

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 39	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2013 - * 032	Amendment No. (req. for Amendments *)
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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"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<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 *).

A proposed rule change with respect to the authority of the Exchange or BATS Trading, Inc. to cancel orders when a technical or system issue occurs and to describe the operation of an error account for BATS Trading, Inc.

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 * Last Name *

Title *

E-mail *

Telephone * Fax

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

By

(Name *)

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.

Persona Not Validated - 1369169726592,

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 *

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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 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 Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend Rule 2.11, entitled “BATS Trading, Inc. as Outbound Router”, and Rule 21.9, entitled “Order Routing”, with respect to the authority of the Exchange or BATS Trading, Inc. (“BATS Trading”) to cancel orders on the Exchange’s equity securities platform (“BATS Equities”) and equity options platform (“BATS Options”) when a technical or system issue occurs, as well as to describe the operation of an error account for BATS Trading.

(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 November 10, 2009. 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.

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 Exchange proposes to amend Rule 2.11(a) by amending subparagraph (4) and adding new subparagraphs (6) and (7) that address the authority of the Exchange or BATS Trading to cancel orders when a technical or systems issue occurs and to describe the operation of an error account for BATS Trading as it relates to BATS Equities.³ The Exchange also proposes to amend Rule 21.9 by adding subparagraphs (g) and (h) that

³ BATS Trading is a facility of the Exchange. Accordingly, under Rule 2.11, the Exchange is responsible for filing with the Commission rule changes and fees relating to the functions of BATS Trading. In addition, the Exchange is using the phrase "BATS Trading or the Exchange" in this rule filing to reflect the fact that a decision to take action with respect to orders affected by a technical or systems issue may be made in the capacity of BATS Trading or the Exchange depending on the circumstances of the issue.

From time to time, the Exchange also uses non-affiliate third-party broker-dealers to provide outbound routing services (*i.e.*, third-party Routing Brokers). In those cases, orders are submitted to the third-party Routing Broker through BATS Trading, the third-party Routing Broker routes the orders to the Routing Destination in its name, and any executions are submitted for clearance and settlement in the name of BATS Trading so that any resulting positions are delivered to BATS Trading upon settlement. As described above, BATS Trading normally arranges for any resulting securities positions to be delivered to the Member that submitted the corresponding order to the Exchange. If error positions (as defined in proposed Rule 2.11(a)(7)) result in connection with the Exchange's use of a third-party Routing Broker for outbound routing, and those positions are delivered to BATS Trading through the clearance and settlement process, BATS Trading would be permitted to resolve those positions in accordance with proposed Rule 2.11(a)(7)(B)-(E). If the third-party Routing Broker received error positions in connection with its role as a routing broker for the Exchange, and the error positions were not delivered to BATS Trading through the clearance and settlement process, then the third-party Routing Broker would resolve the error positions itself and BATS Trading would not be permitted to accept the error positions, as set forth in proposed Rule 2.11(a)(7)(B).

address the authority of the Exchange or BATS Trading to cancel options orders when a technical or systems issue occurs and to describe the operation of an error account for BATS Trading as it relates to BATS Options.

BATS Trading is the approved routing broker of the Exchange for both BATS Equities and BATS Options, subject to the conditions listed in Rule 2.11, 2.12, and 21.9. The Exchange relies on BATS Trading to provide outbound routing services from itself to routing destinations of BATS Trading (“Routing Destinations”). Additionally, BATS Equities relies on BATS Trading to provide inbound routing services for BATS Y-Exchange, Inc. (“BYX”).⁴ When BATS Trading routes orders to a Routing Destination, it does so by sending a corresponding order in its own name to the Routing Destination. In the normal course, routed orders that are executed at Routing Destinations are submitted for clearance and settlement in the name of BATS Trading, and BATS Trading arranges for any resulting securities positions to be delivered to the Member that submitted the corresponding order to the Exchange.

Examples of Situations That May Lead to Cancelled Orders

A technical or systems issue may arise at BATS Trading, a Routing Destination, or the Exchange that may cause the Exchange or BATS Trading to take steps to cancel orders if the Exchange or BATS Trading determines that such action is necessary to

⁴ The Exchange has authority to receive inbound routes of equities orders by BATS Trading from BYX. See Securities Exchange Act Release No. 66808 (April 13, 2012), 77 FR 23294 (April 18, 2012) (SR-BATS-2012-013).

maintain a fair and orderly market. The examples set forth below describe some of the situations in which the Exchange or BATS Trading may decide to cancel orders.⁵

Example 1. If BATS Trading or a Routing Destination experiences a technical or systems issue that results in BATS Trading not receiving responses to immediate or cancel (“IOC”) orders that it sent to the Routing Destination and that issue is not resolved in a timely manner, BATS Trading or the Exchange would seek to cancel the routed orders affected by the issue.⁶ For instance, if BATS Trading experiences a connectivity issue affecting the manner in which it sends or receives order messages to or from Routing Destinations, it may be unable to receive timely execution or cancellation reports from the Routing Destinations, and BATS Trading or the Exchange may consequently seek to cancel the affected routed orders. Once the decision is made to cancel those routed orders, any cancellation that a Member submitted to the Exchange on its initial order during such a situation would be honored.⁷

⁵ The examples described in this filing are not intended to be comprehensive or exclusive. Rule 2.11 and 21.9, as proposed, would provide general authority for the Exchange or BATS Trading to cancel orders in order to maintain fair and orderly markets when technical and systems issues occur and would also set forth the manner in which error positions may be handled by the Exchange or BATS Trading. The proposed rule change is not limited to addressing order cancellation or error positions resulting only from the specific examples described in this filing.

