

Required fields are shown with yellow backgrounds and asterisks.

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 checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input 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 type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

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

Proposal to amend Rules 11.9 for BATS Equities and 21.1 for BATS Options.

**Contact Information**

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

First Name * <input type="text" value="Anders"/>	Last Name * <input type="text" value="Franzon"/>
Title * <input type="text" value="VP, Associate General Counsel"/>	
E-mail * <input type="text" value="afranzon@bats.com"/>	
Telephone * <input type="text" value="(913) 815-7154"/>	Fax <input type="text" value="(913) 815-7119"/>

**Signature**

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

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

(Title \*)

Date <input type="text" value="08/26/2014"/>	<input type="text" value="VP, Associate General Counsel"/>
By <input type="text" value="Anders Franzon"/>	<input type="text" value="afranzon@bats.com"/>

(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.

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 Proposed Rule Change

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing with the Securities and Exchange Commission (“Commission”) a proposal to amend Rule 11.9 to add certain functionality to the Exchange’s cash equities trading platform (“BATS Equities”). Consistent with its practice of offering similar functionality for the Exchange’s equity options trading platform (“BATS Options”) as it does for BATS Equities, the Exchange proposes to amend Rule 21.1 to add similar functionality to BATS Options.

(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 February 11, 2014. 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.

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

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

The persons on the Exchange staff prepared to respond to questions and comments on the proposed rule change are:

Eric Swanson  
EVP, General Counsel  
(913) 815-7000

Anders Franzon  
VP, Associate General Counsel  
(913) 815-7154

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 re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange currently offers price sliding to ensure compliance with Regulation NMS and Regulation SHO for BATS Equities, as well as price sliding for BATS Options to ensure compliance rules analogous to Regulation NMS adopted by the Exchange and other options exchanges. Price sliding currently offered by the Exchange re-prices and displays an order upon entry and in certain cases again re-prices and re-displays an order at a more aggressive price one time if and when permissible ("single display-price sliding"), and optionally continually re-prices an order ("multiple display-price sliding") based on changes in the national best bid ("NBB") or national best offer ("NBO", and together with the NBB, the "NBBO"). The Exchange proposes to add another optional process, the Price Adjust process, as described below. Price Adjust in

all contexts for which it is being proposed will have to be elected by a User<sup>3</sup> in order to be applied by the Exchange.

In contrast to display-price sliding, which is based solely on Protected Quotations<sup>4</sup> at equities markets and options exchanges other than the Exchange, Price Adjust would be based on Protected Quotations at external markets and at the Exchange. If the Exchange has a Protected Quotation that an incoming order to the Exchange locks or crosses then such order executes against the resting order, or, if the incoming order is a BATS Post Only Order or Partial Post Only at Limit Order, such order would be executed in accordance with Rules 11.9(c)(6) and (c)(7), respectively, or adjusted pursuant to the Price Adjust process, as described in further detail below. Because the Exchange will route orders to external markets with locking or crossing quotations, the Exchange notes that the Price Adjust process would only be applicable to non-routable orders, including

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<sup>3</sup> As defined in BATS 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.”

<sup>4</sup> As defined in BATS Rule 1.5(t), applicable to BATS Equities, 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.” As defined in BATS Rule 27.1, applicable to BATS Options, a “Protected Quotation” is “a Protected Bid or Protected Offer.” In turn, the term “Protected Bid” or “Protected Offer” means “a Bid or Offer in an options series, respectively, that: (A) Is disseminated pursuant to the OPRA Plan; and (B) Is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.” An “Eligible Exchange” is defined in Rule 27.1 as means “a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.”

BATS Only Orders, BATS Post Only Orders and Partial Post Only at Limit Orders. In turn, because BATS Only Orders will execute against locking or crossing interest on the Exchange (including both Protected Quotations as well as any non-displayed interest), the fact that Price Adjust would be based on Protected Quotations at the Exchange is only relevant for BATS Post Only Orders and Partial Post Only at Limit Orders.

#### BATS Equities – Price Adjust

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

As proposed, under the Price Adjust process, an order eligible for display by the Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation NMS by locking or crossing a Protected Quotation of an external market or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Thus, in contrast to the display-price sliding process, the Price Adjust process would both rank *and* display an order at one minimum price variation below the current NBO or above the current NBB (rather than ranking an order at the locking price).

Further, as noted above, the Price Adjust process would adjust the price of a BATS Post Only Order or Partial Post Only at Limit Order that would lock or cross an order displayed by the Exchange unless such order is permitted to remove liquidity as described in Rules 11.9(c)(6) and (c)(7), respectively, whereas the display-price sliding process would cancel an order back to the User unless it removed liquidity on entry.

