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Page 1 of * 28

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

File No.* SR - 2013 - * 003
Amendment No. (req. for Amendments *)

Filing by BATS Y-Exchange, Inc.

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

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☐ Section 19(b)(3)(A) * ☑ Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) ☐ Section 806(e)(2) ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

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

Proposal to modify the operation of the Exchange's price sliding functionality described in BYX Rule 11.9.

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 * Anders Last Name * Franzon
Title * VP, Associate General Counsel
E-mail * afranzon@batstrading.com
Telephone * (913) 815-7154 Fax (913) 815-7119

Signature

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

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

Date 01/25/2013
By Anders Franzon
(Name *)

(Title *)
VP, Associate General Counsel

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

Anders Franzon,

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	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 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, 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 Add Remove View 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 Add Remove View 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 Add Remove View	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 Add Remove View	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 Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] BATS Y-Exchange, Inc. (the "Exchange" or "BYX") is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend Rule 11.9, entitled "Orders and Modifiers" to modify the operation of the Exchange's price sliding functionality described in BYX Rule 11.9. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.[3]

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

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

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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 17 CFR 240.19b-4(f)(6)(iii).

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

(a) Purpose

The Exchange currently offers various forms of sliding which, in all cases, result in the ranking and/or display of an order at a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange currently offers price sliding to ensure compliance with Regulation NMS and Regulation SHO. Price sliding currently offered by the Exchange re-prices and displays an order upon entry and in certain cases again re-prices and re-displays an order at a more aggressive price based on changes in the national best bid ("NBB") or national best offer ("NBO", and together with the NBB, the "NBBO"). As described below, the Exchange proposes to modify the operation of display-price sliding in the event the Exchange displays an order subject to price sliding as a Protected Quotation[4] and such order's displayed price is locked or crossed by another market.

Under the Exchange's current rules, if, at the time of entry, an order would lock or cross a Protected Quotation displayed by another trading center the Exchange ranks orders subject to display-price sliding at the locking price and displays such orders at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Following the initial ranking and display of an order subject to display-price sliding, an order is typically only re-ranked and re-

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

displayed to the extent it achieves a more aggressive price. However, the Exchange proposes to re-rank an order at the same price as the displayed price (i.e., a less aggressive price) in the event such order's displayed price is locked or crossed by a Protected Quotation of an external market.[5] This will avoid the potential of a ranked price that crosses the Protected Quotation displayed by such external market, which could, in turn, lead to a trade through of such Protected Quotation at such ranked price. The Exchange notes that, as described below, when an external market crosses the Exchange's Protected Quotation and the Exchange's Protected Quotation is a displayed order subject to price sliding, the Exchange proposes to re-rank such order at the displayed price. Thus, the order displayed by the Exchange will still be ranked and permitted to execute at a price that crosses the other market's Protected Quotation, which is consistent with Rule 611(b)(4) of Regulation NMS.[6]

As an example of the behavior described above, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at $10.10 per share and a posted and displayed offer to sell 100 shares at $10.13 per share. Assume the NBBO is $10.10 by $10.12. If the Exchange receives a non-routable bid to buy 100 shares at

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5 The Exchange notes that as a general matter Regulation NMS should prevent external markets from displaying Protected Quotations that lock or cross Protected Quotations displayed by the Exchange. However, in a dynamic market, such an event can and does happen for a variety of reasons. For example, if the Exchange updates its Protected Quotation for a security at the same time another market updates its contra-side Protected Quotation, it is possible that such quotations lock or cross each other. Neither the Exchange nor the other market would know in this circumstance that such quotations would lock or cross each other when publishing their quotation updates. As another example, in the event another market receives an intermarket sweep order, such market may permissibly display such order without regard to other Protected Quotations, including quotations displayed by the Exchange that lock or cross such order.

6 17 CFR 242.611(b)(4).