⁶ In a normal situation (*i.e.*, one in which a technical or systems issue does not occur), BATS Trading should receive an immediate response to an IOC order from a Routing Destination and would pass the resulting fill or cancellation on to the Member. After submitting an order that is routed to a Routing Destination, if a Member sends an instruction to cancel that order, the cancellation is held by the Exchange until a response is received from the Routing Destination. For instance, if the Routing Destination executes that order, the execution would be passed on to the Member and the cancellation instruction would be disregarded.

⁷ If a Member did not submit a cancellation to the Exchange, however, that initial order would remain “live” and thus be eligible for execution or posting on the

Example 2. If the Exchange experiences a systems issue, the Exchange may take steps to cancel all outstanding orders affected by that issue and notify affected Members of the cancellations. In those cases, the Exchange would seek to cancel any routed orders related to the Members' initial orders.

Examples of Situations that May Lead to Error Positions

In some instances, the technical or systems issue at BATS Trading, a Routing Destination, the Exchange, or a non-affiliate third party Routing Broker may also result in BATS Trading acquiring an error position that it must resolve. The examples set forth below describe some of the circumstances in which error positions may arise.

Example A. Error positions may result from routed orders that the Exchange or BATS Trading attempts to cancel but that are executed before the Routing Destination receives the cancellation message or that are executed because the Routing Destination is unable to process the cancellation message. Using the situation described in Example 1 above, assume that the Exchange seeks to cancel orders routed to a Routing Destination because it is not receiving timely execution or cancellation reports from the Routing Destination. In such a situation, BATS Trading may still receive executions from the Routing Destination after connectivity is restored, which it would not then allocate to Members because of the earlier decision to cancel the affected routed orders. Instead, BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Exchange, and neither the Exchange nor BATS Trading would treat any execution of that initial order or any subsequent routed order related to that initial order as an error.

Example B. Error positions may result from an order processing issue at a Routing Destination. For instance, if a Routing Destination experienced a systems problem that affects its order processing, it may transmit back a message purporting to cancel a routed order, but then subsequently submit an execution of that same order (i.e., a locked-in trade) to The Depository Trust & Clearing Corporation (“DTCC”) for clearance and settlement. In such a situation, the Exchange would not then allocate the execution to the Member because of the earlier cancellation message from the Routing Destination. Instead, BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Example C. Error positions may result if BATS Trading receives an execution report from a Routing Destination but does not receive clearing instructions for the execution from the Routing Destination. For instance, assume that a Member sends the Exchange an order to buy 100 shares of ABC stock, which causes BATS Trading to send an order to a Routing Destination that is subsequently executed, cleared, and closed out by that Routing Destination, and the execution is ultimately communicated back to that Member. On the next trading day (T+1), if the Routing Destination does not provide clearing instructions for that execution, BATS Trading would still be responsible for settling that Member’s purchase, but would be left with a short position in its error account.⁸ BATS Trading would resolve the position in the manner described below.

Example D. Error positions may result from a technical or systems issue that causes orders to be executed in the name of BATS Trading that are not related to BATS

⁸ To the extent that BATS Trading incurred a loss in covering its positions, short or long, it would submit reimbursement claim to that Routing Destination.

Trading's function as the Exchange's routing broker and are not related to any corresponding orders of Members. As a result, BATS Trading would not be able to assign any positions resulting from such an issue to Members. Instead, BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Example E. Error positions may result from a technical or systems issue at the Exchange through which the Exchange does not receive sufficient notice that a Member that has executed trades on the Exchange has lost the ability to clear trades through DTCC, as well as where the Exchange received notice of such Member's loss of ability to clear trades through DTCC, but, because of a technical or systems issue at the Exchange, the Exchange was unable to react to such notice in a timely manner. In such a situation, the Exchange would not have valid clearing information, which would prevent the trade from being automatically processed for clearance and settlement on a locked-in basis. Accordingly, BATS Trading would assume that Member's side of the trades so that the counterparties can settle the trades. BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Example F. Error positions may result from a technical or systems issue at the Exchange that does not involve routing of orders through BATS Trading. For example, a situation may arise in which a posted order was validly cancelled, but the system erroneously matched that order with an order that was seeking to access it. In such a situation, BATS Trading would have to assume the side of the trade opposite the order seeking to access the cancelled order. BATS Trading would post the position in its error account and resolve the position in the manner described below.

In each of the circumstances described above, it is possible that neither the Exchange nor BATS Trading may learn about an error position until T+1, either: (1) during the clearing process when a Routing Destination has submitted to DTCC a transaction for clearance and settlement for which BATS Trading never received an execution confirmation; or (2) when a Routing Destination does not recognize a transaction submitted by BATS Trading to DTCC for clearance and settlement. Moreover, the affected Members' trades may not be nullified absent express authority under BATS rules.⁹

BATS Equities - Proposed Amendments to Rule 2.11

The Exchange proposes to amend Rule 2.11(a) to add new paragraphs (6) and (7) and to add certain language to Rule 2.11(a)(4). Specifically, the Exchange proposes to amend Rule 2.11(a)(4) to state that BATS Trading may employ an error account in compliance with proposed paragraph (a)(7). Under paragraph (6) of the proposed rule, the Exchange or BATS Trading would be expressly authorized to cancel orders as may be necessary to maintain fair and orderly markets if a technical or systems issue occurred at the Exchange, BATS Trading, or a Routing Destination.¹⁰ The Exchange or BATS Trading would be required to provide notice of the cancellation to affected Members as soon as is practicable.

⁹ See, e.g., Rule 11.17 (regarding clearly erroneous executions).

¹⁰ Such a situation may not cause the Exchange to declare self-help against the routing destination pursuant to Rule 611 of Regulation NMS. If the Exchange or BATS Trading determines to cancel orders routed to a routing destination under proposed Rule 2.11(a)(7), but does not declare self-help against that routing destination, the Exchange would continue to be subject to the trade-through requirements in Rule 611 with respect to that routing destination.

