

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

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

Proposed to amend Rule 11.9(c) to adopt a Supplemental Peg Order.

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 * Christopher Last Name * Solgan
 Title * Regulatory Counsel
 E-mail * csolgan@bats.com
 Telephone * (201) 942-8321 Fax

Signature

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

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

(Title *)

Date 09/15/2014
 By Christopher Solgan
 (Name *)

Regulatory Counsel
 csolgan@bats.com

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

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

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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 the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend: (i) Rule 11.9(c) to adopt a new order type called the Supplemental Peg Order and; (ii) Rule 11.12(a) to reflect the priority of Supplemental Peg Orders. The proposed Supplemental Peg Order is identical to the existing Route Peg Order available on EDGX Exchange, Inc. (“EDGX”) and EDGA Exchange, Inc. (“EDGA”)³ and similar to order types offered by the Nasdaq Stock Market LLC (“Nasdaq”) and NYSE Arca, Inc. (“NYSE Arca”).⁴ 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.⁵

(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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See EDGA Rules 11.5(c)(14), 11.8(a)(2) and 11.8(a)(7); EDGX Rules 11.5(c)(17), 11.8(a)(2) and 11.8(a)(7).

⁴ See Nasdaq Rules 4751(f)(14) and 4757(a)(1)(D); NYSE Arca Rule 7.31(f).

⁵ 17 CFR 240.19b-4(f)(6)(iii).

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.

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

Chris Solgan
Regulatory Counsel
(201) 943-8321

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

a. Purpose

The Exchange proposes to amend: (i) Rule 11.9(c) to adopt a new order type called the Supplemental Peg Order and; (ii) Rule 11.12(a) to reflect the priority of Supplemental Peg Orders. The proposed Supplemental Peg Order is identical to the existing Route Peg Order available on EDGX and EDGA⁶ and similar to order types offered by the NYSE and NYSE Arca.⁷

Earlier this year, the Exchange and its affiliate, BATS Y-Exchange, Inc. ("BYX"), received approval to affect a merger (the "Merger") of the Exchange's parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX and EDGA (together with BATS, BYX and EDGX, the "BGM

⁶ See supra note 3.

⁷ See supra note 4.

Affiliated Exchanges”).⁸ In the context of the Merger, the BGM Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the proposal set forth below is intended to add certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for users of the BGM Affiliated Exchanges.

Like the Route Peg Order on EDGA and EDGX,⁹ the proposed Supplemental Peg Order would be a non-displayed limit order that posts to the BATS Book,¹⁰ and thereafter be eligible for execution at the National Best Bid (“NBB”) for buy orders and National Best Offer (“NBO”) for sell orders against routable orders that are equal to or less than the aggregate size of the Supplemental Peg Order interest available at that price. Supplemental Peg Orders are passive, resting orders on the BATS Book and do not take liquidity. A User¹¹ may specify a minimum execution quantity for a Supplemental Peg Order. A minimum execution quantity on a Supplemental Peg Order will no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. Supplemental Peg Orders are eligible for execution in a given security during the Pre-Opening Session, Regular Trading Hours, and After Hours Trading Session.¹² Supplemental Peg Orders are not eligible for execution in the

⁸ See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

⁹ See EDGA Rule 11.5(c)(14); EDGX Rule 11.5 (c)(17).

¹⁰ The “BATS Book” is defined as “the System’s electronic file of orders.” See Exchange Rule 1.5(e).

¹¹ The term “User” is defined under Exchange Rule 11.5(cc) as “any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.”

¹² Route Peg Orders on EDGA and EDGX are currently only eligible for execution during Regular Trading Hours. See supra note 9. The Exchange understands that

Opening Process.¹³ A Supplemental Peg Order does not execute at a price that is inferior to a Protected Quotation, and is not permitted to execute if the National Best Bid or Offer (“NBBO”) is locked or crossed. Any and all remaining, unexecuted Supplemental Peg Orders are cancelled at the conclusion of the After Hours Trading Session. The Exchange notes that the proposed rule text is substantially identical to the rules of EDGA and EDGX.¹⁴

The Exchange also proposes to amend Rule 11.12(a)(2) to outline the execution priority of the proposed Supplemental Peg Order. Like a Route Peg Order on EDGA and EDGX,¹⁵ an incoming order that is eligible for routing would first be matched against orders other than Supplemental Peg Orders in price/time priority in accordance with Rule 11.12(a)(2).¹⁶ Any unexecuted portion of that order would then be eligible to execute against any Supplemental Peg Orders resting on the BATS Book. The Exchange also proposes to amend Rule 11.12(a)(4) and add new subparagraph (a)(6) to Rule 11.12 to

EDGA and EDGX are to file a propose rule change with the Commission to permit Route Peg Orders to be eligible for execution during the Pre-Opening and Post-Closing Sessions.