$10.12 per share the Exchange will rank the order to buy at $10.12 and display the order at $10.11 because displaying the bid at $10.12 would lock an external market's Protected Offer to sell for $10.12. If an external market then updated its Protected Offer to $10.11, thus locking the Exchange's displayed bid (i.e., the order subject to price sliding that is ranked at $10.12 and displayed at $10.11), then the Exchange proposes to modify the ranked price of such bid to the same price as the displayed price (i.e., $10.11). By re-ranking the bid in this example to $10.11, the Exchange will not allow an order to maintain a ranked price that is crossing the NBO when the displayed price of such order is locking the NBO, and thus, such order will not have the ability to trade through the NBO if the Exchange receives a marketable contra-side offer during the locked market condition.

The Exchange notes that as proposed when an external market publishes a Protected Quotation that *crosses* an order displayed by the Exchange, the Exchange has proposed to slide the ranked price of its displayed order to the displayed price. Thus, an order will still be permitted to be ranked at a price that crosses an external market's Protected Quotation, and could thus trade through such quotation if executed. For instance, using the example above, assume that the NBBO is $10.10 by $10.12 and the Exchange has a price slid bid to buy 100 shares that is ranked at $10.12 and displayed at $10.11. If an external market then updated its Protected Offer to $10.10, thus crossing the Exchange's displayed bid (i.e., the order subject to price sliding that is ranked at $10.12 and displayed at $10.11), then the Exchange will modify the ranked price of such bid to the same price as the displayed price (i.e., $10.11). The order displayed by the Exchange will be permitted to remain executable at a price that crosses the other market's

Protected Offer. The Exchange has proposed this functionality because it is consistent with its proposed functionality when an external market *locks* the Exchange's Protected Quotation. While the Exchange believes such an order should still be permitted to execute pursuant to the exception in Regulation NMS when the market is crossed, and does not believe that the displayed price of its Protected Quotations should be adjusted based on another market published Protected Quotations that lock or cross such quotations, the Exchange believes that executing such an order at the displayed price of such order is a better result because the existence of a crossing quotation is evidence of some price discrepancy in the market. The Exchange also believes that consistency between the functionality when the Exchange's quotation is locked and when the Exchange's quotation is crossed is preferable.[7]

The Exchange also proposes to make clear that this re-ranking will not result in a change in priority for the order at its displayed price. For instance, in the example above, assume the bid described had been posted and displayed at $10.11 and ranked at $10.12 ("Order A"), and then a later arriving bid is received by the Exchange at $10.11 ("Order B") and posted as well, with priority behind Order A. If the Exchange then re-ranks Order A because it has been locked or crossed by another market center's Protected Quotation, the Exchange does not believe it would be fair to cause such order to lose priority when it was originally first in priority amongst displayed orders on the Exchange.

As set forth in the Exchange's current price sliding rules, the ranked and displayed prices of an order subject to display-price sliding may be adjusted once or

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[7] Id.

multiple times depending upon the instructions of a User[8] and changes to the prevailing NBBO. The Exchange's default price sliding process slides and ranks an order on entry so that it is ranked at the locking price and displayed at one price less aggressive and then unslides the order so that it is displayed at the ranked/locking price one time if such display becomes permissible. Multiple price sliding continues to rank and display orders at the most aggressive permissible prices based on changes to the NBBO. Multiple price sliding is optional and must be explicitly selected by a User before it will be applied. The Exchange proposes to make clear that, in connection with the changes above, if an order subject to the Exchange's default price sliding process has been locked or crossed by a Protected Quotation of an external market then the Exchange will adjust the ranked price of such order and it will not be further re-ranked or re-displayed at any other price. While in most circumstances the Exchange unslides orders subject to price sliding to a more aggressive price when permissible, in this limited circumstance, when such an order's displayed price is locked or crossed by an external market the Exchange will be sliding the ranked price to the less aggressive displayed price and will not further unslide the order. Orders subject to the optional multiple price sliding process will be further re-ranked and re-displayed as permissible based on changes to the prevailing NBBO. Thus, once slid, an order subject to multiple price sliding, including its ranked price, will be slid to more aggressive prices as permissible.