Paragraph (a)(7)(A) of the proposed rule would permit BATS Trading to maintain an error account for the purpose of addressing positions that are the result of an execution or executions that are not clearly erroneous¹¹ under Rule 11.17 and result from a technical or systems issue at BATS Trading, the Exchange, a Routing Destination, or a non-affiliate third-party Routing Broker that affects one or more orders (“Error Positions”). By definition, an Error Position would not include any position that results from an order submitted by a Member to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis. Under paragraph (a)(7)(B) of the proposed rule, BATS Trading also would not be permitted to accept any positions in its error account from an account of a Member and could not permit any Member to transfer any positions from the Member’s account to BATS Trading’s error account under the proposed rule.¹² However, under paragraph (a)(7)(C)

¹¹ As defined in Rule 11.17(a), a transaction executed on the Exchange is “clearly erroneous” when there is an obvious error in any term, such as price, number of shares or other unit of trading, or identification of the security.

¹² The purpose of this provision is to clarify that BATS Trading may address error positions under the proposed rule that are caused by a technical or systems issue, but that BATS Trading may not accept from a Member positions that are delivered to the Member through the clearance and settlement process, even if those positions may have been related to a technical or systems issue at BATS Trading, the Exchange, a Routing Destination of BATS Trading, or a non-affiliate third-party Routing Broker. This provision would not apply, however, to situations like the one described in Example C in which BATS Trading incurred a short position to settle a Member’s purchase, as the Member did not yet have a position in its account as a result of the purchase at the time of BATS Trading’s action (i.e., BATS Trading’s action was necessary for the purchase to settle into the Member’s account). Similarly, the provision would not apply to situations like the one described in Example F, where a system issue caused one Member to receive an execution for which there was not an available contra-party, in which case action by BATS Trading would be necessary for the position to settle into that Member’s account. Moreover, to the extent a Member receives locked-in positions in connection with a technical or systems issue, that Member may seek

of the proposed rule, if a technical or systems issue results in the Exchange not having valid clearing instructions for a Member to a trade, BATS Trading may assume that Member's side of the trade so that the trade can be processed for clearing and settlement on a locked-in basis.¹³

Under paragraph (a)(7)(D), in connection with a particular technical or systems issue, BATS Trading or the Exchange would be permitted to either (i) assign all resulting Error Positions to Members; or (ii) have all resulting Error Positions liquidated, as described below. Any determination to assign or liquidate Error Positions, as well as any resulting assignments, would be required to be made in a nondiscriminatory fashion.

BATS Trading or the Exchange would be required to assign all Error Positions resulting from a particular technical or systems issue to the applicable Members affected by that technical or systems issue if BATS Trading or the Exchange: (i) determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the applicable Members affected by that technical or systems issue; (ii) determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the applicable Members affected by that technical or systems issue; and (iii) does not determine to cancel all orders affected by that technical or systems issue.

For example, a technical or systems issue of limited scope or duration may occur at a Routing Destination and the resulting trades may be submitted for clearance and

to rely on BATS Rule 11.16 if it experiences a loss. That rule provides Members with the ability to file claims against the Exchange for "losses resulting directly from the malfunction of the Exchange's physical equipment, devices and/or programming or the negligent acts or omissions of its employees."

¹³ See Example E above.

settlement by such Routing Destination to DTCC. If there were a small number of trades, there may be sufficient time to match positions with Member orders and avoid using the error account.

There may be scenarios, however, where BATS Trading determines that it is unable to assign all Error Positions resulting from a particular technical or systems issue to all of the affected Members, or determines to cancel all affected routed orders. For example, in some cases, the volume of questionable executions and positions resulting from a technical or systems issue might be such that the research necessary to determine which Members to assign those executions to could be expected to extend past the normal settlement cycle for such executions. Furthermore, if a Routing Destination experiences a technical or systems issue after BATS Trading has transmitted IOC orders to it that prevents BATS Trading from receiving responses to those orders, BATS Trading or the Exchange may determine to cancel all routed orders affected by that issue. In such a situation, BATS Trading or the Exchange would not pass on to the Members any executions on the routed orders received from the Routing Destination.

Proposed Rule 2.11(a)(7)(D) would require BATS Trading to liquidate Error Positions as soon as practicable.¹⁴ In liquidating Error Positions, BATS Trading would be required to provide complete time and price discretion for the trading to liquidate the Error Positions to a third-party broker-dealer and could not attempt to exercise any influence or control over the timing or methods of trading to liquidate the Error

¹⁴ If BATS Trading determines in connection with a particular technical or systems issue that some error positions can be assigned to some affected Members, but other error positions cannot be assigned, BATS Trading would be required under the proposed rule to liquidate all such error positions (including those positions that could be assigned to the affected Members).

Positions.¹⁵ BATS Trading also would be required to establish and enforce policies and procedures reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and BATS Trading/the Exchange associated with the liquidation of the Error Positions.

Under proposed paragraph (a)(7)(E), BATS Trading and the Exchange would be required to make and keep records to document all determinations to treat positions as Error Positions and all determinations for the assignment of Error Positions to Members or the liquidation of Error Positions, as well as records associated with the liquidation of Error Positions through the third-party broker-dealer.

BATS Options – Proposed Amendments to Rule 21.9

In order to maintain consistency between analogous services offered by BATS Equities and BATS Options, the Exchange proposes to modify the rules of BATS Options to conform with the changes described above related to the cancellation of orders and the management of the BATS Trading error account as it relates to BATS Equities. Accordingly, the exchange proposes to add paragraphs (g) to Rule 21.9.

As proposed, Rule 21.9(g)(1) and (2) are identical to the description set forth in proposed Rule 2.11(a)(6) and (7) and described above with the exception of minor references necessary due to the difference between rules applicable to BATS Equities and BATS Options.

