

OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 24

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

File No.* SR - 2014 - * 022

Amendment No. (req. for Amendments *)

Filing by BATS Y-Exchange, Inc.

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

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

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

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

Section 806(e)(1) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>

Section 3C(b)(2) *

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Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



Description

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

Proposal to provide additional functionality with respect to Primary Pegged Orders pursuant to Rule 11.9(c)(8).

Contact Information

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

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

Signature

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

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

(Title *)

Date 09/12/2014

By Anders Franzon

(Name *)

VP, Associate General Counsel

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

Persona Not Validated - 1393947650974,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

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

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

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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

Add Remove View

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

1. Text of 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 Y-Exchange, Inc. (the “Exchange” or “BYX”) is filing with the Securities and Exchange Commission (“Commission”) a proposal to provide additional functionality with respect to Primary Pegged Orders offered by the Exchange pursuant to Rule 11.9(c)(8). The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.³ The Exchange requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.⁴

(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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6)(iii).

⁴ Id.

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

Earlier this year, the Exchange and its affiliate BATS Exchange, Inc. ("BZX") received approval to effect a merger (the "Merger") of the Exchange's parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX Exchange, Inc. ("EDGX") and EDGA Exchange, Inc. ("EDGA", and together with BZX, BYX and EDGX, the "BGM Affiliated Exchanges").⁵ 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 proposals set forth below are 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. The functionality is also similar to functionality offered by the Nasdaq Stock Market LLC and NYSE Arca, Inc.⁶ The purpose of the proposed rule change is to provide Users of the Exchange with additional options with respect to Primary Pegged Orders (as defined below) offered by the Exchange pursuant to

⁵ See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

⁶ See Nasdaq Rule 4751(f)(4); NYSE Arca Equities Rule 7.31(cc).

Rule 11.9(c)(8). The Exchange notes that EDGA and EDGX offer additional functionality for Pegged Orders that the Exchange is not proposing to add at this time.⁷

The Exchange currently allows Users to submit two types of limit orders to the Exchange that are pegged to and priced based on the national best bid or offer (“NBBO”) and automatically adjusted by the Exchange’s System.⁸ First, a “Primary Pegged Order,” which is pegged to a price inferior to or equal to the inside quote on the same side of the market (i.e., for a bid, pegged to the NBB or for an offer, pegged to the NBO) by an amount set by the User. Second, a “Market Pegged Order,” which is pegged to a price that offsets the inside quote on the other side of the market (i.e., for a bid, pegged to the NBO or for an offer, pegged to the NBB) by an amount set by the User.

At the outset, the Exchange notes that it proposes to modify the definition of Primary Pegged Order to make it more understandable and consistent with the definition of Market Pegged Order by adding a definition of “Primary Offset Amount”, which would mean the amount of the offset selected by the User for a Primary Pegged Order. The Exchange proposes to retain the definition of “Offset Amount,” which would mean the amount of the offset selected by the User for a Market Pegged Order. The Exchange also proposes two substantive changes to Primary Pegged Orders, as described below.

First, pursuant to current Rule 11.9(c)(8), neither type of Pegged Order is eligible to be displayed on the Exchange. The Exchange proposes to maintain this restriction for

⁷ For instance, EDGA and EDGX currently permit displayed Market Pegged Orders as well as aggressive offsets for displayed Primary Pegged Orders (as such terms are defined below). The Exchange is not proposing to add these features. The Exchange anticipates EDGA and EDGX will propose to eliminate these features in the future.

⁸ As defined in Rule 1.5(aa), the System is the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away.

Market Pegged Orders but to permit Primary Pegged Orders to be displayed on the Exchange provided that they cannot be more aggressive than the NBB or NBO to which they are pegged, as described below.