As a continuation of the example above, assume that the NBBO is \$10.10 by \$10.12 and the Exchange has a price slid bid to buy 100 shares that is ranked at \$10.12

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

and displayed at $10.11. If an external market then updated its Protected Offer to $10.11, thus locking the Exchange's displayed bid (i.e., the order subject to price sliding that is ranked at $10.12 and displayed at $10.11), then the Exchange will modify the ranked price of such bid to the same price as the displayed price (i.e., $10.11). If a User has selected the default price sliding process then the order will not further re-rank or re-display such order, even if the NBO moves back to $10.12 such that the order could again be ranked at that price. However, if a User has opted into multiple price sliding, the Exchange will re-rank such order at $10.12 (still displayed at $10.11), and if the NBO then moved to $10.13, the Exchange will re-display such order at $10.12.

(b) Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[9] Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,[10] because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

The Exchange believes that the proposed changes to price sliding are consistent with Section 6(b)(5) of the Act,[11] as well as Rules 610 and 611 of Regulation NMS[12].

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9 15 U.S.C. 78f(b).

10 15 U.S.C. 78f(b)(5).

11 Id.

The Exchange is not modifying the overall functionality of price sliding, which, to avoid locking or crossing quotations of other market centers, displays orders at permissible prices while retaining a price at which the User is willing to buy or sell, in the event display at such price or an execution at such price becomes possible. Instead, the Exchange is making changes to ensure that if the Exchange's own Protected Quotation is a price slid order that is locked or crossed by an external market's Protected Quotation, that the Exchange will re-rank such order so that its displayed price is the same as its ranked price.

Rule 610(d) requires exchanges to establish, maintain, and enforce rules that require members reasonably to avoid "[d]isplaying quotations that lock or cross any protected quotation in an NMS stock."[13] Such rules must be "reasonably designed to assure the reconciliation of locked or crossed quotations in an NMS stock," and must "prohibit … members from engaging in a pattern or practice of displaying quotations that lock or cross any quotation in an NMS stock."[14] Thus, display-price sliding offered by the Exchange assists Users by displaying orders at permissible prices.

Rule 611 requires trading centers to "establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs on that trading center of protected quotations" unless an exception applies. The Exchange believes that the proposal to modify its price sliding functionality to prevent the ranked prices of orders subject to price sliding from working at a price that could trade through

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12 17 CFR 242.610; 17 CFR 242.611.

13 17 CFR 242.610(d).

14 Id.

other market centers when the Exchange's quotation is locked is consistent with this Rule 611. Similarly, although a trade through would be permissible if the Exchange's quotation is crossed by another market center based on an applicable exception, the Exchange believes that the proposal to re-rank orders in such a circumstance to the displayed price is consistent with the protection of investors and the public interest.

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

The proposed rule change does not impose any burden on competition. To the contrary, the proposal will ensure that the Exchange's processes are designed to prevent trade throughs consistent with Regulation NMS in the event the Exchange's own quotations are locked or crossed by external markets.

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

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act[15] and paragraph (f)(6) of Rule 19b-4 thereunder.[16] 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

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[15] 15 U.S.C. 78s(b)(3)(A).

[16] 17 CFR 240.19b-4.

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.[17] The Exchange notes that this proposal does not propose any new policies or provisions that are unique or unproven, as the changes proposed herein are changes to the Exchange's rules are designed to be consistent with Regulation NMS. As described above, the proposed functionality will slide the ranked price of an order in the event such ranked price is crossing a Protected Quotation of an external market in order to avoid trading through such Protected Quotation. The Exchange notes that this proposal is thus consistent with price sliding functionality applied to Non-Displayed Orders as described in existing Exchange Rule 11.9(g)(1)(F). Such functionality slides Non-Displayed Orders to the locking price in the event they are crossing an external market's Protected Quotation. For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4.

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act[18] and paragraph (f)(6) of Rule 19b-4 thereunder.[19] Waiver of this requirement, specified in

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[17] 17 CFR 240.19b-4(f)(6)(iii).

[18] 15 U.S.C. 78s(b)(3)(A).

[19] 17 CFR 240.19b-4(f)(6).

Rule 19b-4(f)(6),[20] will allow the Exchange to immediately enhance its price sliding functionality to avoid potential trade throughs when the Exchange's quotation is locked by an external market. Based on the foregoing, the Exchange believes that its proposal should become immediately effective and requests that the Commission waive the 30-day operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.[21] Waiver of this requirement is consistent with the protection of investors and the public interest for the reasons described above.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the 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. <u>Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission</u>

Not applicable.