¹⁵ This provision is not intended to preclude BATS Trading from providing the third-party broker with standing instructions with respect to the manner in which it should handle all error account transactions. For example, BATS Trading might instruct the broker to treat all orders as “not held” and to attempt to minimize any market impact on the price of the stock being traded.

(b) Statutory Basis

The Exchange believes that the proposed rule change 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 of the Act.¹⁶ Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁷ in that 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, 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, and it is not designed to permit unfair discrimination among customers, brokers, or dealers. The Exchange believes that this proposal is in keeping with those principles since BATS Trading's or the Exchange's ability to cancel orders during a technical and systems issue and to maintain an error account facilitates the smooth and efficient operation of the market. Specifically, the Exchange believes that allowing BATS Trading or the Exchange to cancel orders during a technical or systems issue would allow the Exchange to maintain fair and orderly markets. Moreover, the Exchange believes that allowing BATS Trading to assume Error Positions in an error account and to liquidate those positions, subject to the conditions set forth in the proposed amendments to Rule 2.11 and 21.9, would be the least disruptive means to correct these errors, except in cases where BATS Trading can assign all such Error Positions to all affected Members of the

¹⁶ 15 U.S.C. 78f.

¹⁷ 15 U.S.C. 78f(b)(5).

Exchange. Overall, the proposed amendments are designed to ensure full trade certainty for market participants and to avoid disrupting the clearance and settlement process. The proposed amendments are also designed to provide a consistent methodology for handling Error Positions in a manner that does not discriminate among Members. The proposed amendments are also consistent with Section 6 of the Act insofar as they would require BATS Trading to establish controls to restrict the flow of any confidential information between the third-party broker and BATS Trading/the Exchange associated with the liquidation of Error Positions.

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 not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposed amendment will align the Exchange's rules with other competing market centers. Specifically, the rule change proposed herein is substantially similar to the rules of other exchanges, including NASDAQ Stock Market LLC ("Nasdaq") Rule 4758(d), Nasdaq Options Market ("NOM") Chapter VI, Section 11(g), NYSE Arca Equities, Inc. ("Arca") Rule 7.45(d)(2), and EDGX Exchange, Inc. ("EDGX") Rule 2.11(a).

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 Act¹⁸ and paragraph (f)(6) of Rule 19b-4 thereunder.¹⁹ 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) 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.²⁰ The rule change proposed herein is based on Nasdaq Rule 4758(d), NOM Chapter VI, Section 11(g), Arca Rule 7.45(d)(2), and EDGX Rule 2.11(a) and does not raise any new policy issues. Accordingly, the Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act²¹ and paragraph (f)(6) of Rule 19b-4 thereunder.²²

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 the Commission to waive the

¹⁸ 15 U.S.C. 78s(b)(3)(A).

¹⁹ 17 CFR 240.19b-4.

²⁰ 17 CFR 240.19b-4(f)(6)(iii).

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(6).

noted operative delay so that the Exchange may make these improvements and clarifications to deal with technical or system issues effective immediately. Such waiver would help provide Members with certainty about how technical or system issues will be handled by BATS Trading or the Exchange by providing clarity around the error account and the specific situations in which the Exchange or BATS Trading may cancel orders when a technical or system issue occurs.

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.

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

The proposed rule change is based on and materially identical to similar provisions contained in Nasdaq Rule 4758(d), NOM Chapter VI, Section 11(g), Arca Rule 7.45(d)(2), and EDGX Rule 2.11(a).

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.

Exhibit 2 - 4: Not applicable.

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-BATS-2013-032)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to amend Rule 2.11, entitled “BATS Trading, Inc. as Outbound Router”.

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 June 3, 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 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 filed a proposal to amend Rule 2.11, entitled “BATS Trading, Inc. as Outbound Router”, and Rule 21.9, entitled “Order Routing”, with respect to the authority of the Exchange or BATS Trading, Inc. (“BATS Trading”) to cancel orders on the Exchange’s equity securities platform (“BATS Equities”) and equity options platform

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).

(“BATS Options”) when a technical or system issue occurs, as well as to describe the operation of an error account for BATS Trading.

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 Exchange filed a proposal The Exchange proposes to amend Rule 2.11(a) by amending subparagraph (4) and adding new subparagraphs (6) and (7) that address the authority of the Exchange or BATS Trading to cancel orders when a technical or systems issue occurs and to describe the operation of an error account for BATS Trading as it relates to BATS Equities.⁵ The Exchange also proposes to amend Rule 21.9 by adding

⁵ BATS Trading is a facility of the Exchange. Accordingly, under Rule 2.11, the Exchange is responsible for filing with the Commission rule changes and fees relating to the functions of BATS Trading. In addition, the Exchange is using the phrase “BATS Trading or the Exchange” in this rule filing to reflect the fact that a decision to take action with respect to orders affected by a technical or systems issue may be made in the capacity of BATS Trading or the Exchange depending on the circumstances of the issue.

subparagraphs (g) and (h) that address the authority of the Exchange or BATS Trading to cancel options orders when a technical or systems issue occurs and to describe the operation of an error account for BATS Trading as it relates to BATS Options.