The Exchange also proposes to state that in the event the NBBO changes<sup>5</sup> such that an order subject to Price Adjust would not lock or cross a Protected Quotation, the order will receive a new timestamp, and will be displayed at the price that originally locked the NBO (for bids) or NBB (for offers) on entry.

As an example of the Price Adjust process, 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 and display the order to buy at \$10.11 because displaying the bid at \$10.12 would lock an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy and rank and display it at its limit price of \$10.12.

As an example of an order executed while subject to the Price Adjust process before being un-slid by the Exchange, assume the Exchange has a posted and displayed

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<sup>5</sup> The Exchange notes that it recently filed a proposal clarifying the methodology used by the Exchange to calculate the NBBO, including the data feeds used to calculate the NBBO as well as various types of feedback that update the Exchange's view of the NBBO, such as feedback from receipt of Intermarket Sweep Orders with a time-in-force of Day and feedback from the Exchange's routing broker-dealer, BATS Trading, Inc. See Securities Exchange Act Release No. 72685 (July 28, 2014), 79 FR 44889 (August 1, 2014) (SR-BATS-2014-029).

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 and display the order to buy at \$10.11 because displaying the bid at \$10.12 would lock an external market's Protected Offer to sell for \$10.12. Assume next that the Exchange receives an offer to sell 100 shares at \$10.11. The incoming order to sell will execute at \$10.11 against the resting bid to buy 100 shares (originally priced at \$10.12) that has been slid pursuant to the Price Adjust process. Thus, the order executes at a full penny per share better than if it were ranked at the locking price of \$10.12 (buying for \$10.11 rather than \$10.12 per share).

Similarly, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.12 per share. Assume the NBBO is also \$10.10 by \$10.12. If the Exchange receives a BATS Post Only bid to buy 100 shares at \$10.12 per share the Exchange will rank and display the order to buy at \$10.11 because displaying the bid at \$10.12 would lock the Exchange's Protected Offer to sell for \$10.12 and the order would not remove liquidity pursuant to Rule 11.9(c)(6). If the NBO, including the Exchange's best offer, then moved to \$10.13, the Exchange would un-slide the bid to buy and rank and display it at its limit price of \$10.12.

The Exchange also proposes to state that all orders that are re-ranked and re-displayed pursuant to Price Adjust will retain their priority as compared to other orders subject to Price Adjust based upon the time such orders were initially received by the Exchange. Further, as proposed, following the initial ranking and display of an order



subject to Price Adjust, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

In order to offer multiple price sliding to Exchange Users that select Price Adjust, the Exchange proposes to make clear that the ranked and displayed prices of an order subject to Price Adjust may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. As is true for display-price sliding, multiple price sliding pursuant to Price Adjust would be optional and would have to be explicitly selected by a User before it will be applied. Orders subject to multiple price sliding for Price Adjust will be permitted to move all the way back to their most aggressive price, whereas orders subject to Price Adjust may not be adjusted to their most aggressive price, depending upon market conditions and the limit price of the order upon entry.

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

NBO then moved to \$10.14, the Exchange would un-slide the bid to buy and rank and display it at its full limit price of \$10.13.

The Exchange currently offers display-price sliding functionality to avoid locking or crossing other markets' Protected Quotations, but does not price slide to avoid executions on the Exchange's order book ("BATS Book"). Specifically, when the Exchange receives an incoming order that could execute against resting displayed liquidity but an execution does not occur because such incoming order is designated as an order that will not remove liquidity (i.e., a BATS Post Only Order),<sup>6</sup> then the Exchange will cancel the incoming order. As noted above, the Exchange proposes to make clear in the description of Price Adjust that any display-eligible BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(6) or adjusted pursuant to the Price Adjust process. Similarly, the Exchange proposes to make clear that any display-eligible Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(7) or adjusted pursuant to the Price Adjust process. The Exchange reiterates that in contrast to the proposed operation of Price Adjust, the existing display-price sliding process would instead cancel BATS Post Only orders and BATS Partial Post Only at Limit orders that would lock or cross a Protected Quotation displayed by the Exchange to the extent such orders are not executed on entry.

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<sup>6</sup> The Exchange again notes that BATS Post Only Orders are permitted to remove liquidity from the BATS Book if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BATS Book and subsequently provided liquidity. See Rule 11.9(c)(6). Similarly, Partial Post Only at Limit Orders are permitted to remove price improving liquidity as well as a User-selected percentage of the remaining order at the limit price if, following such removal, the order can post at its limit price. See Rule 11.9(c)(7).