¹³ The Exchange’s process currently applies only to BATS-listed securities. The Exchange has filed a proposed rule change with the Commission to implement an Opening Process for non-BATS-listed securities. See SR-BATS-2014-037. Because there is currently no Opening Process for non-BATS-listed securities, if Supplemental Peg Orders are offered prior to the approval of the proposed rule change or if the proposed rule change is never approved, then this restriction will only apply to BATS-listed securities.

¹⁴ See supra note 9.

¹⁵ See EDGA Rule 11.8(a)(2); EDGX Rule 11.8(a)(2).

¹⁶ In sum, Exchange Rule 11.12(a)(2) states that the System shall execute equally priced trading interest within the System in time priority in the following order: displayed size of Limit Orders; non-displayed Limit Orders; Pegged Orders; Mid-Point Peg Orders; Reserve size of orders; and discretionary portion of Discretionary Orders as set forth in Exchange Rule 11.9(c)(9).

state that if a Supplemental Peg Order is partially executed, the remaining portion of the order would continue to be eligible for execution but it would be assigned a new timestamp after each partial execution. Assigning a new timestamp after each partial execution would allow for a rotating priority of executions for Users who place Supplemental Peg Orders. The Exchange notes that the proposed rule text is substantially similar to the rules of EDGA and EDGX.¹⁷

Implementation Date

The Exchange will announce the effective date of the proposed rule change in a Trade Desk Notice to be published following publication of the proposed rule change by the Commission.

b. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act¹⁸ and further the objectives of Section 6(b)(5) of the Act¹⁹ 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 adds certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering across the BGM Affiliated Exchanges. A consistent technology offering, in turn, will simplify the

¹⁷ See EDGA Rule 11.8(a)(5) and (7); EDGX Rule 11.8(a)(5) and (7)..

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

technology implementation, changes and maintenance by Users of the Exchange that are also participants on BYX, EDGA and/or EDGX. The proposed rule changes would also provide Users with access to functionality that may result in the efficient execution of such orders and will provide additional flexibility as well as increased functionality to the Exchange's System and its Users. As explained elsewhere in this proposal, the proposed Supplemental Peg Order is available on numerous other market centers and is substantially identical to the Route Peg Order available on EDGA and EDGX. Thus, the Exchange believes that the proposed functionality has already been accepted as consistent with the Act and offered by various market centers for many years.

The benefits to investors of enhanced depth of liquidity at the NBBO in today's market structure cannot be understated. The Supplemental Peg Order is designed to incentivize Users to place greater liquidity at the NBBO, thereby promoting more favorable and efficient executions for the benefit of public customers. It would do so by (1) offering liquidity providers a means to use the Exchange to post larger limit orders that are only executable at the NBBO and that do not disclose their trading interest to other market participants in advance of execution; (2) offering market participants seeking to access liquidity a greater expectation of market depth at the NBBO than may currently be the case; and (3) offering more predictable executions at the NBBO for Users by reducing the risk that incremental latency associated with routing an order to an away destination may result in an inferior execution. Thus, by providing an additional means by which market participants can be encouraged to post liquidity at the NBBO on the Exchange, which would add depth and support to the NBBO on the Exchange and mitigate the negative effects of market fragmentation, the proposed rule changes would

promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and national market system. Moreover, the proposed rule changes would protect investors and the public interest by increasing the probability of an execution on the Exchange at the NBBO in the event that the order would otherwise be shipped to an external destination and potentially miss an execution at the NBBO while in transit.