Second, the Exchange proposes to modify the offset that a User can select for a Primary Pegged Order by specifying that such amount is an offset, rather than requiring that the order be inferior to or equal to the inside quote on the same side of the market. This change to Primary Pegged Orders, therefore, would allow Users to select a Primary Offset Amount that would make a Primary Pegged Order more aggressive than the NBB or NBO to which it is pegged (i.e., for a bid, willing to pay a higher price or for an offer, willing to sell for a lower price). However, as noted above, the Exchange proposes to restrict the designation of a Primary Offset Amount that would price a Primary Pegged Order higher than the NBB for a bid or lower than the NBO for an offer to non-displayed Primary Pegged Orders. Thus, as proposed, the Primary Offset Amount for a displayed Primary Pegged Order must result in the price of such order being inferior to or equal to the inside quote on the same side of the market. The Exchange is not proposing to accept displayed Primary Pegged Orders with an aggressive offset at this time because such orders would add functionality to the Exchange that would effectively set the NBBO through a Pegged Order and the Exchange believes that this could potentially add complexity to its System.

As an example of an order with a Primary Pegged Order that a User has designated for display, assume the Exchange receives a display-eligible Primary Pegged Order to buy 300 shares of a security with a Primary Pegged Offset to price the order at \$0.01 below the NBB. Assume further that the NBBO is \$10.09 by \$10.10 when the

order is received. The Exchange will post and display the order on the Exchange as a bid to buy 300 shares at \$10.08. If the NBBO moves to \$10.10 by \$10.11, the Exchange will adjust to \$10.09 the price of the Primary Pegged Order to buy. If the NBBO then moved to \$10.08 by \$10.11, the Exchange will adjust to \$10.07 the price of the Primary Pegged Order to buy.

A User could alternatively submit a display-eligible Primary Pegged Order to buy with no Primary Pegged Offset, in which case the initial display price of the order would be \$10.09, upon the first adjustment to the NBBO the display price would be \$10.10, and upon the final adjustment to the NBBO the display price would be \$10.08.

A User could not submit a display-eligible Primary Pegged Order to buy with a Primary Pegged Offset to price the order at \$0.01 above the NBB, as this would make the order more aggressive than the NBB, and, as proposed, the Exchange will not accept Primary Pegged Orders that are both eligible for display and contain an aggressive Primary Pegged Offset amount.

A User could, however, submit a non-display-eligible Primary Pegged Order to buy with a Primary Pegged Offset to price the order at \$0.01 above the NBB. Thus, using the example above, the initial ranked price of the order would be \$10.10 (\$0.01 higher than the NBB of \$10.09), upon the first adjustment to the NBBO the adjusted ranked price of the order would be \$10.11 (\$0.01 higher than the NBB of \$10.10), and upon the final adjustment to the NBBO the adjusted ranked price of the order would be \$10.09 (\$0.01 higher than the NBB of \$10.08).

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section

6(b) of the Securities Exchange Act of 1934 (the “Act”)⁹ and further the objectives of Section 6(b)(5) of the Act¹⁰ because it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest.

Specifically, the proposed changes are designed to provide Users with additional control over their orders that are pegged to the NBBO. The proposal to permit the display of Primary Pegged Orders is consistent with the Act as this proposal is intended to lead to additional displayed liquidity available on the Exchange, thus contributing to the price discovery process. The proposal to permit an aggressive offset on non-displayed Primary Pegged Orders is similarly consistent with the Act as this proposal is intended to allow Users adding liquidity to the Exchange to more aggressively price their orders, which, in turn, means an enhanced likelihood of price improvement for incoming orders that execute against such orders. For instance, by permitting a User to designate a Primary Pegged Order to buy on the Exchange with an aggressive Primary Pegged Offset, that means that the Exchange has non-displayed liquidity priced better than the NBB, which amounts to significant price improvement as compared to the NBB. For the reasons described above, the proposals are directly targeted at removing impediments to and perfect the mechanism of a free and open market and national market system.

The proposed rule change also is designed to support the principles of Section

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

11A(a)(1)¹¹ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. In particular, the proposed rule changes to modify the Primary Pegged Order is intended to add system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for 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 BZX, EDGA and/or EDGX. The functionality is similar to functionality offered by Nasdaq and NYSE Arca as well. 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. The Exchange also believes that the changes to restructure the existing rule will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand.

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 Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the BGM Affiliated Exchanges. Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges. In addition, 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.

¹¹ 15 U.S.C. 78k-1(a)(1).

The Exchange also believes that Pegged Orders generally encourage competition by allowing Users to submit orders that automatically peg to the NBBO consistent with their trading strategy.