The Exchange currently applies display-price sliding to Non-Displayed Orders that cross Protected Quotations of external markets. The Exchange proposes language that makes clear that this functionality will apply to all orders for which a User has selected either display-price sliding or Price Adjust. The proposed rule states that Non-Displayed Orders that are subject to display-price sliding or Price Adjust are ranked at the locking price on entry. The proposed description also makes clear that price sliding for Non-Displayed Orders is functionally equivalent to the handling of displayable orders except that such orders will not have a displayed price and will not be re-priced again unless such orders cross a Protected Quotation of an external market (i.e., such orders are not un-slid). Other than updating the language of the rule to reflect that Non-Displayed Orders for which a User has selected Price Adjust will be handled in the same way as orders subject to display-price sliding, the Exchange is not proposing to change its handling of Non-Displayed Orders.

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

priced to \$10.11, but would remain on the Exchange's order book at \$10.10. This proposed handling is identical to handling of a Non-Displayed Order for which a User has selected display-price sliding.

The Exchange also proposes that in the event the NBBO changes such that display eligible orders subject to display-price sliding and Price Adjust would not lock or cross a Protected Quotation and are eligible to be displayed at a more aggressive price, the System will first display all orders subject to display-price sliding at their ranked price followed by orders subject to Price Adjust, which will be re-ranked and re-displayed as set forth above. The Exchange believes it is reasonable to un-slide orders subject to display-price sliding before it un-slides orders subject to Price Adjust because Price Adjust is a less aggressive form of price sliding than display-price sliding, in that an order submitted by a User that elects Price Adjust will be displayed and ranked at the same price rather than ranked at the locking price and displayed at a less aggressive price.

The Exchange also proposes to make clear that if a User elects to apply Price Adjust to an order submitted to BATS Equities, price sliding will apply short sale price sliding in connection with the handling of the order by the Exchange. The Exchange does not propose to modify its short sale price sliding functionality.

#### BATS Options – Price Adjust

In order to maintain consistency between analogous processes offered by BATS Equities and BATS Options, the Exchange proposes to modify the rules of BATS Options to conform to the changes described above related to Price Adjust.

BATS Options currently offers display-price sliding (including multiple display-price sliding) offered to ensure compliance with locked and crossed market rules relevant

to participation on BATS Options. The proposed Price Adjust functionality for BATS Options is similar to the proposed functionality for BATS Equities, with the exception of language related to non-displayed orders. BATS Options does not have non-displayed orders, and thus, has omitted language regarding Price Adjust functionality applicable to non-displayed orders.

As drafted, Rules 21.1(i) and 21.1(j) are identical to the description of display-price sliding set forth in proposed Rule 11.9 and described above with the exception of minor references necessary due to the difference between rules applicable to BATS Equities and BATS Options and the omission of certain rule text specific to non-displayed orders, which are applicable to BATS Equities only. Further, the examples set forth above are equally applicable to the operation of Price Adjust on BATS Options as they are to the operation of Price Adjust on BATS Equities.

b. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”)<sup>7</sup> and further the objectives of Section 6(b)(5) of the Act<sup>8</sup> because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule change also is designed to support the

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

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

principles of Section 11A(a)(1)<sup>9</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

The Exchange believes that the proposed changes to offer Price Adjust are consistent with Section 6(b)(5) of the Act,<sup>10</sup> as well as Rule 610 of Regulation NMS<sup>11</sup> and Rule 201 of Regulation SHO.<sup>12</sup> The Exchange is not modifying the overall functionality of price sliding, which, to avoid locking or crossing quotations of other market centers or to comply with applicable short sale restrictions, displays orders at permissible prices while retaining a price at which the User is willing to buy or sell, in the event display at such price or an execution at such price becomes possible. Instead, the Exchange is making changes to adopt an optional form of price sliding, Price Adjust, which will rank orders at their displayed price rather than the locking price, as described above. Thus, while subject to Price Adjust sliding, an order is ranked at a less aggressive price, which may be preferable to certain Users that wish to provide liquidity but do not wish to cross the spread (i.e., if buying, do not wish to trade at the NBO or if selling, do not wish to trade at the NBB). The Exchange believes it is reasonable to un-slide display-price sliding orders before it un-slides Price Adjust orders because Price Adjust is a less aggressive form of price sliding than display-price sliding, in that an order submitted by a User would be displayed and ranked at the same price rather than ranked at the locking price and displayed at a less aggressive price. Thus, because orders subject to display-price sliding are ranked at and subject to execution at higher prices when

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<sup>9</sup> 15 U.S. C. 78k-1(a)(1).

