

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="22"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2013"/> - * <input type="text" value="023"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by **BATS Exchange**  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) <input type="checkbox"/> Section 806(e)(2) <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposal to adopt a market order collar for BATS Options and to make other clean-up changes to the rules of BATS Options.

**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 action.

First Name * <input type="text" value="Anders"/>	Last Name * <input type="text" value="Franzon"/>
Title * <input type="text" value="VP, Associate General Counsel"/>	
E-mail * <input type="text" value="afranzon@bats.com"/>	
Telephone * <input type="text" value="(913) 815-7154"/>	Fax <input type="text" value="(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.

(Title \*)

Date <input type="text" value="04/10/2013"/>	<input type="text" value="VP, Associate General Counsel"/>
By <input type="text" value="Anders Franzon"/>	<input type="text"/>
(Name *)	

Persona Not Validated - 1364234628553,

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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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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 \***

Add Remove View

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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

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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, security-based swap submission, or advance notice 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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Exhibit Sent As Paper Document

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 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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 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 the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing with the Securities and Exchange Commission (“Commission”) a proposal for the BATS Options Market (“BATS Options”) to amend BATS Rule 21.1(d)(5) in order to add system functionality that will cancel any portion of a market order submitted to BATS Options (a “BATS Market Order”) that would execute at a price that is more than 50 cents or 5 percent worse than the NBBO at the time the order initially reaches BATS Options (the “Initial NBBO”), whichever is greater (a “Market Order Collar”). The Exchange is also proposing to make two clean-up changes by eliminating references to discretionary orders in Rule 21.8. The Exchange has designated this proposal as a non-controversial filing and requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) under the Act.<sup>3</sup> If such waiver is granted by the Commission, the Exchange shall implement this rule proposal immediately.

(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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Id.

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 November 10, 2009. Exchange staff will advise the BATS Exchange Board of Directors of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

The purpose of the proposed rule change is to implement a Market Order Collar on BATS Options and to make two clean-up changes by eliminating references to discretionary orders in Rule 21.8.

The Exchange is proposing to protect market participants from executions at prices that are significantly worse than the NBBO at the time of order entry by amending the rules of BATS Options such that any portion of a BATS Market Order that would execute at a price that is the greater of 50 cents or 5 percentage points worse than the Initial NBBO will be cancelled by the BATS Options system (the "System"). Any portion of a BATS Market Order that would otherwise execute outside of these thresholds will be immediately cancelled back to the User.<sup>4</sup> The Exchange believes that Users who submit market orders on BATS Options generally intend to receive executions

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<sup>4</sup> A User defined in Exchange Rule 1.5(cc) as any Member or sponsored participant with access to the Exchange.

for the full size of their orders at or near the Initial NBBO and are not always aware that there may not be enough liquidity at that price to fill the entire size of their orders. This could result in executions occurring at prices that have little or no relation to the theoretical price of the option.

Accordingly, the Exchange is proposing to adopt a mechanism that will help prevent dramatic price swings and, potentially, executions qualifying as obvious errors<sup>5</sup> on BATS Options. The following example demonstrates how the Market Order Collar would operate:

Away Exchange Quotes:

<i>Exchange</i>	<i>Bid Size</i>	<i>Bid Price</i>	<i>Offer Price</i>	<i>Offer Size</i>
PHLX	10	\$1.00	\$1.05	10
NYSE Arca	10	\$1.00	\$1.05	10
NYSE MKT	10	\$1.00	\$1.10	10
BOX	10	\$1.00	\$1.15	10

BATS Options Price Levels:

<i>Exchange</i>	<i>Bid Size</i>	<i>Bid Price</i>	<i>Offer Price</i>	<i>Offer Size</i>
BATS	10	\$1.00	\$1.05	10
BATS			\$1.10	10
BATS			\$1.60	10
BATS			\$1.70	10

If BATS Options receives a routable market order to buy 80 contracts, the System will respond as described below:

- 10 contracts will be executed at \$1.05 on BATS Options
- 10 contracts will be routed to PHLX at \$1.05
- 10 contracts will be routed to NYSE Arca at \$1.05
- 10 contracts will be executed at \$1.10 on BATS Options

<sup>5</sup> See BATS Rule 20.6.

- 10 contracts will be routed to NYSE MKT at \$1.10
- 10 contracts will be routed to BOX at \$1.15

Assuming all orders routed away were in fact executed by such venues, the remaining shares of the BATS Market Order would be cancelled back to the User because the liquidity on BATS Options at the \$1.60 price level exceeds the BATS Market Order thresholds set forth in proposed Rule 21.1(d)(5) and such order is also not eligible for routing outside of such thresholds. Such BATS Market Order could only be executed or routed by the Exchange up to and including a price of \$1.55 (\$0.50 worse than the Initial NBBO). To be clear, System behavior would be the exact same if all of the orders executed entirely in the above example were entered and executed on BATS Options.