BATS Trading is the approved routing broker of the Exchange for both BATS Equities and BATS Options, subject to the conditions listed in Rule 2.11, 2.12, and 21.9. The Exchange relies on BATS Trading to provide outbound routing services from itself to routing destinations of BATS Trading (“Routing Destinations”). Additionally, BATS Equities relies on BATS Trading to provide inbound routing services for BATS Y-Exchange, Inc. (“BYX”).⁶ When BATS Trading routes orders to a Routing Destination, it does so by sending a corresponding order in its own name to the Routing Destination. In the normal course, routed orders that are executed at Routing Destinations are

From time to time, the Exchange also uses non-affiliate third-party broker-dealers to provide outbound routing services (i.e., third-party Routing Brokers). In those cases, orders are submitted to the third-party Routing Broker through BATS Trading, the third-party Routing Broker routes the orders to the Routing Destination in its name, and any executions are submitted for clearance and settlement in the name of BATS Trading so that any resulting positions are delivered to BATS Trading upon settlement. As described above, BATS Trading normally arranges for any resulting securities positions to be delivered to the Member that submitted the corresponding order to the Exchange. If error positions (as defined in proposed Rule 2.11(a)(7)) result in connection with the Exchange’s use of a third-party Routing Broker for outbound routing, and those positions are delivered to BATS Trading through the clearance and settlement process, BATS Trading would be permitted to resolve those positions in accordance with proposed Rule 2.11(a)(7)(B)-(E). If the third-party Routing Broker received error positions in connection with its role as a routing broker for the Exchange, and the error positions were not delivered to BATS Trading through the clearance and settlement process, then the third-party Routing Broker would resolve the error positions itself and BATS Trading would not be permitted to accept the error positions, as set forth in proposed Rule 2.11(a)(7)(B).

⁶ The Exchange has authority to receive inbound routes of equities orders by BATS Trading from BYX. See Securities Exchange Act Release No. 66808 (April 13, 2012), 77 FR 23294 (April 18, 2012) (SR-BATS-2012-013).

submitted for clearance and settlement in the name of BATS Trading, and BATS Trading arranges for any resulting securities positions to be delivered to the Member that submitted the corresponding order to the Exchange.

Examples of Situations That May Lead to Cancelled Orders

A technical or systems issue may arise at BATS Trading, a Routing Destination, or the Exchange that may cause the Exchange or BATS Trading to take steps to cancel orders if the Exchange or BATS Trading determines that such action is necessary to maintain a fair and orderly market. The examples set forth below describe some of the situations in which the Exchange or BATS Trading may decide to cancel orders.⁷

Example 1. If BATS Trading or a Routing Destination experiences a technical or systems issue that results in BATS Trading not receiving responses to immediate or cancel (“IOC”) orders that it sent to the Routing Destination and that issue is not resolved in a timely manner, BATS Trading or the Exchange would seek to cancel the routed orders affected by the issue.⁸ For instance, if BATS Trading experiences a connectivity

⁷ The examples described in this filing are not intended to be comprehensive or exclusive. Rule 2.11 and 21.9, as proposed, would provide general authority for the Exchange or BATS Trading to cancel orders in order to maintain fair and orderly markets when technical and systems issues occur and would also set forth the manner in which error positions may be handled by the Exchange or BATS Trading. The proposed rule change is not limited to addressing order cancellation or error positions resulting only from the specific examples described in this filing.

⁸ In a normal situation (i.e., one in which a technical or systems issue does not occur), BATS Trading should receive an immediate response to an IOC order from a Routing Destination and would pass the resulting fill or cancellation on to the Member. After submitting an order that is routed to a Routing Destination, if a Member sends an instruction to cancel that order, the cancellation is held by the Exchange until a response is received from the Routing Destination. For instance, if the Routing Destination executes that order, the execution would be passed on to the Member and the cancellation instruction would be disregarded.

issue affecting the manner in which it sends or receives order messages to or from Routing Destinations, it may be unable to receive timely execution or cancellation reports from the Routing Destinations, and BATS Trading or the Exchange may consequently seek to cancel the affected routed orders. Once the decision is made to cancel those routed orders, any cancellation that a Member submitted to the Exchange on its initial order during such a situation would be honored.⁹

Example 2. If the Exchange experiences a systems issue, the Exchange may take steps to cancel all outstanding orders affected by that issue and notify affected Members of the cancellations. In those cases, the Exchange would seek to cancel any routed orders related to the Members' initial orders.

Examples of Situations that May Lead to Error Positions

In some instances, the technical or systems issue at BATS Trading, a Routing Destination, the Exchange, or a non-affiliate third party Routing Broker may also result in BATS Trading acquiring an error position that it must resolve. The examples set forth below describe some of the circumstances in which error positions may arise.

Example A. Error positions may result from routed orders that the Exchange or BATS Trading attempts to cancel but that are executed before the Routing Destination receives the cancellation message or that are executed because the Routing Destination is unable to process the cancellation message. Using the situation described in Example 1 above, assume that the Exchange seeks to cancel orders routed to a Routing Destination

⁹ If a Member did not submit a cancellation to the Exchange, however, that initial order would remain "live" and thus be eligible for execution or posting on the Exchange, and neither the Exchange nor BATS Trading would treat any execution of that initial order or any subsequent routed order related to that initial order as an error.

because it is not receiving timely execution or cancellation reports from the Routing Destination. In such a situation, BATS Trading may still receive executions from the Routing Destination after connectivity is restored, which it would not then allocate to Members because of the earlier decision to cancel the affected routed orders. Instead, BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Example B. Error positions may result from an order processing issue at a Routing Destination. For instance, if a Routing Destination experienced a systems problem that affects its order processing, it may transmit back a message purporting to cancel a routed order, but then subsequently submit an execution of that same order (i.e., a locked-in trade) to The Depository Trust & Clearing Corporation (“DTCC”) for clearance and settlement. In such a situation, the Exchange would not then allocate the execution to the Member because of the earlier cancellation message from the Routing Destination. Instead, BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Example C. Error positions may result if BATS Trading receives an execution report from a Routing Destination but does not receive clearing instructions for the execution from the Routing Destination. For instance, assume that a Member sends the Exchange an order to buy 100 shares of ABC stock, which causes BATS Trading to send an order to a Routing Destination that is subsequently executed, cleared, and closed out by that Routing Destination, and the execution is ultimately communicated back to that Member. On the next trading day (T+1), if the Routing Destination does not provide clearing instructions for that execution, BATS Trading would still be responsible for

settling that Member's purchase, but would be left with a short position in its error account.¹⁰ BATS Trading would resolve the position in the manner described below.