<sup>10</sup> Id.

<sup>11</sup> 17 CFR 242.610.

<sup>12</sup> 17 CFR 242.201.

buying and lower prices when selling, the Exchange believes that such orders should be re-displayed before orders subject to Price Adjust orders in response to changes to the NBBO.

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.”<sup>13</sup> 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.”<sup>14</sup> Thus, the Price Adjust process proposed by the Exchange, including the functionality proposed for BATS Options, will assist Users by displaying orders at permissible prices. Similarly, Rule 201 of Regulation SHO<sup>15</sup> requires trading centers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order at a price at or below the current NBB under certain circumstances. The Exchange’s short sale price sliding will continue to operate the same for Users of Price Adjust as it does for Users that select the display-price sliding process offered by the Exchange.

As noted above, in contrast to display-price sliding, which is based solely on Protected Quotations at equities markets and options exchanges other than the Exchange, the proposed Price Adjust process would be based on Protected Quotations at external markets and at the Exchange. Thus, if the Exchange has a Protected Quotation that an incoming order to the Exchange locks or crosses then such order executes against the

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<sup>13</sup> 17 CFR 242.610(d).

<sup>14</sup> Id.

<sup>15</sup> 17 CFR 242.201.

resting order, or, if the incoming order is a BATS Post Only Order or Partial Post Only at Limit Order, such order would be executed in accordance with Rules 11.9(c)(6) and (c)(7), respectively, or adjusted pursuant to the Price Adjust process. The Exchange believes that it is reasonable and consistent with the Act to apply the Price Adjust process to orders on entry that cannot be executed or displayed at their limit price because this will contribute to additional displayed liquidity on the Exchange than if such orders were cancelled back to the User. Therefore, the Exchange believes the proposal to apply the Price Adjust process to orders that cannot be displayed because they would lock or cross displayed contra-side interest on the Exchange (and not just external markets) will promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The Exchange also reiterates that the proposed Price Adjust process will enable the System to avoid displaying a locking or crossing quotation in order to ensure compliance with Rule 610(d) of Regulation NMS.

The Exchange notes that similar functionality was recently proposed by the Exchange's affiliate, EDGX Exchange, Inc. and that the proposed rules are based on the Price Adjust functionality set forth in such proposal.<sup>16</sup>

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is being proposed as an additional option for Users that wish to utilize Exchange price sliding functionality and that the functionality is

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<sup>16</sup> See Securities Exchange Act Release No. 72676 (July 25, 2014), 79 FR 44520 (July 31, 2014) (SR-EDGX-2014-18).



consistent with that offered by the Exchange today as well as affiliates and competitors of the Exchange. Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges.

5. 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.

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)

Not applicable.

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

The Exchange notes that similar functionality was recently proposed by the Exchange's affiliate, EDGX Exchange, Inc. and that the proposed rules are based on the Price Adjust functionality set forth in such proposal.<sup>17</sup>

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.

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<sup>17</sup> Id.

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-2014-038)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Rules 11.9 and 21.1 of BATS Exchange, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 26, 2014, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. 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 11.9 to add certain functionality to the Exchange’s cash equities trading platform (“BATS Equities”). Consistent with its practice of offering similar functionality for the Exchange’s equity options trading platform (“BATS Options”) as it does for BATS Equities, the Exchange proposes to amend Rule 21.1 to add similar functionality to BATS Options.

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.

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

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

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 re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange currently offers price sliding to ensure compliance with Regulation NMS and Regulation SHO for BATS Equities, as well as price sliding for BATS Options to ensure compliance rules analogous to Regulation NMS adopted by the Exchange and other options exchanges. Price sliding currently offered by the Exchange re-prices and displays an order upon entry and in certain cases again re-prices and re-displays an order at a more aggressive price one time if and when permissible ("single display-price sliding"), and optionally continually re-prices an order ("multiple display-price sliding") based on changes in the national best bid ("NBB") or national best offer ("NBO", and together with the NBB, the "NBBO"). The Exchange proposes to add another optional process, the Price Adjust process, as described below. Price Adjust in

all contexts for which it is being proposed will have to be elected by a User<sup>3</sup> in order to be applied by the Exchange.

In contrast to display-price sliding, which is based solely on Protected Quotations<sup>4</sup> at equities markets and options exchanges other than the Exchange, Price Adjust would be based on Protected Quotations at external markets and at the Exchange. If the Exchange has a Protected Quotation that an incoming order to the Exchange locks or crosses then such order executes against the resting order, or, if the incoming order is a BATS Post Only Order or Partial Post Only at Limit Order, such order would be executed in accordance with Rules 11.9(c)(6) and (c)(7), respectively, or adjusted pursuant to the Price Adjust process, as described in further detail below. Because the Exchange will route orders to external markets with locking or crossing quotations, the Exchange notes that the Price Adjust process would only be applicable to non-routable orders, including

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<sup>3</sup> As defined in BATS 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.”