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)

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act¹² and paragraph (f)(6) of Rule 19b-4 thereunder.¹³ 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.¹⁴

As described below, the Exchange notes that the proposed change is based on existing functionality offered by the Exchange's affiliates, EDGX and EDGA, as well as

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4.

¹⁴ 17 CFR 240.19b-4(f)(6)(iii).

competitors such as Nasdaq and NYSE Arca,¹⁵ and simply represents additional functionality compared to that already offered by the Exchange through the existing Primary Pegged Order. Specifically, the Exchange does not believe that allowing Users to either designate that Primary Pegged Orders will be displayed or to designate non-displayed Primary Pegged Orders with prices better than the NBB or NBO to which such order is pegged presents any new or novel policy issues. Based on the foregoing, the proposed rule changes do 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 Act¹⁶ and paragraph (f)(6) of Rule 19b-4 thereunder.¹⁷

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act¹⁸ and paragraph (f)(6) of Rule 19b-4 thereunder.¹⁹ Waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to align its re-route functionality across the BGM Affiliated Exchanges in a timely manner, thereby simplifying the technology implementation, changes and maintenance by Users of the Exchange that are also participants on BYX, EDGA and/or EDGX. Importantly, waiver of the operative delay is also consistent with the protection of

¹⁵ See supra note 6.

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4.

¹⁸ 15 U.S.C. 78s(b)(3)(A).

¹⁹ 17 CFR 240.19b-4(f)(6).

investors and the public interest because it will allow the Exchange to continue to strive towards a complete technology integration of the BGM Affiliated Exchanges, with gradual roll-outs of new functionality to ensure stability of the System.

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 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

Although the proposal is set forth in order to align with functionality offered by EDGA and EDGX in the context of the technology integration discussed above, the proposed functionality for Primary Pegged Orders on the Exchange is most closely aligned with the operation of Primary Pegged orders on Nasdaq. Pursuant to Nasdaq Rule 4751(f)(4), Primary Pegged Orders can be displayed, however, Primary Pegged Orders with an offset will not be displayed by Nasdaq. Thus, the only difference between the proposed rule and such functionality is that the Exchange is permitting a non-aggressive offset (i.e. allowing a displayed Primary Pegged Order to offset to a price below the NBB for a bid or above the NBO for an offer), whereas Nasdaq does not permit this non-aggressive offset on a displayed Primary Pegged Order and instead requires a displayed Primary Pegged Order to be priced equal to the NBB or NBO, as applicable. The Exchange does not believe that this difference raises any policy issues that have not previously been considered. As noted above, the proposal is also consistent

with NYSE Arca Rule 7.31(cc), which describes Primary Pegged orders on NYSE Arca. Pursuant to both NYSE Arca Rule 7.31(cc) and the Exchange's proposal, Primary Pegged Orders may be entered with an offset but such an offset is not required. The proposal differs from NYSE Arca Rule 7.31(cc), however, in that Primary Pegged Orders are displayed on NYSE Arca and cannot, as they can on the Exchange both currently and under the proposal, be non-displayed.

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

Not applicable.

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

Not applicable.

11. Exhibits

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

Exhibit 2–4: Not applicable.

Exhibit 5: Text of Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____; File No. SR-BYX-2014-022)

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

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 _____, 2014, BATS Y-Exchange, Inc. (the “Exchange” or “BYX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6)(iii) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to provide additional functionality with respect to Primary Pegged Orders offered by the Exchange pursuant to Rule 11.9(c)(8).

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

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).