Example D. Error positions may result from a technical or systems issue that causes orders to be executed in the name of BATS Trading that are not related to BATS Trading's function as the Exchange's routing broker and are not related to any corresponding orders of Members. As a result, BATS Trading would not be able to assign any positions resulting from such an issue to Members. Instead, BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

Example E. Error positions may result from a technical or systems issue at the Exchange through which the Exchange does not receive sufficient notice that a Member that has executed trades on the Exchange has lost the ability to clear trades through DTCC, as well as where the Exchange received notice of such Member's loss of ability to clear trades through DTCC, but, because of a technical or systems issue at the Exchange, the Exchange was unable to react to such notice in a timely manner. In such a situation, the Exchange would not have valid clearing information, which would prevent the trade from being automatically processed for clearance and settlement on a locked-in basis. Accordingly, BATS Trading would assume that Member's side of the trades so that the counterparties can settle the trades. BATS Trading would post those positions into its error account and resolve the positions in the manner described below.

¹⁰ To the extent that BATS Trading incurred a loss in covering its positions, short or long, it would submit reimbursement claim to that Routing Destination.

Example F. Error positions may result from a technical or systems issue at the Exchange that does not involve routing of orders through BATS Trading. For example, a situation may arise in which a posted order was validly cancelled, but the system erroneously matched that order with an order that was seeking to access it. In such a situation, BATS Trading would have to assume the side of the trade opposite the order seeking to access the cancelled order. BATS Trading would post the position in its error account and resolve the position in the manner described below.

In each of the circumstances described above, it is possible that neither the Exchange nor BATS Trading may learn about an error position until T+1, either: (1) during the clearing process when a Routing Destination has submitted to DTCC a transaction for clearance and settlement for which BATS Trading never received an execution confirmation; or (2) when a Routing Destination does not recognize a transaction submitted by BATS Trading to DTCC for clearance and settlement. Moreover, the affected Members' trades may not be nullified absent express authority under BATS rules.¹¹

BATS Equities - Proposed Amendments to Rule 2.11

The Exchange proposes to amend Rule 2.11(a) to add new paragraphs (6) and (7) and to add certain language to Rule 2.11(a)(4). Specifically, the Exchange proposes to amend Rule 2.11(a)(4) to state that BATS Trading may employ an error account in compliance with proposed paragraph (a)(7). Under paragraph (6) of the proposed rule, the Exchange or BATS Trading would be expressly authorized to cancel orders as may be necessary to maintain fair and orderly markets if a technical or systems issue occurred at

¹¹ See, e.g., Rule 11.17 (regarding clearly erroneous executions).

the Exchange, BATS Trading, or a Routing Destination.¹² The Exchange or BATS Trading would be required to provide notice of the cancellation to affected Members as soon as is practicable.

Paragraph (a)(7)(A) of the proposed rule would permit BATS Trading to maintain an error account for the purpose of addressing positions that are the result of an execution or executions that are not clearly erroneous¹³ under Rule 11.17 and result from a technical or systems issue at BATS Trading, the Exchange, a Routing Destination, or a non-affiliate third-party Routing Broker that affects one or more orders (“Error Positions”). By definition, an Error Position would not include any position that results from an order submitted by a Member to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis. Under paragraph (a)(7)(B) of the proposed rule, BATS Trading also would not be permitted to accept any positions in its error account from an account of a Member and could not permit any Member to transfer any positions from the Member’s account to BATS Trading’s error account under the proposed rule.¹⁴ However, under paragraph (a)(7)(C)

¹² Such a situation may not cause the Exchange to declare self-help against the routing destination pursuant to Rule 611 of Regulation NMS. If the Exchange or BATS Trading determines to cancel orders routed to a routing destination under proposed Rule 2.11(a)(7), but does not declare self-help against that routing destination, the Exchange would continue to be subject to the trade-through requirements in Rule 611 with respect to that routing destination.

¹³ As defined in Rule 11.17(a), a transaction executed on the Exchange is “clearly erroneous” when there is an obvious error in any term, such as price, number of shares or other unit of trading, or identification of the security.

¹⁴ The purpose of this provision is to clarify that BATS Trading may address error positions under the proposed rule that are caused by a technical or systems issue, but that BATS Trading may not accept from a Member positions that are delivered to the Member through the clearance and settlement process, even if

of the proposed rule, if a technical or systems issue results in the Exchange not having valid clearing instructions for a Member to a trade, BATS Trading may assume that Member's side of the trade so that the trade can be processed for clearing and settlement on a locked-in basis.¹⁵

Under paragraph (a)(7)(D), in connection with a particular technical or systems issue, BATS Trading or the Exchange would be permitted to either (i) assign all resulting Error Positions to Members; or (ii) have all resulting Error Positions liquidated, as described below. Any determination to assign or liquidate Error Positions, as well as any resulting assignments, would be required to be made in a nondiscriminatory fashion.

BATS Trading or the Exchange would be required to assign all Error Positions resulting from a particular technical or systems issue to the applicable Members affected by that technical or systems issue if BATS Trading or the Exchange: (i) determines that it has accurate and sufficient information (including valid clearing information) to assign

those positions may have been related to a technical or systems issue at BATS Trading, the Exchange, a Routing Destination of BATS Trading, or a non-affiliate third-party Routing Broker. This provision would not apply, however, to situations like the one described in Example C in which BATS Trading incurred a short position to settle a Member's purchase, as the Member did not yet have a position in its account as a result of the purchase at the time of BATS Trading's action (i.e., BATS Trading's action was necessary for the purchase to settle into the Member's account). Similarly, the provision would not apply to situations like the one described in Example F, where a system issue caused one Member to receive an execution for which there was not an available contra-party, in which case action by BATS Trading would be necessary for the position to settle into that Member's account. Moreover, to the extent a Member receives locked-in positions in connection with a technical or systems issue, that Member may seek to rely on BATS Rule 11.16 if it experiences a loss. That rule provides Members with the ability to file claims against the Exchange for "losses resulting directly from the malfunction of the Exchange's physical equipment, devices and/or programming or the negligent acts or omissions of its employees."

