

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 44	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2015 - * 31 Amendment No. (req. for Amendments *)
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Filing by BATS Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

Proposal to amend Rule 11.23, entitled "Auctions."

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 04/01/2015 VP, Associate General Counsel
 By Anders Franzon
 (Name *)

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

afranzon@bats.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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

1. Text of Proposed Rule Change

Pursuant to 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 “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend Rule 11.23, entitled “Auctions.” The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.³

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on 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

Anders Franzon

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6)(iii).

EVP, General Counsel
(913) 815-7000

VP, Associate General Counsel
(913) 815-7154

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

a. Purpose

The Exchange proposes to make several changes to Rule 11.23 in order to improve the Exchange auction process. Specifically, the Exchange is proposing to make several minor changes to Rule 11.23, which include: (i) to eliminate from each of the Opening Auction, Closing Auction, IPO and Halt Auction, and Volatility Closing Auction the language stating that an auction will occur at the price of the Volume Based Tie Breaker (or "VBTB"),⁴ Final Last Sale Eligible Trade,⁵ or issuing price, as applicable, where no limit orders from one or both sides would participate in the auction; (ii) to amend the definition of Volume Based Tie Breaker; (iii) to amend the definition of Reference Price Range;⁶ (iv) to amend the definition of Late-Limit-On-Close⁷ ("LLOC") and Late-Limit-On-Open⁸ ("LLOO"); and (v) to make a non-substantive change to delete the definitions of ZBB,⁹ ZBO,¹⁰ and ZBBO.¹¹

Limit Order Participation

Currently, each of Rules 11.23(b)(2)(B), (c)(2)(B), (d)(2)(C), and (e)(2)(B)

⁴ As defined in BATS Rule 11.23(a)(23).

⁵ As defined in BATS Rule 11.23(a)(9).

⁶ As defined in BATS Rule 11.23(a)(20).

⁷ As defined in BATS Rule 11.23(a)(11).

⁸ As defined in BATS Rule 11.23(a)(12).

⁹ As defined in BATS Rule 11.23(a)(24).

¹⁰ *Id.*

¹¹ *Id.*

contain language that provides an alternate price at which an auction will occur where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would otherwise participate in an auction (an “Alternate Price”). For Opening and Closing Auctions the Alternate Price is the Volume Based Tie Breaker; for Halt and Volatility Closing Auctions the Alternate Price is the Final Last Sale Eligible Trade; and for IPO Auctions the Alternate Price is the issuing price. While the Exchange added the Alternate Price requirement in order to ensure that, for auctions with minimal liquidity, either limit orders were participating in the auction and would aid in price discovery or that the auction would occur at a pre-determined price, this protection has, based on analysis by the Exchange and feedback from issuers and market participants, resulted in orders not receiving executions in auctions that would have otherwise occurred at prices that would have been acceptable to both parties to the execution that did not occur. To illustrate this point, the Exchange presents the following example: at the time that an Opening Auction is occurring, there is no ZBBO and the NBBO is \$9.90 x \$10.10. In this situation, the Volume Based Tie Breaker would be the midpoint of the NBBO,¹² which would be \$10.00.¹³ Based on a Volume Based Tie Breaker of \$10.00, the Collar Price Range¹⁴ would be \$9.00 to \$11.00 (the range from 0.90*VBTB to 1.10*VBTB). In this

¹² See supra note 4. By definition, where there is no ZBBO, the Volume Based Tie Breaker will be the midpoint of the NBBO.

¹³ The Exchange notes that it is proposing to amend the definition of Volume Based Tie Breaker, as further described below, but none of the proposed changes would affect the outcome of this example.