Those Users who intend to trade against liquidity at multiple price points from the Initial NBBO beyond the BATS market order thresholds proposed in this rule filing can clearly and unambiguously specify that intent by submitting a marketable limit order to the Exchange. For example, using the scenario described above, if the User submitted a limit order to buy 80 contracts with a limit price of \$2.00, such order would be executed up to its full size.

The Exchange notes that the proposed rule change is directly based on the Exchange's rule that collars market orders submitted to the Exchange's cash equities platform ("BATS Equities"). Specifically, pursuant to Rule 11.9(a), the Exchange collars for BATS Equities any portion of a BATS Market Order that would execute at a price that is the greater of 50 cents or 5 percentage points worse than the Initial NBBO. The Exchange believes that the proposed collar is reasonable and appropriate for BATS Options based largely upon the experience the Exchange has had in maintaining the

collar for BATS Equities for several years. Due to the prices of most options trading on the Exchange, the Exchange notes that the collar will likely be triggered more frequently at the \$0.50 level than at the 5% level (i.e., there are fewer options that trade above \$10.00 than trade below \$10.00). In addition to believing the collar to be reasonable based on its experience in administering the collar for BATS Equities, the Exchange also believes that the collar is reasonable and appropriate because many market participants that are familiar with the collar on BATS Equities are also market participants trading on BATS Options.

In addition to the above proposed change, the Exchange is proposing to eliminate two instances in Rule 21.8 which refer to the handling of the discretionary portion of discretionary orders. The Exchange is proposing to eliminate these references because the Exchange has removed discretionary orders from the types of orders allowed by BATS Options,<sup>6</sup> making the references to the handling of discretionary orders obsolete. Specifically, the Exchange is proposing to delete Rules 21.8(a)(1)(B) and 21.8(a)(2)(C).

(b) Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>8</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and,

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<sup>6</sup> See Securities Exchange Act Release No. 68752 (January 29, 2013), 78 FR 7826 (February 4, 2013) (SR-BATS-2013-003) (notice of filing and immediate effectiveness of proposed rule change to amend BATS rules in connection with the elimination of discretionary orders for BATS Options).

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

in general to protect investors and the public interest, by helping to avoid executions of market orders on BATS Options at prices that are significantly worse than the NBBO at the time an order is initially received by BATS Options. The Exchange also believes that the Initial NBBO is a fair representation of then-available prices and accordingly provides for an appropriate pricing mechanism such that BATS Market Orders should not be executed at a significantly worse price. Also, this proposal is consistent with existing BATS Options rules that allow for the breaking of trades meeting the definition of an obvious error<sup>9</sup> as well as a recently adopted change to the rules of BATS Options to reject market orders received when the underlying security is subject to a “Limit State” or “Straddle State”, as defined in the Limit Up-Limit Down Plan.<sup>10</sup> Accordingly, the Exchange believes that this proposal is designed to promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal will provide market participants with additional protection from anomalous executions. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

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<sup>9</sup> See BATS Rule 20.6.

<sup>10</sup> See Securities Exchange Act Release No. 69121 (March 12, 2013), 78 FR 16750 (March 18, 2013) (SR-BATS-2013-014) (notice of filing and immediate effectiveness of proposed rule change to modify the operation of market orders for BATS Options).

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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 Act<sup>11</sup> and paragraph (f)(6) thereunder.<sup>12</sup> The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of investors or the public interest; (2) will not impose any significant burden on competition; and (3) 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.<sup>13</sup>

The Exchange believes that the proposed rule change is particularly appropriate for filing on an immediately effective basis under paragraph (f)(6) of Rule 19b-4. The

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4.

<sup>13</sup> 17 CFR 240.19b-4(f)(6)(iii).

rule change proposed herein is based on BATS Rule 11.9(a)(2)<sup>14</sup> and the proposal does not raise any new policy issues. Because this filing is based on a rule currently in place for the Exchange's equity platform and does not present any new or novel issues that have not been previously considered by the Commission, the Exchange believes this proposal is properly filed pursuant to paragraph (f)(6) of Rule 19b-4.<sup>15</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the noted operative delay so that the Exchange may, as soon as possible, implement the protections proposed by this filing. Such waiver would benefit investors and market participants by providing additional protection from certain executions under all market conditions, but particularly in volatile market conditions, especially for market orders on BATS Options at prices that are significantly worse than the NBBO at the time the Exchange receives such orders. Immediate operability will permit the Exchange to collar market orders on BATS Options in the same manner that it currently collars market orders for BATS Equities.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that

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<sup>14</sup> See Securities Exchange Act Release No. 59258 (January 15, 2009), 74 FR 4788 (January 27, 2009) (SR-BATS-2009-001)(notice of filing and immediate effectiveness of proposed rule change to implement a market order collar in equities).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The proposed rule change is based on and is substantially similar in all material respects to BATS Rule 11.9(a)(2).