The Exchange believes, however, that the benefits to be derived from Supplemental Peg Orders would only be realized if Supplemental Peg Orders only interact with orders eligible for routing. Routable orders are typically characteristic of public customers, both retail and institutional (colloquially referred to as well as “natural” investors), who are concerned with executing at the best price. On the other hand, non-routable orders typically expect to post liquidity on the BATS Book or seek to execute immediately, such as via an Immediate-or-Cancel Order, against the Exchange’s best displayed bid or offer or against hidden liquidity at or inside the NBBO. Professional traders, in particular, are more apt to submit, and often immediately cancel, “pinging” orders, as reflected in generally higher message-to-trade ratios. The Exchange believes this type of order behavior, while it has its own business purposes, would not be suitable to interact with Supplemental Peg Orders simply because Users would be reticent to post liquidity via Supplemental Peg Orders given the uncertain, and therefore difficult to manage, exposure to executions against orders attributable to professional traders. Indeed, the Exchange believes potential liquidity providers would be more apt to provide liquidity in alternative trading systems and other non-exchange market centers where the customization and segmentation experience may be less transparent and objective.

While non-routable orders would not be permitted to execute against Supplemental Peg Orders, the Exchange does not believe that the proposed rule changes would be designed to permit unfair discrimination between customers, brokers, or dealers. First, the Exchange believes this limited exception is constructed narrowly enough, based on rational and legitimate grounds, so that the compelling policy objectives, which are wholly consistent with the Act, can be realized. Second, the Exchange is not proposing to limit the type of User that can place routable orders, or that can place Supplemental Peg Orders. So any disadvantage resulting from the limitation to executing against routable orders would not target particular segments of market participants, per se, but rather a particular type of market behavior. Therefore, the Exchange believes that not only would the proposed rule changes not be designed to permit unfair discrimination between customers, brokers, or dealers, the differentiation between routable and non-routable orders is an important element for the Supplemental Peg Order to be able to achieve the objectives of protecting investors and the public interest and promoting just and equitable principles of trade.

The Exchange also believes that permitting executions against routable orders that are equal to or less than the aggregate size of the Supplemental Peg Order interest available at that price would remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest because it would incentivize Users seeking large size executions to route orders to the Exchange by increasing opportunities for executions against Supplemental Peg Orders in a manner similar to

existing functionality available on EDGA and EDGX²⁰ as well as Nasdaq and NYSE Arca.²¹

The Exchange also believes its proposal to provide optional functionality that would allow Users to designate a minimum execution quantity on a Supplemental Peg Order removes impediments to and perfects the mechanism of a free and open market and protects investors and the public interest because it would provide an incentive for Members seeking larger-sized executions both to post liquidity at the Exchange using this feature and to route larger-sized orders to the Exchange because of the potential for an execution against such liquidity. The Exchange further believes that adding an optional minimum quantity would remove impediments to and perfect the mechanism of a free and open market system because the proposed functionality is similar to functionality available at the NYSE Arca.²² The Exchange believes it is appropriate to provide an option for Users seeking to provide such liquidity to not only designate a minimum execution quantity, but for a minimum execution quantity on a Supplemental Peg order to no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. Doing so would permit Users to continue to have their Supplemental Peg Orders eligible for execution in such circumstances. In such case, Users will have the option to cancel their Supplemental Peg Order if they wish.

Lastly, the Exchange believes that the proposal will promote competition by offering an order type that is similar to order types offered by EDGA, EDGX, Nasdaq

²⁰ See supra note 3.

²¹ See supra note 4.

²² Id.

and NYSE Arca.²³ Therefore, the Exchange believes the proposed rule change is designed to support the principles of Section 11A(a)(1)²⁴ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

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. To the contrary, the Exchange believes that the proposal will promote competition by enhancing the value of the Exchange's Route Peg Order by mirroring the functionality of similar order types offered by EDGA, EDGX, Nasdaq and NYSE Arca.²⁵ Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges. The Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the BGM Affiliated Exchanges. Therefore, the Exchange believes the proposed rule change will benefit Exchange participants in that it is one of several changes necessary to achieve a consistent technology offering by the BGM Affiliated Exchanges.

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

Not applicable.

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)

²³ See supra notes 3 and 4.

²⁴ 15 U.S.C. 78k-1(a)(1).

²⁵ See supra notes 3 and 4.

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act²⁶ and paragraph (f)(6) of Rule 19b-4 thereunder.²⁷ 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, (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.²⁸

As described above, the Exchange notes that the proposed change is directly based on the rules of EDGA and EDGX²⁹ as well as similar order types offered by other market centers.³⁰ Based on the foregoing, the proposed rule change does not present any unique issues not previously considered by the Commission, and the Exchange has accordingly designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act³¹ and paragraph (f)(6) of Rule 19b-4 thereunder.³²

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

²⁶ 15 U.S.C. 78s(b)(3)(A).