<sup>4</sup> As defined in BATS Rule 1.5(t), applicable to BATS Equities, 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.” As defined in BATS Rule 27.1, applicable to BATS Options, a “Protected Quotation” is “a Protected Bid or Protected Offer.” In turn, the term “Protected Bid” or “Protected Offer” means “a Bid or Offer in an options series, respectively, that: (A) Is disseminated pursuant to the OPRA Plan; and (B) Is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.” An “Eligible Exchange” is defined in Rule 27.1 as means “a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.”

BATS Only Orders, BATS Post Only Orders and Partial Post Only at Limit Orders. In turn, because BATS Only Orders will execute against locking or crossing interest on the Exchange (including both Protected Quotations as well as any non-displayed interest), the fact that Price Adjust would be based on Protected Quotations at the Exchange is only relevant for BATS Post Only Orders and Partial Post Only at Limit Orders.

#### BATS Equities – Price Adjust

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

As proposed, under the Price Adjust process, an order eligible for display by the Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation NMS by locking or crossing a Protected Quotation of an external market or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Thus, in contrast to the display-price sliding process, the Price Adjust process would both rank *and* display an order at one minimum price variation below the current NBO or above the current NBB (rather than ranking an order at the locking price).

Further, as noted above, the Price Adjust process would adjust the price of a BATS Post Only Order or Partial Post Only at Limit Order that would lock or cross an order displayed by the Exchange unless such order is permitted to remove liquidity as described in Rules 11.9(c)(6) and (c)(7), respectively, whereas the display-price sliding process would cancel an order back to the User unless it removed liquidity on entry.

The Exchange also proposes to state that in the event the NBBO changes<sup>5</sup> such that an order subject to Price Adjust would not lock or cross a Protected Quotation, the order will receive a new timestamp, and will be displayed at the price that originally locked the NBO (for bids) or NBB (for offers) on entry.

As an example of the Price Adjust process, 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 and display the order to buy at \$10.11 because displaying the bid at \$10.12 would lock an external market's Protected Offer to sell for \$10.12. If the NBO then moved to \$10.13, the Exchange would un-slide the bid to buy and rank and display it at its limit price of \$10.12.

As an example of an order executed while subject to the Price Adjust process before being un-slid by the Exchange, assume the Exchange has a posted and displayed

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<sup>5</sup> The Exchange notes that it recently filed a proposal clarifying the methodology used by the Exchange to calculate the NBBO, including the data feeds used to calculate the NBBO as well as various types of feedback that update the Exchange's view of the NBBO, such as feedback from receipt of Intermarket Sweep Orders with a time-in-force of Day and feedback from the Exchange's routing broker-dealer, BATS Trading, Inc. See Securities Exchange Act Release No. 72685 (July 28, 2014), 79 FR 44889 (August 1, 2014) (SR-BATS-2014-029).

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 and display the order to buy at \$10.11 because displaying the bid at \$10.12 would lock an external market's Protected Offer to sell for \$10.12. Assume next that the Exchange receives an offer to sell 100 shares at \$10.11. The incoming order to sell will execute at \$10.11 against the resting bid to buy 100 shares (originally priced at \$10.12) that has been slid pursuant to the Price Adjust process. Thus, the order executes at a full penny per share better than if it were ranked at the locking price of \$10.12 (buying for \$10.11 rather than \$10.12 per share).

Similarly, assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at \$10.10 per share and a posted and displayed offer to sell 100 shares at \$10.12 per share. Assume the NBBO is also \$10.10 by \$10.12. If the Exchange receives a BATS Post Only bid to buy 100 shares at \$10.12 per share the Exchange will rank and display the order to buy at \$10.11 because displaying the bid at \$10.12 would lock the Exchange's Protected Offer to sell for \$10.12 and the order would not remove liquidity pursuant to Rule 11.9(c)(6). If the NBO, including the Exchange's best offer, then moved to \$10.13, the Exchange would un-slide the bid to buy and rank and display it at its limit price of \$10.12.

