(a)(1).

(F) In order to avoid potentially trading through Protected Quotations of external markets, the Exchange offers display-price sliding for Non-Displayed Orders that upon entry cross a Protected Quotation of an external market that is functionally equivalent to the handling of displayable orders except that such orders will not have a displayed price. Non-Displayed Orders that are subject to display-price sliding are ranked at the locking price on entry. Similarly, in [In] the event the NBBO changes such that a Non-Displayed Order subject to [NMS]display-price sliding would cross a Protected Quotation of an external market, the order will receive a new timestamp, and will be [repriced]ranked by the System at the locking price. In the event a Non-Displayed Order has been repriced by the System pursuant to this sub-paragraph (F), such Non-Displayed order is not re-priced by the System unless it is again crossing a Protected Quotation of an external market.

(2) *Short Sale Price Sliding.*

(A) A short sale [An] order that, at the time of entry, could not be executed or displayed [based on]in compliance with Rule 201 of Regulation SHO will be re-priced by the System at one minimum price variation above the current NBB (“Permitted Price”) [(such repricing “short sale price sliding,” and together with NMS price sliding, the “price sliding process”)]. [An order subject to short sale price sliding will not be readjusted downward even if it could be displayed at a lower price without violation of Rule 201 of Regulation SHO.] The Exchange’s default short sale sliding process will only re-price an order upon entry. Depending upon the instructions of a User, to reflect declines in the NBB the System will continue to re-price a short sale order at the Permitted Price down to the order’s original limit price. [Neither orders marked “short exempt” nor orders displayed by the System at a price above the then current national best bid at the time of initial display when a short sale price test restriction is in effect shall be subject to short sale price sliding.] In the event the NBB changes such that the price of a Non-Displayed Order subject to Rule 201 of Regulation SHO [short sale price sliding] would lock or cross the NBB, the order will receive a new timestamp, and will be re-priced by the System at [one minimum price variation above the current NBB] the Permitted Price. The re-pricing described in this subparagraph (A) constitutes “short sale price sliding,” and together with display-price sliding, is referred to as the “price sliding process.”

(B) When a short sale price test restriction under Rule 201 of Regulation SHO is in effect, the System may execute a displayed short sale order at a price below the Permitted Price if, at the time of initial display of the short sale order, the order was at a price above the then current NBB.

(C) Orders marked “short exempt” will not be subject to short sale price sliding.

(3) *Applicability of Price Sliding.* If an order is eligible for the price sliding process, it will be subject to both [NMS]display-price sliding and short sale price sliding.

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Rule 11.13. Order Execution

(No changes.)

(a) *Execution and Routing.*

(1) *Execution against BATS Book.* An incoming order shall first attempt to be matched for execution against orders in the BATS Book. An incoming order to buy will be automatically executed to the extent that it is priced at an amount that equals or exceeds any order to sell in the BATS Book and is executable, as defined above. Such order to buy shall be executed at the price(s) of the lowest order(s) to sell having priority

in the BATS Book. An incoming order to sell will be automatically executed to the extent that it is priced at an amount that equals or is less than any other order to buy in the BATS Book and is executable, as defined above. Such order to sell shall be executed at the price(s) of the highest order(s) to buy having priority in the BATS Book. Consistent with Rule 11.12, which sets forth the Exchange's rule regarding priority of orders, Non-Displayed Orders and orders subject to [NMS] display-price sliding, as set forth in Rule 11.9(g) (for purposes of this paragraph, the "Resting Orders") cannot be executed by the Exchange pursuant to this Rule 11.13 when such Resting Orders would be executed at prices equal to displayed orders on the opposite side of the market (the "locking price"), and thus, any incoming order that would execute against the Resting Order at the locking price would receive a priority advantage over the displayed order at the locking price. For bids or offers equal to or greater than \$1.00 per share, in the event that an order submitted to the Exchange on the side opposite such a Resting Order is a market order or a limit order priced more aggressively than the locking price, the Exchange will execute the Resting Order at, in the case of a Resting Order bid, one-half minimum price variation less than the locking price, and, in the case of a Resting Order offer, at one-half minimum price variation more than the locking price. For bids or offers under \$1.00 per share, Resting Orders priced at the locking price will not be executed by the Exchange.

(2)-(3) (No changes).

(b)-(e) (No changes.)

Interpretations and Policies

.01 (No changes.)

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