²⁷ 17 C.F.R. 240.19b-4.

²⁸ 17 C.F.R. 240.19b-4(f)(6)(iii).

²⁹ See supra note 3.

³⁰ See supra note 4.

³¹ 15 U.S.C. 78s(b)(3)(A).

³² 17 C.F.R. 240.19b-4.

Commission that such action is: (1) necessary or appropriate in the public interest; (2) for the protection of investors; or (3) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The proposed rule change is based on EDGA Rules 11.5(c)(14), 11.8(a)(2) and 11.8(a)(7) as well as EDGX Rules 11.5(c)(17), 11.8(a)(2) and 11.8(a)(7). The proposed rule text for Exchange Rules 11.9(c)(19) and 11.12(a) are nearly identical to such rules. However, Route Peg Orders on EDGA and EDGX are currently only eligible for execution during Regular Trading Hours while the proposed Supplemental Peg Order would be eligible for execution during the Pre-Opening Session, Regular Trading Hours and After Hours Trading Session. The Exchange understands that EDGA and EDGX plan to file proposed rule changes with the Commission to permit Route Peg Orders to be eligible for execution during the Pre-Opening and Post-Closing Sessions.

The proposed Supplemental Peg Order is similar to Nasdaq's Supplemental Order.³³ The proposed Supplemental Peg Order is also similar to and NYSE Arca's Tracking Order with minor differences.³⁴ However, NYSE Arca's Tracking Order states that if the Tracking Order with a minimum size requirement is executed but not exhausted and the remaining portion of the Tracking Order is less than the minimum size requirement, NYSE Arca would cancel the Tracking Order. Like on EDGA and EDGX, the Exchange would permit Users to continue to have their Supplemental Peg Orders

³³ Nasdaq Rules 4751(f)(14) and 4757(a)(1)(D).

³⁴ NYSE Arca Rule 7.31(f).

eligible for execution where the number of shares remaining after a partial execution are less than the minimum execution quantity. The Exchange believes this difference is non-controversial because it is similar to the functionality of Route Peg Orders on EDGA and EDGX and Users will have the option to cancel their Supplemental Peg Order if they wish.

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 – Form of Notice of Proposed Rule Change for Publication in the Federal Register.

Exhibit 5 – Text of the Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____; File No. SR-BATS-2014-042)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to amend Rule 11.9(c) to Adopt a Supplemental Peg Order

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

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

The Exchange proposed to amend: (i) Rule 11.9(c) to adopt a new order type called the Supplemental Peg Order and; (ii) Rule 11.12(a) to reflect the priority of Supplemental Peg Orders. The proposed Supplemental Peg Order is identical to the existing Route Peg Order available on EDGX Exchange, Inc. (“EDGX”) and EDGA

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).

Exchange, Inc. (“EDGA”)⁵ and similar to order types offered by the Nasdaq Stock Market LLC (“Nasdaq”) and NYSE Arca, Inc. (“NYSE Arca”).⁶ 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.⁷

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 proposes to amend: (i) Rule 11.9(c) to adopt a new order type called the Supplemental Peg Order and; (ii) Rule 11.12(a) to reflect the priority of Supplemental Peg Orders. The proposed Supplemental Peg Order is identical to the

⁵ See EDGA Rules 11.5(c)(14), 11.8(a)(2) and 11.8(a)(7); EDGX Rules 11.5(c)(17), 11.8(a)(2) and 11.8(a)(7).

⁶ See Nasdaq Rules 4751(f)(14) and 4757(a)(1)(D); NYSE Arca Rule 7.31(f).

⁷ 17 CFR 240.19b-4(f)(6)(iii).

existing Route Peg Order available on EDGX and EDGA⁸ and similar to order types offered by the NYSE and NYSE Arca.⁹

Earlier this year, the Exchange and its affiliate, BATS Y-Exchange, Inc. (“BYX”), received approval to affect a merger (the “Merger”) of the Exchange’s parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX and EDGA (together with BATS, BYX and EDGX, the “BGM Affiliated Exchanges”).¹⁰ In the context of the Merger, the BGM Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the proposal set forth below is intended to add certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for users of the BGM Affiliated Exchanges.