¹⁴ See BATS Rule 11.23(a)(6). By definition, for Opening Auctions where the Volume Based Tie Breaker is \$25.00 or less, the Collar Price Range shall be the range from 10% below the VBTB to 10% above the VBTB, which would be \$9.00 to \$11.00 in the example above.

example, there are only two orders on the Auction Book¹⁵ for the security: a Limit-On-Open¹⁶ buy order for 100 shares with a limit price of \$9.99 and a Market-On-Open¹⁷ sell order for 100 shares. Without the requirement that the auction occur at the Alternate Price where a limit order from both sides does not participate in the auction, there would have been an execution of 100 shares in the Opening Auction at \$9.99.¹⁸ However, because there would be no limit orders on the sell side that would participate in the Opening Auction, under current functionality the Opening Auction would be forced to occur at the Volume Based Tie Breaker, which is \$10.00. However, because the limit

¹⁵ As defined in BATS Rule 11.23(a)(1).

¹⁶ As defined in BATS Rule 11.23(a)(14).

¹⁷ As defined in BATS Rule 11.23(a)(16).

¹⁸ Absent the existing Alternate Price language, the price of the Opening Auction in the above described example would be determined by the first two sentences of BATS Rule 11.23(b)(2)(B), which provide the following: “The Opening Auction price will be established by determining the price level within the Collar Price Range that maximizes the number of shares executed between the Continuous Book and Auction Book in the Opening Auction. In the event of a volume based tie at multiple price levels, the Opening Auction price will be the price closest to the Volume Based Tie Breaker.” In the example described above, there would be an equal number of shares that could be executed at every price level from \$9.00 to \$9.99, however the price of the auction would be \$9.99 because that is the price level at which there is a volume based tie that is closest to the Volume Based Tie Breaker. Such language is currently the basis for determining the price of every auction that occurs on the exchange except in those instances that there is no limit interest participating in one or both sides or no auction occurs (noting that the Opening and Closing Auctions both use VBTB, while Halt and Volatility Closing Auctions use the Final Last Sale Eligible Trade and IPO Auctions use the issue price for resolving ties at multiple price levels). Further, in the event that there is no limit interest that would participate on either side of an auction (i.e. only market interest on both sides), such language would create the same auction price (the Alternate Price) as the language that the Exchange is proposing to delete because there would be a tie at every price level within the Collar Price Range, meaning that the price would default to the Alternate Price.

price of the Limit-On-Open buy order is \$9.99, no execution will occur, both orders will be cancelled, and trading will transition into Regular Trading Hours.¹⁹ This example is identical to how a Closing Auction would occur and is nearly identical to examples of how the Alternate Price could affect other auctions.

The Exchange is proposing to eliminate the language that provides an Alternate Price at which an auction will occur where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would otherwise participate in an auction. As proposed, the example constructed above would result in an execution of 100 shares at \$9.99, which would represent a full execution for both orders. It's worth noting that the Limit-On-Open order could have been priced as low as \$9.00 (the low end of the Collar Price Range) and the auction would have occurred at the price of the Limit-On-Open order. The Exchange originally added the language that it is proposing to delete as part of a proposal to eliminate the possibility that a single, non-marketable limit order could affect the price at which an auction occurred.^{20, 21} The resulting rule text, however,

¹⁹ As defined in BATS Rule 1.5(w).

²⁰ See Securities Exchange Act Release No. 68788 (January 31, 2013), 78 FR 8640 (February 6, 2013) (SR-BATS-2012-046) (the "Filing"). On pages 7 and 8 of the Filing, the Exchange provides: "Where no limit orders from either or both sides would participate in the auction, the Exchange is proposing that the auction will occur at the price of the Default Price. By providing that the auction price will be the Default Price where no limit orders from one or both sides would participate in an Exchange Auction, this proposed language would aid in price discovery and help to prevent erroneous executions by ensuring that a single limit order on one side of an auction that might not even participate in the Exchange Auction cannot on its own determine the auction price."