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

Earlier this year, the Exchange and its affiliate BATS Exchange, Inc. ("BZX") received approval to effect a merger (the "Merger") of the Exchange's parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX Exchange, Inc. ("EDGX") and EDGA Exchange, Inc. ("EDGA", and together with BZX, BYX and EDGX, the "BGM Affiliated Exchanges").⁵ 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 proposals set forth below are 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. The functionality is also similar to functionality offered by the Nasdaq Stock Market LLC and NYSE Arca, Inc.⁶ The purpose of the proposed rule change is to provide Users of the Exchange with additional options with

⁵ See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

⁶ See Nasdaq Rule 4751(f)(4); NYSE Arca Equities Rule 7.31(cc).

respect to Primary Pegged Orders (as defined below) offered by the Exchange pursuant to Rule 11.9(c)(8). The Exchange notes that EDGA and EDGX offer additional functionality for Pegged Orders that the Exchange is not proposing to add at this time.⁷

The Exchange currently allows Users to submit two types of limit orders to the Exchange that are pegged to and priced based on the national best bid or offer (“NBBO”) and automatically adjusted by the Exchange’s System.⁸ First, a “Primary Pegged Order,” which is pegged to a price inferior to or equal to the inside quote on the same side of the market (i.e., for a bid, pegged to the NBB or for an offer, pegged to the NBO) by an amount set by the User. Second, a “Market Pegged Order,” which is pegged to a price that offsets the inside quote on the other side of the market (i.e., for a bid, pegged to the NBO or for an offer, pegged to the NBB) by an amount set by the User.

At the outset, the Exchange notes that it proposes to modify the definition of Primary Pegged Order to make it more understandable and consistent with the definition of Market Pegged Order by adding a definition of “Primary Offset Amount”, which would mean the amount of the offset selected by the User for a Primary Pegged Order. The Exchange proposes to retain the definition of “Offset Amount,” which would mean the amount of the offset selected by the User for a Market Pegged Order. The Exchange also proposes two substantive changes to Primary Pegged Orders, as described below.

⁷ For instance, EDGA and EDGX currently permit displayed Market Pegged Orders as well as aggressive offsets for displayed Primary Pegged Orders (as such terms are defined below). The Exchange is not proposing to add these features. The Exchange anticipates EDGA and EDGX will propose to eliminate these features in the future.

⁸ As defined in Rule 1.5(aa), the System is the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away.

First, pursuant to current Rule 11.9(c)(8), neither type of Pegged Order is eligible to be displayed on the Exchange. The Exchange proposes to maintain this restriction for Market Pegged Orders but to permit Primary Pegged Orders to be displayed on the Exchange provided that they cannot be more aggressive than the NBB or NBO to which they are pegged, as described below.

Second, the Exchange proposes to modify the offset that a User can select for a Primary Pegged Order by specifying that such amount is an offset, rather than requiring that the order be inferior to or equal to the inside quote on the same side of the market. This change to Primary Pegged Orders, therefore, would allow Users to select a Primary Offset Amount that would make a Primary Pegged Order more aggressive than the NBB or NBO to which it is pegged (i.e., for a bid, willing to pay a higher price or for an offer, willing to sell for a lower price). However, as noted above, the Exchange proposes to restrict the designation of a Primary Offset Amount that would price a Primary Pegged Order higher than the NBB for a bid or lower than the NBO for an offer to non-displayed Primary Pegged Orders. Thus, as proposed, the Primary Offset Amount for a displayed Primary Pegged Order must result in the price of such order being inferior to or equal to the inside quote on the same side of the market. The Exchange is not proposing to accept displayed Primary Pegged Orders with an aggressive offset at this time because such orders would add functionality to the Exchange that would effectively set the NBBO through a Pegged Order and the Exchange believes that this could potentially add complexity to its System.

As an example of an order with a Primary Pegged Order that a User has designated for display, assume the Exchange receives a display-eligible Primary Pegged

Order to buy 300 shares of a security with a Primary Pegged Offset to price the order at \$0.01 below the NBB. Assume further that the NBBO is \$10.09 by \$10.10 when the order is received. The Exchange will post and display the order on the Exchange as a bid to buy 300 shares at \$10.08. If the NBBO moves to \$10.10 by \$10.11, the Exchange will adjust to \$10.09 the price of the Primary Pegged Order to buy. If the NBBO then moved to \$10.08 by \$10.11, the Exchange will adjust to \$10.07 the price of the Primary Pegged Order to buy.

A User could alternatively submit a display-eligible Primary Pegged Order to buy with no Primary Pegged Offset, in which case the initial display price of the order would be \$10.09, upon the first adjustment to the NBBO the display price would be \$10.10, and upon the final adjustment to the NBBO the display price would be \$10.08.