The Exchange also proposes to state that all orders that are re-ranked and re-displayed pursuant to Price Adjust will retain their priority as compared to other orders subject to Price Adjust based upon the time such orders were initially received by the Exchange. Further, as proposed, following the initial ranking and display of an order



subject to Price Adjust, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

In order to offer multiple price sliding to Exchange Users that select Price Adjust, the Exchange proposes to make clear that the ranked and displayed prices of an order subject to Price Adjust may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO. As is true for display-price sliding, multiple price sliding pursuant to Price Adjust would be optional and would have to be explicitly selected by a User before it will be applied. Orders subject to multiple price sliding for Price Adjust will be permitted to move all the way back to their most aggressive price, whereas orders subject to Price Adjust may not be adjusted to their most aggressive price, depending upon market conditions and the limit price of the order upon entry.

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

NBO then moved to \$10.14, the Exchange would un-slide the bid to buy and rank and display it at its full limit price of \$10.13.

The Exchange currently offers display-price sliding functionality to avoid locking or crossing other markets' Protected Quotations, but does not price slide to avoid executions on the Exchange's order book ("BATS Book"). Specifically, when the Exchange receives an incoming order that could execute against resting displayed liquidity but an execution does not occur because such incoming order is designated as an order that will not remove liquidity (i.e., a BATS Post Only Order),<sup>6</sup> then the Exchange will cancel the incoming order. As noted above, the Exchange proposes to make clear in the description of Price Adjust that any display-eligible BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(6) or adjusted pursuant to the Price Adjust process. Similarly, the Exchange proposes to make clear that any display-eligible Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(7) or adjusted pursuant to the Price Adjust process. The Exchange reiterates that in contrast to the proposed operation of Price Adjust, the existing display-price sliding process would instead cancel BATS Post Only orders and BATS Partial Post Only at Limit orders that would lock or cross a Protected Quotation displayed by the Exchange to the extent such orders are not executed on entry.

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<sup>6</sup> The Exchange again notes that BATS Post Only Orders are permitted to remove liquidity from the BATS Book if the value of price improvement associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BATS Book and subsequently provided liquidity. See Rule 11.9(c)(6). Similarly, Partial Post Only at Limit Orders are permitted to remove price improving liquidity as well as a User-selected percentage of the remaining order at the limit price if, following such removal, the order can post at its limit price. See Rule 11.9(c)(7).

The Exchange currently applies display-price sliding to Non-Displayed Orders that cross Protected Quotations of external markets. The Exchange proposes language that makes clear that this functionality will apply to all orders for which a User has selected either display-price sliding or Price Adjust. The proposed rule states that Non-Displayed Orders that are subject to display-price sliding or Price Adjust are ranked at the locking price on entry. The proposed description also makes clear that price sliding for Non-Displayed Orders is functionally equivalent to the handling of displayable orders except that such orders will not have a displayed price and will not be re-priced again unless such orders cross a Protected Quotation of an external market (i.e., such orders are not un-slid). Other than updating the language of the rule to reflect that Non-Displayed Orders for which a User has selected Price Adjust will be handled in the same way as orders subject to display-price sliding, the Exchange is not proposing to change its handling of Non-Displayed Orders.

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

priced to \$10.11, but would remain on the Exchange's order book at \$10.10. This proposed handling is identical to handling of a Non-Displayed Order for which a User has selected display-price sliding.

The Exchange also proposes that in the event the NBBO changes such that display eligible orders subject to display-price sliding and Price Adjust would not lock or cross a Protected Quotation and are eligible to be displayed at a more aggressive price, the System will first display all orders subject to display-price sliding at their ranked price followed by orders subject to Price Adjust, which will be re-ranked and re-displayed as set forth above. The Exchange believes it is reasonable to un-slide orders subject to display-price sliding before it un-slides orders subject to Price Adjust because Price Adjust is a less aggressive form of price sliding than display-price sliding, in that an order submitted by a User that elects Price Adjust will be displayed and ranked at the same price rather than ranked at the locking price and displayed at a less aggressive price.

The Exchange also proposes to make clear that if a User elects to apply Price Adjust to an order submitted to BATS Equities, price sliding will apply short sale price sliding in connection with the handling of the order by the Exchange. The Exchange does not propose to modify its short sale price sliding functionality.

#### BATS Options – Price Adjust

In order to maintain consistency between analogous processes offered by BATS Equities and BATS Options, the Exchange proposes to modify the rules of BATS Options to conform to the changes described above related to Price Adjust.

BATS Options currently offers display-price sliding (including multiple display-price sliding) offered to ensure compliance with locked and crossed market rules relevant

to participation on BATS Options. The proposed Price Adjust functionality for BATS Options is similar to the proposed functionality for BATS Equities, with the exception of language related to non-displayed orders. BATS Options does not have non-displayed orders, and thus, has omitted language regarding Price Adjust functionality applicable to non-displayed orders.