Like the Route Peg Order on EDGA and EDGX,¹¹ the proposed Supplemental Peg Order would be a non-displayed limit order that posts to the BATS Book,¹² and thereafter be eligible for execution at the National Best Bid (“NBB”) for buy orders and National Best Offer (“NBO”) for sell orders against routable orders that are equal to or less than the aggregate size of the Supplemental Peg Order interest available at that price. Supplemental Peg Orders are passive, resting orders on the BATS Book and do not take

⁸ See supra note 5.

⁹ See supra note 6.

¹⁰ See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

¹¹ See EDGA Rule 11.5(c)(14); EDGX Rule 11.5 (c)(17).

¹² The “BATS Book” is defined as “the System’s electronic file of orders.” See Exchange Rule 1.5(e).

liquidity. A User¹³ may specify a minimum execution quantity for a Supplemental Peg Order. A minimum execution quantity on a Supplemental Peg Order will no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. Supplemental Peg Orders are eligible for execution in a given security during the Pre-Opening Session, Regular Trading Hours, and After Hours Trading Session.¹⁴ Supplemental Peg Orders are not eligible for execution in the Opening Process.¹⁵ A Supplemental Peg Order does not execute at a price that is inferior to a Protected Quotation, and is not permitted to execute if the National Best Bid or Offer (“NBBO”) is locked or crossed. Any and all remaining, unexecuted Supplemental Peg Orders are cancelled at the conclusion of the After Hours Trading Session. The Exchange notes that the proposed rule text is substantially identical to the rules of EDGA and EDGX.¹⁶

The Exchange also proposes to amend Rule 11.12(a)(2) to outline the execution priority of the proposed Supplemental Peg Order. Like a Route Peg Order on EDGA and

¹³ The term “User” is defined under Exchange Rule 11.5(cc) as “any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.”

¹⁴ Route Peg Orders on EDGA and EDGX are currently only eligible for execution during Regular Trading Hours. See supra note 11. The Exchange understands that EDGA and EDGX are to file a propose rule change with the Commission to permit Route Peg Orders to be eligible for execution during the Pre-Opening and Post-Closing Sessions.

¹⁵ The Exchange’s process currently applies only to BATS-listed securities. The Exchange has filed a proposed rule change with the Commission to implement an Opening Process for non-BATS-listed securities. See SR-BATS-2014-037. Because there is currently no Opening Process for non-BATS-listed securities, if Supplemental Peg Orders are offered prior to the approval of the proposed rule change or if the proposed rule change is never approved, then this restriction will only apply to BATS-listed securities.

¹⁶ See supra note 11.

EDGX,¹⁷ an incoming order that is eligible for routing would first be matched against orders other than Supplemental Peg Orders in price/time priority in accordance with Rule 11.12(a)(2).¹⁸ Any unexecuted portion of that order would then be eligible to execute against any Supplemental Peg Orders resting on the BATS Book. The Exchange also proposes to amend Rule 11.12(a)(4) and add new subparagraph (a)(6) to Rule 11.12 to state that if a Supplemental Peg Order is partially executed, the remaining portion of the order would continue to be eligible for execution but it would be assigned a new timestamp after each partial execution. Assigning a new timestamp after each partial execution would allow for a rotating priority of executions for Users who place Supplemental Peg Orders. The Exchange notes that the proposed rule text is substantially similar to the rules of EDGA and EDGX.¹⁹

Implementation Date

The Exchange will announce the effective date of the proposed rule change in a Trade Desk Notice to be published following publication of the proposed rule change by the Commission.

2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section

¹⁷ See EDGA Rule 11.8(a)(2); EDGX Rule 11.8(a)(2).

¹⁸ In sum, Exchange Rule 11.12(a)(2) states that the System shall execute equally priced trading interest within the System in time priority in the following order: displayed size of Limit Orders; non-displayed Limit Orders; Pegged Orders; Mid-Point Peg Orders; Reserve size of orders; and discretionary portion of Discretionary Orders as set forth in Exchange Rule 11.9(c)(9).

¹⁹ See EDGA Rule 11.8(a)(5) and (7); EDGX Rule 11.8(a)(5) and (7)..

6(b) of the Act²⁰ and further the objectives of Section 6(b)(5) of the Act²¹ 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 adds certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering across the BGM Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes and maintenance by Users of the Exchange that are also participants on BYX, EDGA and/or EDGX. The proposed rule changes would also provide Users with access to functionality that may result in the efficient execution of such orders and will provide additional flexibility as well as increased functionality to the Exchange's System and its Users. As explained elsewhere in this proposal, the proposed Supplemental Peg Order is available on numerous other market centers and is substantially identical to the Route Peg Order available on EDGA and EDGX. Thus, the Exchange believes that the proposed functionality has already been accepted as consistent with the Act and offered by various market centers for many years.