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. 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-BATS-2013-023)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt a Market Order Collar for BATS Options.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 10, 2013, BATS Exchange, Inc. (the “Exchange” or “BATS”) 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 Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> 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 filed a proposal for the BATS Options Market (“BATS Options”) to amend BATS Rule 21.1(d)(5) in order to add system functionality that will cancel any portion of a market order submitted to BATS Options (a “BATS Market Order”) that would execute at a price that is more than 50 cents or 5 percent worse than the NBBO at the time the order initially reaches BATS Options (the “Initial NBBO”), whichever is

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

greater (a “Market Order Collar”). The Exchange is also proposing to make two clean-up changes by eliminating references to discretionary orders in Rule 21.8.

The text of the proposed rule change is available at the Exchange’s website at <http://www.batstrading.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

The purpose of the proposed rule change is to implement a Market Order Collar on BATS Options and to make two clean-up changes by eliminating references to discretionary orders in Rule 21.8.

The Exchange is proposing to protect market participants from executions at prices that are significantly worse than the NBBO at the time of order entry by amending the rules of BATS Options such that any portion of a BATS Market Order that would execute at a price that is the greater of 50 cents or 5 percentage points worse than the Initial NBBO will be cancelled by the BATS Options system (the “System”). Any portion of a BATS Market Order that would otherwise execute outside of these

thresholds will be immediately cancelled back to the User.<sup>5</sup> The Exchange believes that Users who submit market orders on BATS Options generally intend to receive executions for the full size of their orders at or near the Initial NBBO and are not always aware that there may not be enough liquidity at that price to fill the entire size of their orders. This could result in executions occurring at prices that have little or no relation to the theoretical price of the option.

Accordingly, the Exchange is proposing to adopt a mechanism that will help prevent dramatic price swings and, potentially, executions qualifying as obvious errors<sup>6</sup> on BATS Options. The following example demonstrates how the Market Order Collar would operate:

Away Exchange Quotes:

Exchange	Bid Size	Bid Price	Offer Price	Offer Size
PHLX	10	\$1.00	\$1.05	10
NYSE Arca	10	\$1.00	\$1.05	10
NYSE MKT	10	\$1.00	\$1.10	10
BOX	10	\$1.00	\$1.15	10

BATS Options Price Levels:

Exchange	Bid Size	Bid Price	Offer Price	Offer Size
BATS	10	\$1.00	\$1.05	10
BATS			\$1.10	10
BATS			\$1.60	10
BATS			\$1.70	10

If BATS Options receives a routable market order to buy 80 contracts, the System will respond as described below:

- 10 contracts will be executed at \$1.05 on BATS Options

<sup>5</sup> A User defined in Exchange Rule 1.5(cc) as any Member or sponsored participant with access to the Exchange.

<sup>6</sup> See BATS Rule 20.6.

- 10 contracts will be routed to PHLX at \$1.05
- 10 contracts will be routed to NYSE Arca at \$1.05
- 10 contracts will be executed at \$1.10 on BATS Options
- 10 contracts will be routed to NYSE MKT at \$1.10
- 10 contracts will be routed to BOX at \$1.15

Assuming all orders routed away were in fact executed by such venues, the remaining shares of the BATS Market Order would be cancelled back to the User because the liquidity on BATS Options at the \$1.60 price level exceeds the BATS Market Order thresholds set forth in proposed Rule 21.1(d)(5) and such order is also not eligible for routing outside of such thresholds. Such BATS Market Order could only be executed or routed by the Exchange up to and including a price of \$1.55 (\$0.50 worse than the Initial NBBO). To be clear, System behavior would be the exact same if all of the orders executed entirely in the above example were entered and executed on BATS Options.

Those Users who intend to trade against liquidity at multiple price points from the Initial NBBO beyond the BATS market order thresholds proposed in this rule filing can clearly and unambiguously specify that intent by submitting a marketable limit order to the Exchange. For example, using the scenario described above, if the User submitted a limit order to buy 80 contracts with a limit price of \$2.00, such order would be executed up to its full size.