¹⁵ See Example E above.

the positions to all of the applicable Members affected by that technical or systems issue; (ii) determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the applicable Members affected by that technical or systems issue; and (iii) does not determine to cancel all orders affected by that technical or systems issue.

For example, a technical or systems issue of limited scope or duration may occur at a Routing Destination and the resulting trades may be submitted for clearance and settlement by such Routing Destination to DTCC. If there were a small number of trades, there may be sufficient time to match positions with Member orders and avoid using the error account.

There may be scenarios, however, where BATS Trading determines that it is unable to assign all Error Positions resulting from a particular technical or systems issue to all of the affected Members, or determines to cancel all affected routed orders. For example, in some cases, the volume of questionable executions and positions resulting from a technical or systems issue might be such that the research necessary to determine which Members to assign those executions to could be expected to extend past the normal settlement cycle for such executions. Furthermore, if a Routing Destination experiences a technical or systems issue after BATS Trading has transmitted IOC orders to it that prevents BATS Trading from receiving responses to those orders, BATS Trading or the Exchange may determine to cancel all routed orders affected by that issue. In such a situation, BATS Trading or the Exchange would not pass on to the Members any executions on the routed orders received from the Routing Destination.

Proposed Rule 2.11(a)(7)(D) would require BATS Trading to liquidate Error Positions as soon as practicable.¹⁶ In liquidating Error Positions, BATS Trading would be required to provide complete time and price discretion for the trading to liquidate the Error Positions to a third-party broker-dealer and could not attempt to exercise any influence or control over the timing or methods of trading to liquidate the Error Positions.¹⁷ BATS Trading also would be required to establish and enforce policies and procedures reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and BATS Trading/the Exchange associated with the liquidation of the Error Positions.

Under proposed paragraph (a)(7)(E), BATS Trading and the Exchange would be required to make and keep records to document all determinations to treat positions as Error Positions and all determinations for the assignment of Error Positions to Members or the liquidation of Error Positions, as well as records associated with the liquidation of Error Positions through the third-party broker-dealer.

BATS Options – Proposed Amendments to Rule 21.9

In order to maintain consistency between analogous services offered by BATS Equities and BATS Options, the Exchange proposes to modify the rules of BATS

¹⁶ If BATS Trading determines in connection with a particular technical or systems issue that some error positions can be assigned to some affected Members, but other error positions cannot be assigned, BATS Trading would be required under the proposed rule to liquidate all such error positions (including those positions that could be assigned to the affected Members).

¹⁷ This provision is not intended to preclude BATS Trading from providing the third-party broker with standing instructions with respect to the manner in which it should handle all error account transactions. For example, BATS Trading might instruct the broker to treat all orders as “not held” and to attempt to minimize any market impact on the price of the stock being traded.

Options to conform with the changes described above related to the cancellation of orders and the management of the BATS Trading error account as it relates to BATS Equities.

Accordingly, the exchange proposes to add paragraphs (g) to Rule 21.9.

As proposed, Rule 21.9(g)(1) and (2) are identical to the description set forth in proposed Rule 2.11(a)(6) and (7) and described above with the exception of minor references necessary due to the difference between rules applicable to BATS Equities and BATS Options.

2. Statutory Basis

The Exchange believes that the proposed rule change 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 of the Act.¹⁸ Specifically, the Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁹ in that 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, 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, and it is not designed to permit unfair discrimination among customers, brokers, or dealers. The Exchange believes that this proposal is in keeping with those principles since BATS Trading's or the Exchange's ability to cancel orders during a technical and systems issue and to maintain an error account facilitates the smooth and efficient

¹⁸ 15 U.S.C. 78f.

¹⁹ 15 U.S.C. 78f(b)(5).

operation of the market. Specifically, the Exchange believes that allowing BATS Trading or the Exchange to cancel orders during a technical or systems issue would allow the Exchange to maintain fair and orderly markets. Moreover, the Exchange believes that allowing BATS Trading to assume Error Positions in an error account and to liquidate those positions, subject to the conditions set forth in the proposed amendments to Rule 2.11 and 21.9, would be the least disruptive means to correct these errors, except in cases where BATS Trading can assign all such Error Positions to all affected Members of the Exchange. Overall, the proposed amendments are designed to ensure full trade certainty for market participants and to avoid disrupting the clearance and settlement process. The proposed amendments are also designed to provide a consistent methodology for handling Error Positions in a manner that does not discriminate among Members. The proposed amendments are also consistent with Section 6 of the Act insofar as they would require BATS Trading to establish controls to restrict the flow of any confidential information between the third-party broker and BATS Trading/the Exchange associated with the liquidation of Error Positions.

(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 not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposed amendment will align the Exchange's rules with other competing market centers. Specifically, the rule change proposed herein is substantially similar to the rules of other exchanges, including NASDAQ Stock Market LLC ("Nasdaq") Rule 4758(d), Nasdaq Options Market ("NOM") Chapter VI, Section 11(g), NYSE Arca Equities, Inc. ("Arca") Rule 7.45(d)(2), and EDGX Exchange, Inc. ("EDGX") Rule 2.11(a).

(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 Act²⁰ and paragraph (f) of Rule 19b-4 thereunder.²¹ 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-BATS-2013-032 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.

²⁰ 15 U.S.C. 78s(b)(3)(A).

²¹ 17 CFR 240.19b-4(f).

All submissions should refer to File No. SR-BATS-2013-032. 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-2013-032 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.²²

Kevin M. O'Neill
Deputy Secretary

²² 17 CFR 200.30-3(a)(12).

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

Rules of BATS Exchange, Inc.