As drafted, Rules 21.1(i) and 21.1(j) are identical to the description of display-price sliding set forth in proposed Rule 11.9 and described above with the exception of minor references necessary due to the difference between rules applicable to BATS Equities and BATS Options and the omission of certain rule text specific to non-displayed orders, which are applicable to BATS Equities only. Further, the examples set forth above are equally applicable to the operation of Price Adjust on BATS Options as they are to the operation of Price Adjust on BATS Equities.

## 2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”)<sup>7</sup> and further the objectives of Section 6(b)(5) of the Act<sup>8</sup> because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule change also is designed to support the

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

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

principles of Section 11A(a)(1)<sup>9</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

The Exchange believes that the proposed changes to offer Price Adjust are consistent with Section 6(b)(5) of the Act,<sup>10</sup> as well as Rule 610 of Regulation NMS<sup>11</sup> and Rule 201 of Regulation SHO.<sup>12</sup> The Exchange is not modifying the overall functionality of price sliding, which, to avoid locking or crossing quotations of other market centers or to comply with applicable short sale restrictions, displays orders at permissible prices while retaining a price at which the User is willing to buy or sell, in the event display at such price or an execution at such price becomes possible. Instead, the Exchange is making changes to adopt an optional form of price sliding, Price Adjust, which will rank orders at their displayed price rather than the locking price, as described above. Thus, while subject to Price Adjust sliding, an order is ranked at a less aggressive price, which may be preferable to certain Users that wish to provide liquidity but do not wish to cross the spread (i.e., if buying, do not wish to trade at the NBO or if selling, do not wish to trade at the NBB). The Exchange believes it is reasonable to un-slide display-price sliding orders before it un-slides Price Adjust orders because Price Adjust is a less aggressive form of price sliding than display-price sliding, in that an order submitted by a User would be displayed and ranked at the same price rather than ranked at the locking price and displayed at a less aggressive price. Thus, because orders subject to display-price sliding are ranked at and subject to execution at higher prices when

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<sup>9</sup> 15 U.S. C. 78k-1(a)(1).

<sup>10</sup> Id.

<sup>11</sup> 17 CFR 242.610.

<sup>12</sup> 17 CFR 242.201.

buying and lower prices when selling, the Exchange believes that such orders should be re-displayed before orders subject to Price Adjust orders in response to changes to the NBBO.

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.”<sup>13</sup> 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.”<sup>14</sup> Thus, the Price Adjust process proposed by the Exchange, including the functionality proposed for BATS Options, will assist Users by displaying orders at permissible prices. Similarly, Rule 201 of Regulation SHO<sup>15</sup> requires trading centers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order at a price at or below the current NBB under certain circumstances. The Exchange’s short sale price sliding will continue to operate the same for Users of Price Adjust as it does for Users that select the display-price sliding process offered by the Exchange.

As noted above, in contrast to display-price sliding, which is based solely on Protected Quotations at equities markets and options exchanges other than the Exchange, the proposed Price Adjust process would be based on Protected Quotations at external markets and at the Exchange. Thus, if the Exchange has a Protected Quotation that an incoming order to the Exchange locks or crosses then such order executes against the

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<sup>13</sup> 17 CFR 242.610(d).

<sup>14</sup> Id.

<sup>15</sup> 17 CFR 242.201.

resting order, or, if the incoming order is a BATS Post Only Order or Partial Post Only at Limit Order, such order would be executed in accordance with Rules 11.9(c)(6) and (c)(7), respectively, or adjusted pursuant to the Price Adjust process. The Exchange believes that it is reasonable and consistent with the Act to apply the Price Adjust process to orders on entry that cannot be executed or displayed at their limit price because this will contribute to additional displayed liquidity on the Exchange than if such orders were cancelled back to the User. Therefore, the Exchange believes the proposal to apply the Price Adjust process to orders that cannot be displayed because they would lock or cross displayed contra-side interest on the Exchange (and not just external markets) will promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The Exchange also reiterates that the proposed Price Adjust process will enable the System to avoid displaying a locking or crossing quotation in order to ensure compliance with Rule 610(d) of Regulation NMS.

The Exchange notes that similar functionality was recently proposed by the Exchange's affiliate, EDGX Exchange, Inc. and that the proposed rules are based on the Price Adjust functionality set forth in such proposal.<sup>16</sup>

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is being proposed as an additional option for Users that wish to utilize Exchange price sliding functionality and that the functionality is

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<sup>16</sup> See Securities Exchange Act Release No. 72676 (July 25, 2014), 79 FR 44520 (July 31, 2014) (SR-EDGX-2014-18).



consistent with that offered by the Exchange today as well as affiliates and competitors of the Exchange. Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges.