The benefits to investors of enhanced depth of liquidity at the NBBO in today's market structure cannot be understated. The Supplemental Peg Order is designed to incentivize Users to place greater liquidity at the NBBO, thereby promoting more favorable and efficient executions for the benefit of public customers. It would do so by

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

(1) offering liquidity providers a means to use the Exchange to post larger limit orders that are only executable at the NBBO and that do not disclose their trading interest to other market participants in advance of execution; (2) offering market participants seeking to access liquidity a greater expectation of market depth at the NBBO than may currently be the case; and (3) offering more predictable executions at the NBBO for Users by reducing the risk that incremental latency associated with routing an order to an away destination may result in an inferior execution. Thus, by providing an additional means by which market participants can be encouraged to post liquidity at the NBBO on the Exchange, which would add depth and support to the NBBO on the Exchange and mitigate the negative effects of market fragmentation, the proposed rule changes would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and national market system. Moreover, the proposed rule changes would protect investors and the public interest by increasing the probability of an execution on the Exchange at the NBBO in the event that the order would otherwise be shipped to an external destination and potentially miss an execution at the NBBO while in transit.

The Exchange believes, however, that the benefits to be derived from Supplemental Peg Orders would only be realized if Supplemental Peg Orders only interact with orders eligible for routing. Routable orders are typically characteristic of public customers, both retail and institutional (colloquially referred to as well as “natural” investors), who are concerned with executing at the best price. On the other hand, non-routable orders typically expect to post liquidity on the BATS Book or seek to execute immediately, such as via an Immediate-or-Cancel Order, against the Exchange’s best

displayed bid or offer or against hidden liquidity at or inside the NBBO. Professional traders, in particular, are more apt to submit, and often immediately cancel, “pinging” orders, as reflected in generally higher message-to-trade ratios. The Exchange believes this type of order behavior, while it has its own business purposes, would not be suitable to interact with Supplemental Peg Orders simply because Users would be reticent to post liquidity via Supplemental Peg Orders given the uncertain, and therefore difficult to manage, exposure to executions against orders attributable to professional traders. Indeed, the Exchange believes potential liquidity providers would be more apt to provide liquidity in alternative trading systems and other non-exchange market centers where the customization and segmentation experience may be less transparent and objective.

While non-routable orders would not be permitted to execute against Supplemental Peg Orders, the Exchange does not believe that the proposed rule changes would be designed to permit unfair discrimination between customers, brokers, or dealers. First, the Exchange believes this limited exception is constructed narrowly enough, based on rational and legitimate grounds, so that the compelling policy objectives, which are wholly consistent with the Act, can be realized. Second, the Exchange is not proposing to limit the type of User that can place routable orders, or that can place Supplemental Peg Orders. So any disadvantage resulting from the limitation to executing against routable orders would not target particular segments of market participants, per se, but rather a particular type of market behavior. Therefore, the Exchange believes that not only would the proposed rule changes not be designed to permit unfair discrimination between customers, brokers, or dealers, the differentiation between routable and non-routable orders is an important element for the Supplemental

Peg Order to be able to achieve the objectives of protecting investors and the public interest and promoting just and equitable principles of trade.

The Exchange also believes that permitting executions against routable orders that are equal to or less than the aggregate size of the Supplemental Peg Order interest available at that price would remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest because it would incentivize Users seeking large size executions to route orders to the Exchange by increasing opportunities for executions against Supplemental Peg Orders in a manner similar to existing functionality available on EDGA and EDGX²² as well as Nasdaq and NYSE Arca.²³

The Exchange also believes its proposal to provide optional functionality that would allow Users to designate a minimum execution quantity on a Supplemental Peg Order removes impediments to and perfects the mechanism of a free and open market and protects investors and the public interest because it would provide an incentive for Members seeking larger-sized executions both to post liquidity at the Exchange using this feature and to route larger-sized orders to the Exchange because of the potential for an execution against such liquidity. The Exchange further believes that adding an optional minimum quantity would remove impediments to and perfect the mechanism of a free and open market system because the proposed functionality is similar to functionality available at the NYSE Arca.²⁴ The Exchange believes it is appropriate to provide an

²² See supra note 5.