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

Not applicable.

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

Not applicable.

11. <u>Exhibits</u>

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

Exhibits 2 – 4: Not applicable.

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20 <u>Id</u>.

21 17 CFR 240.19b-4(f)(6)(iii).

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____________; File No. SR-BYX-2013-003)

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on January 25, 2013, BATS Y-Exchange, Inc. (the "Exchange" or "BYX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act[3] 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 is proposing to amend Rule 11.9, entitled "Orders and Modifiers" to modify the operation of the Exchange's price sliding functionality described in BYX Rule 11.9.

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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).

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 currently offers various forms of sliding which, in all cases, result in the ranking and/or display of an order at a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange currently offers price sliding to ensure compliance with Regulation NMS and Regulation SHO. Price sliding currently offered by the Exchange re-prices and displays an order upon entry and in certain cases again re-prices and re-displays an order at a more aggressive price based on changes in the national best bid ("NBB") or national best offer ("NBO", and together with the NBB, the "NBBO"). As described below, the Exchange proposes to modify the operation of display-price sliding in the event the Exchange displays an order subject to price sliding as a Protected Quotation[5] and such order's displayed price is locked or crossed by another market.

Under the Exchange's current rules, if, at the time of entry, an order would lock or cross a Protected Quotation displayed by another trading center the Exchange ranks orders subject to display-price sliding at the locking price and displays such orders at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Following the initial ranking and display of an order subject to display-price sliding, an order is typically only re-ranked and re-displayed to the extent it achieves a more aggressive price. However, the Exchange proposes to re-rank an order at the same price as the displayed price (i.e., a less aggressive price) in the event such order's displayed price is locked or crossed by a Protected Quotation of an external market.[6] This will avoid the potential of a ranked price that crosses the Protected Quotation displayed by such external market, which

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

6 The Exchange notes that as a general matter Regulation NMS should prevent external markets from displaying Protected Quotations that lock or cross Protected Quotations displayed by the Exchange. However, in a dynamic market, such an event can and does happen for a variety of reasons. For example, if the Exchange updates its Protected Quotation for a security at the same time another market updates its contra-side Protected Quotation, it is possible that such quotations lock or cross each other. Neither the Exchange nor the other market would know in this circumstance that such quotations would lock or cross each other when publishing their quotation updates. As another example, in the event another market receives an intermarket sweep order, such market may permissibly display such order without regard to other Protected Quotations, including quotations displayed by the Exchange that lock or cross such order.

could, in turn, lead to a trade through of such Protected Quotation at such ranked price. The Exchange notes that, as described below, when an external market crosses the Exchange's Protected Quotation and the Exchange's Protected Quotation is a displayed order subject to price sliding, the Exchange proposes to re-rank such order at the displayed price. Thus, the order displayed by the Exchange will still be ranked and permitted to execute at a price that crosses the other market's Protected Quotation, which is consistent with Rule 611(b)(4) of Regulation NMS.[7]

As an example of the behavior described above, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at $10.10 per share and a posted and displayed offer to sell 100 shares at $10.13 per share. Assume the NBBO is $10.10 by $10.12. If the Exchange receives a non-routable bid to buy 100 shares at $10.12 per share the Exchange will rank the order to buy at $10.12 and display the order at $10.11 because displaying the bid at $10.12 would lock an external market's Protected Offer to sell for $10.12. If an external market then updated its Protected Offer to $10.11, thus locking the Exchange's displayed bid (i.e., the order subject to price sliding that is ranked at $10.12 and displayed at $10.11), then the Exchange proposes to modify the ranked price of such bid to the same price as the displayed price (i.e., $10.11). By re-ranking the bid in this example to $10.11, the Exchange will not allow an order to maintain a ranked price that is crossing the NBO when the displayed price of such order is locking the NBO, and thus, such order will not have the ability to trade through the NBO if the Exchange receives a marketable contra-side offer during the locked market condition.

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[7] 17 CFR 242.611(b)(4).