CHAPTER II. MEMBERS OF THE EXCHANGE

Rule 2.11. BATS Trading, Inc. as Outbound Router

(a) (No changes.)

(1)-(3) (No changes.)

(4) BATS Trading will not engage in any business other than (a) its Outbound Router function, (b) its Inbound Router function as described in Rule 2.12, (c) its usage of an error account in compliance with paragraph (a)(7) below, and ~~[(c)](d)~~ any other activities it may engage in as approved by the Commission.

(5) (No changes.)

(6) The Exchange or BATS Trading may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, BATS Trading, or a routing destination. The Exchange or BATS Trading shall provide notice of the cancellation to affected Members as soon as practicable.

(7) BATS Trading shall maintain an error account for the purpose of addressing positions that are the result of an execution or executions that are not clearly erroneous under Rule 11.17 and result from a technical or systems issue at BATS Trading, the Exchange, a routing destination, or a non-affiliate third-party Routing Broker that affects one or more orders (“Error Positions”).

(A) For purposes of this Rule 2.11(a)(7), an Error Position shall not include any position that results from an order submitted by a Member to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis.

(B) Except as provided in Rule 2.11(a)(7)(C), BATS Trading shall not (i) accept any positions in its error account from an account of a Member; or (ii) permit any Member to transfer any positions from the Member’s account to BATS Trading’s error account.

(C) If a technical or systems issue results in the Exchange not having valid clearing instructions for a Member to a trade, BATS Trading may assume

that Member's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.

(D) In connection with a particular technical or systems issue, BATS Trading or the Exchange shall either (1) assign all resulting Error Positions to Members in accordance with paragraph (i) below, or (2) have all resulting Error Positions liquidated in accordance with subparagraph (ii) below. Any determination to assign or liquidate Error Positions, as well as any resulting assignments, shall be made in a nondiscriminatory fashion.

(i) BATS Trading or the Exchange shall assign all Error Positions resulting from a particular technical or systems issue to the Members affected by that technical or systems issue if BATS Trading or the Exchange:

1) Determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the Members affected by that technical or systems issue;

2) Determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the Members affected by that technical or systems issue; and

3) Has not determined to cancel all orders affected by that technical or systems issue in accordance with subparagraph (a)(6) above.

(ii) If BATS Trading or the Exchange is unable to assign all Error Positions resulting from a particular technical or systems issue to all of the affected Members in accordance with subparagraph (D) above, or if BATS Trading or the Exchange determines to cancel all orders affected by the technical or systems issue in accordance with subparagraph (a)(6) above, then BATS Trading shall liquidate any applicable Error Positions as soon as practicable. In liquidating such Error Positions, BATS Trading shall:

1) Provide complete time and price discretion for the trading to liquidate the Error Positions to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; and

2) Establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and

BATS Trading/the Exchange associated with the liquidation of the Error Positions.

(E) BATS Trading and the Exchange shall make and keep records to document all determinations to treat positions as Error Positions and all determinations for the assignment of Error Positions to Members or the liquidation of Error Positions, as well as records associated with the liquidation of Error Positions through the third-party broker-dealer.

(b) No change.

CHAPTER XXI. TRADING SYSTEMS

Rule 21.9. Order Routing

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

(g) Cancellation of Orders and Error Account

(1) The Exchange or BATS Trading may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, BATS Trading, or a routing destination. The Exchange or BATS Trading shall provide notice of the cancellation to affected Members as soon as practicable.

(2) BATS Trading shall maintain an error account for the purpose of addressing positions that are the result of an execution or executions that are not nullified under Rule 20.6 and result from a technical or systems issue at BATS Trading, the Exchange, a routing destination, or a non-affiliate third-party Routing Broker that affects one or more orders (“Error Positions”).

(A) For purposes of this Rule 21.9(g)(2), an Error Position shall not include any position that results from an order submitted by a Member to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis.

(B) Except as provided in Rule 21.9(g)(2)(C), BATS Trading shall not (i) accept any positions in its error account from an account of a Member; or (ii) permit any Member to transfer any positions from the Member’s account to BATS Trading’s error account.

(C) If a technical or systems issue results in the Exchange not having valid clearing instructions for Member to a trade, BATS Trading may assume

that Member's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.

(D) In connection with a particular technical or systems issue, BATS Trading or the Exchange shall either (1) assign all resulting Error Positions to Members in accordance with paragraph (i) below, or (2) have all resulting Error Positions liquidated in accordance with subparagraph (ii) below. Any determination to assign or liquidate Error Positions, as well as any resulting assignments, shall be made in a nondiscriminatory fashion.

(i) BATS Trading or the Exchange shall assign all Error Positions resulting from a particular technical or systems issue to the Members affected by that technical or systems issue if BATS Trading or the Exchange:

1) Determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the Members affected by that technical or systems issue;

2) Determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the Members affected by that technical or systems issue; and

3) Has not determined to cancel all orders affected by that technical or systems issue in accordance with subparagraph (a)(6) above.

(ii) If BATS Trading or the Exchange is unable to assign all Error Positions resulting from a particular technical or systems issue to all of the affected Members in accordance with subparagraph (D) above, or if BATS Trading or the Exchange determines to cancel all orders affected by the technical or systems issue in accordance with subparagraph (a)(6) above, then BATS Trading shall liquidate any applicable Error Positions as soon as practicable. In liquidating such Error Positions, BATS Trading shall:

1) Provide complete time and price discretion for the trading to liquidate the Error Positions to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; and

2) Establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and

BATS Trading/the Exchange associated with the liquidation of the Error Positions.

(E) BATS Trading and the Exchange shall make and keep records to document all determinations to treat positions as Error Positions and all determinations for the assignment of Error Positions to Members or the liquidation of Error Positions, as well as records associated with the liquidation of Error Positions through the third-party broker-dealer.