The Exchange notes that the proposed rule change is directly based on the Exchange's rule that collars market orders submitted to the Exchange's cash equities platform ("BATS Equities"). Specifically, pursuant to Rule 11.9(a), the Exchange collars for BATS Equities any portion of a BATS Market Order that would execute at a price

that is the greater of 50 cents or 5 percentage points worse than the Initial NBBO. The Exchange believes that the proposed collar is reasonable and appropriate for BATS Options based largely upon the experience the Exchange has had in maintaining the collar for BATS Equities for several years. Due to the prices of most options trading on the Exchange, the Exchange notes that the collar will likely be triggered more frequently at the \$0.50 level than at the 5% level (i.e., there are fewer options that trade above \$10.00 than trade below \$10.00). In addition to believing the collar to be reasonable based on its experience in administering the collar for BATS Equities, the Exchange also believes that the collar is reasonable and appropriate because many market participants that are familiar with the collar on BATS Equities are also market participants trading on BATS Options.

In addition to the above proposed change, the Exchange is proposing to eliminate two instances in Rule 21.8 which refer to the handling of the discretionary portion of discretionary orders. The Exchange is proposing to eliminate these references because the Exchange has removed discretionary orders from the types of orders allowed by BATS Options,<sup>7</sup> making the references to the handling of discretionary orders obsolete. Specifically, the Exchange is proposing to delete Rules 21.8(a)(1)(B) and 21.8(a)(2)(C).

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<sup>7</sup> See Securities Exchange Act Release No. 68752 (January 29, 2013), 78 FR 7826 (February 4, 2013) (SR-BATS-2013-003) (notice of filing and immediate effectiveness of proposed rule change to amend BATS rules in connection with the elimination of discretionary orders for BATS Options).

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by helping to avoid executions of market orders on BATS Options at prices that are significantly worse than the NBBO at the time an order is initially received by BATS Options. The Exchange also believes that the Initial NBBO is a fair representation of then-available prices and accordingly provides for an appropriate pricing mechanism such that BATS Market Orders should not be executed at a significantly worse price. Also, this proposal is consistent with existing BATS Options rules that allow for the breaking of trades meeting the definition of an obvious error<sup>10</sup> as well as a recently adopted change to the rules of BATS Options to reject market orders received when the underlying security is subject to a “Limit State” or “Straddle State”, as defined in the Limit Up-Limit Down Plan.<sup>11</sup> Accordingly, the Exchange believes that this proposal is designed to promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> See BATS Rule 20.6.

<sup>11</sup> See Securities Exchange Act Release No. 69121 (March 12, 2013), 78 FR 16750 (March 18, 2013) (SR-BATS-2013-014) (notice of filing and immediate effectiveness of proposed rule change to modify the operation of market orders for BATS Options).

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal will provide market participants with additional protection from anomalous executions. Thus, the Exchange does not believe the proposal creates any significant impact 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 Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>13</sup> 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:

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f).

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](mailto:rule-comments@sec.gov). Please include File No. SR-BATS-2013-023 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-BATS-2013-023. 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 website (<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 website 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 am and 3:00 pm. 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-BATS-2013-023 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.<sup>14</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).

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

**Rules of BATS Exchange, Inc.**

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**CHAPTER XXI. TRADING SYSTEMS**

Rule 21.1. Definitions

(No change.)

(a) – (c) (No changes.)

(d) The term “Order Type” shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) – (4) (No changes.)

(5) “Market Orders” are orders to buy or sell at the best price available at the time of execution. Market Orders to buy or sell an option traded on BATS Options will be rejected if they are received when the underlying security is subject to a “Limit State” or “Straddle State” as defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan”). Any portion of a Market Order that would execute at a price more than \$0.50 or 5 percent worse than the NBBO at the time the order initially reaches BATS Options, whichever is greater, will be cancelled.

(6) – (12) (No changes.)

(e) – (h) (No changes.)

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Rule 21.8. Order Display and Book Processing

(No change.)

(a) Execution Algorithm — Price/Time — The System shall execute trading interest within the System in price/time priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Trading interest will be executed in the order set forth below in paragraphs (a)(1) or (a)(2), with the order clearly established as the first entered into the System within such category at each price level having priority up to the number of contracts specified in the order.

(1) At each price level between displayed trading interest, orders will be executed in the following priority:

(A) (No change.)

[(B) Discretionary portion of discretionary orders as set forth in Rule 21.1(d)(4).]

(2) At each price level that has displayed trading interest, orders will be executed in the following priority:

(A) (No change.)

(B) (No change.)

[(C) Discretionary portion of discretionary orders as set forth in Rule 21.1(d)(4).]

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