A User could not submit a display-eligible Primary Pegged Order to buy with a Primary Pegged Offset to price the order at \$0.01 above the NBB, as this would make the order more aggressive than the NBB, and, as proposed, the Exchange will not accept Primary Pegged Orders that are both eligible for display and contain an aggressive Primary Pegged Offset amount.

A User could, however, submit a non-display-eligible Primary Pegged Order to buy with a Primary Pegged Offset to price the order at \$0.01 above the NBB. Thus, using the example above, the initial ranked price of the order would be \$10.10 (\$0.01 higher than the NBB of \$10.09), upon the first adjustment to the NBBO the adjusted ranked price of the order would be \$10.11 (\$0.01 higher than the NBB of \$10.10), and upon the final adjustment to the NBBO the adjusted ranked price of the order would be \$10.09 (\$0.01 higher than the NBB of \$10.08).

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁹ and furthers the objectives of Section 6(b)(5) of the Act¹⁰ because it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest.

Specifically, the proposed changes are designed to provide Users with additional control over their orders that are pegged to the NBBO. The proposal to permit the display of Primary Pegged Orders is consistent with the Act as this proposal is intended to lead to additional displayed liquidity available on the Exchange, thus contributing to the price discovery process. The proposal to permit an aggressive offset on non-displayed Primary Pegged Orders is similarly consistent with the Act as this proposal is intended to allow Users adding liquidity to the Exchange to more aggressively price their orders, which, in turn, means an enhanced likelihood of price improvement for incoming orders that execute against such orders. For instance, by permitting a User to designate a Primary Pegged Order to buy on the Exchange with an aggressive Primary Pegged Offset, that means that the Exchange has non-displayed liquidity priced better than the NBB, which amounts to significant price improvement as compared to the NBB. For the reasons described above, the proposals are directly targeted at removing impediments to and perfect the mechanism of a free and open market and national market system.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

The proposed rule change also is designed to support the principles of Section 11A(a)(1)¹¹ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. In particular, the proposed rule changes to modify the Primary Pegged Order is intended to add system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for 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 BZX, EDGA and/or EDGX. The functionality is similar to functionality offered by Nasdaq and NYSE Arca as well. 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. The Exchange also believes that the changes to restructure the existing rule will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand.

(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 Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the BGM Affiliated Exchanges. Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges. In addition, the Exchange believes the proposed rule change will benefit Exchange participants in that it is one of several changes

¹¹ 15 U.S.C. 78k-1(a)(1).

necessary to achieve a consistent technology offering by the BGM Affiliated Exchanges. The Exchange also believes that Pegged Orders generally encourage competition by allowing Users to submit orders that automatically peg to the NBBO consistent with their trading strategy.

(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 Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act¹² and paragraph (f)(6) of Rule 19b-4 thereunder.¹³ 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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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:

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4.

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-BYX-2014-022 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-BYX-2014-022. 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-BYX-2014-022 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).

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

Rules of BATS Y-Exchange, Inc.

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CHAPTER XI. TRADING RULES

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Rule 11.9. Orders and Modifiers

(No change.)

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

(c) Other Types of Orders.

(1)-(7)

(8) *Pegged Order*. A limit order that after entry into the System, the price of the order is automatically adjusted by the System in response to changes in the NBBO. A User entering a Pegged Order can specify that such order's price will [either be inferior to or equal]offset the inside quote on the same side of the market by an amount (the "Primary Offset Amount") set by the User[entering party on the same side of the market] (a "Primary Pegged Order") or offset the inside quote on the contra side of the market by an amount (the "Offset Amount") set by the User (a "Market Pegged Order"). Pegged Orders are not eligible for routing pursuant to Rule 11.13(a)(2). Market Pegged Orders[, and] are not eligible to be displayed on the Exchange. Primary Pegged Orders are eligible to be displayed or non-displayed on the Exchange, however, the Primary Offset Amount for a displayed Primary Pegged Order must result in the price of such order being inferior to or equal to the inside quote on the same side of the market. A new timestamp is created for [the order]a Pegged Order each time it is automatically adjusted.

(9)-(16) (No change.)

(d)-(g) (No change.)

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