(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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

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](mailto:rule-comments@sec.gov). Please include File No. SR-BATS-2014-038 on the subject line.

Paper Comments:

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

All submissions should refer to File No. SR-BATS-2014-038. 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 change 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-2014-038 and should be submitted on or before [\_\_\_\_\_21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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

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

**Rules of BATS Exchange, Inc.**

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CHAPTER XI. TRADING RULES

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Rule 11.9. Orders and Modifiers

(No change.)

(a)-(f) (No change.)

(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)-(E) (No change.)

(2) Price Adjust.

(A) An order eligible for display by the Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation NMS by locking or crossing a Protected Quotation of an external market or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) ("Price Adjust").

(B) In the event the NBBO changes such that an order subject to Price Adjust would not lock or cross a Protected Quotation, the order will receive a new timestamp, and will be displayed at the price that originally locked the NBO (for bids) or NBB (for offers) on entry. All orders that are re-ranked and re-displayed pursuant to Price Adjust will retain their priority as compared to other orders subject to Price Adjust based upon the time such orders were initially received by the Exchange. Following the initial ranking and display of an order subject to Price Adjust, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

(C) The ranked and displayed price of an order subject to Price Adjust may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO.

(D) Any display-eligible BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(6) or adjusted pursuant to the Price Adjust process described in this paragraph (g)(2). Any display-eligible Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 11.9(c)(7) or adjusted pursuant to the Price Adjust process described in this paragraph (g)(2).

(3) Display of Orders Subject to Display-Price Sliding and Price Adjust. In the event the NBBO changes such that display eligible orders subject to display-price sliding and Price Adjust would not lock or cross a Protected Quotation and are eligible to be displayed at a more aggressive price, the System will first display all orders subject to display-price sliding at their ranked price followed by orders subject to Price Adjust, which will be re-ranked and re-displayed as set forth above.

[(F)](4) Non-Displayed Order Sliding. In order to avoid potentially trading through Protected Quotations of external markets, the Exchange offers [display-]price sliding for Non-Displayed Orders that upon entry cross a Protected Quotation of an external market that is functionally equivalent to the handling of displayable orders pursuant to the display-price sliding process except that such orders will not have a displayed price. Non-Displayed Orders that are subject to display-price sliding or Price Adjust are ranked at the locking price on entry. Similarly, in the event the NBBO changes such that a Non-Displayed Order subject to display-price sliding or Price Adjust would cross a Protected Quotation of an external market, the order will receive a new timestamp, and will be ranked by the System at the locking price. In the event a Non-Displayed Order has been re-priced by the System pursuant to this sub-paragraph [(F)](4), such Non-Displayed order is not re-priced by the System unless it is again crossing a Protected Quotation of an external market.

[(2)](5) Short Sale Price Sliding.

(A)-(C) (No change.)

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

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## CHAPTER XXI. TRADING SYSTEMS

### Rule 21.1. Definitions

(No change.)

(a)-(h) (No change.)

(i) Price Adjust.

(1) An order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers) (“Price Adjust”).

(2) In the event the NBBO changes such that an order subject to Price Adjust would not lock or cross a Protected Quotation, the order will receive a new timestamp, and will be displayed at the price that originally locked the NBO (for bids) or NBB (for offers) on entry. All orders that are re-ranked and re-displayed pursuant to Price Adjust will retain their priority as compared to other orders subject to Price Adjust based upon the time such orders were initially received by the Exchange. Following the initial ranking and display of an order subject to Price Adjust, an order will only be re-ranked and re-displayed to the extent it achieves a more aggressive price.

(3) The ranked and displayed price of an order subject to Price Adjust may be adjusted once or multiple times depending upon the instructions of a User and changes to the prevailing NBBO.

(4) Any BATS Post Only Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 21.1(d)(9) or adjusted pursuant to the Price Adjust process described in this paragraph (i). Any Partial Post Only at Limit Order that locks or crosses a Protected Quotation displayed by the Exchange upon entry will be executed as set forth in Rule 21.1(d)(10) or adjusted pursuant to the Price Adjust process described in this paragraph (i).

(j) *Display of Orders Subject to Display-Price Sliding and Price Adjust.* In the event the NBBO changes such that display eligible orders subject to display-price sliding and Price Adjust would not lock or cross a Protected Quotation and are eligible to be displayed at a more aggressive price, the System will first display all orders subject to display-price sliding at their ranked price followed by orders subject to Price Adjust, which will be re-ranked and re-displayed as set forth above.

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