²³ See supra note 6.

²⁴ Id.

option for Users seeking to provide such liquidity to not only designate a minimum execution quantity, but for a minimum execution quantity on a Supplemental Peg order to no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. Doing so would permit Users to continue to have their Supplemental Peg Orders eligible for execution in such circumstances. In such case, Users will have the option to cancel their Supplemental Peg Order if they wish.

Lastly, the Exchange believes that the proposal will promote competition by offering an order type that is similar to order types offered by EDGA, EDGX, Nasdaq and NYSE Arca.²⁵ Therefore, the Exchange believes the proposed rule change is designed to support the principles of Section 11A(a)(1)²⁶ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

(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. To the contrary, the Exchange believes that the proposal will promote competition by enhancing the value of the Exchange's Route Peg Order by mirroring the functionality of similar order types offered by EDGA, EDGX, Nasdaq and NYSE Arca.²⁷ Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges. The Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the

²⁵ See supra notes 5 and 6.

²⁶ 15 U.S.C. 78k-1(a)(1).

²⁷ See supra notes 5 and 6.

BGM Affiliated Exchanges. Therefore, the Exchange believes the proposed rule change will benefit Exchange participants in that it is one of several changes necessary to achieve a consistent technology offering by the BGM Affiliated 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)²⁸ of the Act and Rule 19b-4(f)(6)²⁹ thereunder. The proposed rule change effects a change that (A) does not significantly affect the protection of investors or the public interest; (B) does not impose any significant burden on competition; and (C) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest; provided that the self-regulatory organization has given the Commission 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 of the proposed rule change, or such shorter time as designated by the Commission. 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

²⁸ 15 U.S.C. 78s(b)(3)(A).

²⁹ 17 CFR 240.19b-4(f)(6).

five business days prior to the date of filing.³⁰

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

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-BATS-2014-042 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-2014-042. 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

³⁰ 17 CFR 240.19b-4(f)(6)(iii).

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-2014-042 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.³¹

Kevin M. O'Neill
Deputy Secretary

³¹ 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

Users may enter into the System the types of orders listed in this Rule 11.9, subject to the limitations set forth in this Rule or elsewhere in these Rules.

(a)-(b) (No change.)

(c) (1)-(18) (No change.)

(19) *Supplemental Peg Order.* A non-displayed limit order that posts to the BATS Book, and thereafter is eligible for execution at the NBB for buy orders and NBO for sell orders against routable orders that are equal to or less than the aggregate size of the Supplemental Peg Order interest available at that price. Supplemental Peg Orders are passive, resting orders on the BATS Book and do not take liquidity. A User may specify a minimum execution quantity for a Supplemental Peg Order. A minimum execution quantity on a Supplemental Peg Order will no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. Supplemental Peg Orders are eligible for execution in a given security during the Pre-Opening Session, Regular Trading Hours, and After Hours Trading Session. Supplemental Peg Orders are not eligible for execution in the Opening Process. A Supplemental Peg Order does not execute at a price that is inferior to a Protected Quotation, and is not permitted to execute if the NBBO is locked or crossed. Any and all remaining, unexecuted Supplemental Peg Orders are cancelled at the conclusion of the After Hours Trading Session.

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Rule 11.12. Priority of Orders

(a) (No change.)

(1) (No change.)

(2) Subject to the Execution Process described below, where orders to buy (or sell) are made at the same price, the order clearly established as the first entered into the System at such particular price shall have precedence at that price, up to the number of shares of stock

specified in the order. The System shall execute equally priced trading interest within the System in time priority in the following order:

- (A) Displayed size of limit orders;
- (B) Non-Displayed limit orders;
- (C) Pegged Orders;
- (D) Mid-Point Peg Orders;
- (E) Reserve size of orders;
- (F) Discretionary portion of Discretionary Orders as set forth in Rule 11.9(c)(9)[.];
- (G) Supplemental Peg Orders.

(3) (No change).

(4) Except as provided in subparagraph (a)(6) hereof, i[I]n the event that less than the full size of an order is executed, the unexecuted size of the order shall retain priority at the same limit price in accordance with paragraphs (1) and (2) above.

(5) (No change).

(6) If a Supplemental Peg Order is executed in part, the remaining portion of the order shall continue to be eligible for execution but shall be assigned a new timestamp after each partial execution.

* * * * *