The Exchange notes that as proposed when an external market publishes a Protected Quotation that *crosses* an order displayed by the Exchange, the Exchange has proposed to slide the ranked price of its displayed order to the displayed price. Thus, an order will still be permitted to be ranked at a price that crosses an external market's Protected Quotation, and could thus trade through such quotation if executed. For instance, using the example above, assume that the NBBO is $10.10 by $10.12 and the Exchange has a price slid bid to buy 100 shares that is ranked at $10.12 and displayed at $10.11. If an external market then updated its Protected Offer to $10.10, thus crossing the Exchange's displayed bid (i.e., the order subject to price sliding that is ranked at $10.12 and displayed at $10.11), then the Exchange will modify the ranked price of such bid to the same price as the displayed price (i.e., $10.11). The order displayed by the Exchange will be permitted to remain executable at a price that crosses the other market's Protected Offer. The Exchange has proposed this functionality because it is consistent with its proposed functionality when an external market *locks* the Exchange's Protected Quotation. While the Exchange believes such an order should still be permitted to execute pursuant to the exception in Regulation NMS when the market is crossed, and does not believe that the displayed price of its Protected Quotations should be adjusted based on another market published Protected Quotations that lock or cross such quotations, the Exchange believes that executing such an order at the displayed price of such order is a better result because the existence of a crossing quotation is evidence of some price discrepancy in the market. The Exchange also believes that consistency between the functionality when the Exchange's quotation is locked and when the Exchange's quotation is crossed is preferable.[8]

The Exchange also proposes to make clear that this re-ranking will not result in a change in priority for the order at its displayed price. For instance, in the example above, assume the bid described had been posted and displayed at $10.11 and ranked at $10.12 ("Order A"), and then a later arriving bid is received by the Exchange at $10.11 ("Order B") and posted as well, with priority behind Order A. If the Exchange then re-ranks Order A because it has been locked or crossed by another market center's Protected Quotation, the Exchange does not believe it would be fair to cause such order to lose priority when it was originally first in priority amongst displayed orders on the Exchange.

As set forth in the Exchange's current price sliding rules, the ranked and displayed prices of an order subject to display-price sliding may be adjusted once or multiple times depending upon the instructions of a User[9] and changes to the prevailing NBBO. The Exchange's default price sliding process slides and ranks an order on entry so that it is ranked at the locking price and displayed at one price less aggressive and then unslides the order so that it is displayed at the ranked/locking price one time if such display becomes permissible. Multiple price sliding continues to rank and display orders at the most aggressive permissible prices based on changes to the NBBO. Multiple price sliding is optional and must be explicitly selected by a User before it will be applied. The Exchange proposes to make clear that, in connection with the changes above, if an order subject to the Exchange's default price sliding process has been locked or crossed by a

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8 Id.

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

Protected Quotation of an external market then the Exchange will adjust the ranked price of such order and it will not be further re-ranked or re-displayed at any other price. While in most circumstances the Exchange unslides orders subject to price sliding to a more aggressive price when permissible, in this limited circumstance, when such an order's displayed price is locked or crossed by an external market the Exchange will be sliding the ranked price to the less aggressive displayed price and will not further unslide the order. Orders subject to the optional multiple price sliding process will be further re-ranked and re-displayed as permissible based on changes to the prevailing NBBO. Thus, once slid, an order subject to multiple price sliding, including its ranked price, will be slid to more aggressive prices as permissible.

As a continuation of the example above, assume that the NBBO is $10.10 by $10.12 and the Exchange has a price slid bid to buy 100 shares that is ranked at $10.12 and displayed at $10.11. If an external market then updated its Protected Offer to $10.11, thus locking the Exchange's displayed bid (i.e., the order subject to price sliding that is ranked at $10.12 and displayed at $10.11), then the Exchange will modify the ranked price of such bid to the same price as the displayed price (i.e., $10.11). If a User has selected the default price sliding process then the order will not further re-rank or re-display such order, even if the NBO moves back to $10.12 such that the order could again be ranked at that price. However, if a User has opted into multiple price sliding, the Exchange will re-rank such order at $10.12 (still displayed at $10.11), and if the NBO then moved to $10.13, the Exchange will re-display such order at $10.12.

2. Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[10] Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,[11] because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

The Exchange believes that the proposed changes to price sliding are consistent with Section 6(b)(5) of the Act,[12] as well as Rules 610 and 611 of Regulation NMS[13]. The Exchange is not modifying the overall functionality of price sliding, which, to avoid locking or crossing quotations of other market centers, displays orders at permissible prices while retaining a price at which the User is willing to buy or sell, in the event display at such price or an execution at such price becomes possible. Instead, the Exchange is making changes to ensure that if the Exchange's own Protected Quotation is a price slid order that is locked or crossed by an external market's Protected Quotation, that the Exchange will re-rank such order so that its displayed price is the same as its ranked price.

Rule 610(d) requires exchanges to establish, maintain, and enforce rules that require members reasonably to avoid "[d]isplaying quotations that lock or cross any protected quotation in an NMS stock."[14] Such rules must be "reasonably designed to

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10 15 U.S.C. 78f(b).

11 15 U.S.C. 78f(b)(5).

12 Id.

13 17 CFR 242.610; 17 CFR 242.611.

14 17 CFR 242.610(d).

assure the reconciliation of locked or crossed quotations in an NMS stock," and must "prohibit … members from engaging in a pattern or practice of displaying quotations that lock or cross any quotation in an NMS stock."[15] Thus, display-price sliding offered by the Exchange assists Users by displaying orders at permissible prices.

Rule 611 requires trading centers to "establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs on that trading center of protected quotations" unless an exception applies. The Exchange believes that the proposal to modify its price sliding functionality to prevent the ranked prices of orders subject to price sliding from working at a price that could trade through other market centers when the Exchange's quotation is locked is consistent with this Rule 611. Similarly, although a trade through would be permissible if the Exchange's quotation is crossed by another market center based on an applicable exception, the Exchange believes that the proposal to re-rank orders in such a circumstance to the displayed price is consistent with the protection of investors and the public interest.

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

The proposed rule change does not impose any burden on competition. To the contrary, the proposal will ensure that the Exchange's processes are designed to prevent trade throughs consistent with Regulation NMS in the event the Exchange's own quotations are locked or crossed by external markets.

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15 Id.

(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[16] and paragraph (f) of Rule 19b-4 thereunder.[17] At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-BYX-2013-003 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.

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[16] 15 U.S.C. 78s(b)(3)(A)(ii).

[17] 17 CFR 240.19b-4(f)(2).

All submissions should refer to File No. SR-BYX-2013-003. 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-BYX-2013-003 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.[18]

Kevin M. O'Neill
Deputy Secretary

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[18] 17 CFR 200.30-3(a)(12).

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

Rules of BATS Y-Exchange, Inc.

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CHAPTER XI. TRADING RULES

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Rule 11.9. Orders and Modifiers

(No changes.)

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

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

(1) *Display-Price Sliding.*

(A) (No changes.)

(B) An order subject to display-price sliding will retain its original limit price irrespective of the prices at which such order is ranked and displayed. In the event the NBBO changes such that an order subject to display-price sliding would not lock or cross a Protected Quotation of an external market, the order will receive a new timestamp, and will be displayed at the most aggressive permissible price. All orders that are re-ranked and re-displayed pursuant to display-price sliding will retain their priority as compared to other orders subject to display-price sliding based upon the time such orders were initially received by the Exchange. Following the initial ranking and display of an order subject to display-price sliding, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price, provided, however, that the Exchange will re-rank an order at the same price as the displayed price in the event such order's displayed price is locked or crossed by a Protected Quotation of an external market. Such event will not result in a change in priority for the order at its displayed price.

(C) The ranked and displayed prices of an order subject to display-price sliding may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. The Exchange's default display-price sliding process will only adjust the ranked and displayed prices of an order upon entry and then the displayed price one time following a change to the prevailing NBBO, provided however, that if such an order's displayed price has been locked or crossed by a Protected Quotation of an external market then the Exchange will adjust the ranked price of such order and it will not be further re-ranked or re-displayed at any other price. Orders subject

<u>to the optional multiple price sliding process will be further re-ranked and re-displayed as permissible based on changes to the prevailing NBBO</u>.

(D)-(F)(No changes.)

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

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