²¹ Prior to the changes implemented upon approval of the Filing, the language for Opening and Closing Auctions that preceded the current Alternate Price language read as follows: "In the event that at the time of the [auction] there are no limit orders on both the Continuous Book and the Auction Book, the [auction] will

took the solution beyond merely preventing a single limit order from determining the price at which an auction would occur and instead provided that limit interest on both sides must participate in an auction or the auction would be forced to occur at an Alternate Price. The Exchange now believes, however, that the current rule text adopted the wrong approach to solving the problem described above, which has resulted in the unnecessary prevention of certain otherwise marketable limit orders, such as the \$9.99 Limit On Open order from the example above, from executing in auctions on the Exchange. Further, the Exchange also believes that the current rule text creates an overly restrictive collar on market orders entered to participate in auctions under the conditions described above: where no limit orders participate on one or both sides of the market, a market order can never be priced more aggressively than the Alternate Price. The Exchange believes that the rule text results in the treatment of market orders that differs from the general understanding of how market orders are priced and, as mentioned above, the Exchange has received feedback from market participants and issuers indicating an agreement with this belief. The proposed amendments would result in market orders being treated in a manner similar to aggressively priced limit orders, which is more in line with the generally understood definition of a market order. This feedback from stakeholders along with an internal review of auctions occurring on the Exchange that arrived at similar conclusions have led the Exchange to believe that allowing market orders to execute at any point within the Collar Price Range regardless of whether any

occur at the price of the Final Last Sale Eligible Trade.” For IPO and Halt Auctions, the language read as follows: “In the event that there are no limit orders among the Eligible Auction Orders for a [auction], the [auction] will occur at the [Alternate Price].

limit interest would participate in the auction will allow executions to occur in the auctions at prices that are more reflective of market conditions at the time of the auction by allowing marketable limit orders priced within the Collar Price Range to interact with contra-side market orders. The Exchange notes that both market and limit orders will still have several protections in place as auctions can only occur within the Collar Price Range and the protections afforded under the Exchange's clearly erroneous rules in BATS Rule 11.17 also apply to executions that occur in an auction.

Volume Based Tie Breaker

Currently, the term "Volume Based Tie Breaker" shall mean the midpoint of the ZBBO for a particular security. In the event that there is either no ZBB or ZBO for the security, the NBBO will be used if there is at least one limit order on either the Continuous Book²² or the Auction Book. In the event that there is also no NBB or NBO for the security or no limit orders on the Continuous Book and the Auction Book, the price of the Final Last Sale Eligible Trade will be used.

The Exchange is proposing to eliminate the concept of ZBBO from the definition of Volume Based Tie Breaker. Specifically, the Exchange is proposing to amend the definition such that the Volume Based Tie Breaker will either be the midpoint of the NBBO or the price of the Final Last Sale Eligible Trade.

The Exchange is also proposing to validate a NBBO prior to using the midpoint of that NBBO as the Volume Based Tie Breaker. Specifically, the Exchange is proposing to validate that a NBBO is sufficiently tight to use the NBBO as a basis for establishing the Volume Based Tie Breaker as follows: a NBBO is a valid NBBO where (i) there is both a

²² As defined in BATS Rule 11.23(a)(7).

NBB and NBO for the security; (ii) the NBBO is not crossed; and (iii) the midpoint of the NBBO is less than the Maximum Percentage away from both the NBB and the NBO.

The Maximum Percentage will be determined by the Exchange and will be published in a circular distributed to Members with reasonable advance notice prior to initial implementation and any change thereto. The Exchange will retain discretion to set and adjust the Maximum Percentage as it deems appropriate, but notes that the Maximum Percentage will never exceed the clearly erroneous thresholds from BATS Rule 11.17 based on the price of the security and that it will communicate any changes to the Maximum Percentage via circular to Members. The Exchange has monitored its auction process historically and believes that the initial levels that it sets for the Maximum Percentage will be appropriate. The Exchange does not anticipate adjusting the Maximum Percentage on a regular basis, however it will continue to monitor its auction process going forward and believes that retaining the discretion to increase or decrease the Maximum Percentage in order to adjust the threshold for what it believes to be a sufficiently narrow NBBO to choose a reasonable Volume Based Tie Breaker will allow it the administrative flexibility to make adjustments that will ensure sufficient protections for all participants in auctions on the Exchange. The Exchange notes that it will not apply separate standards for the Maximum Percentage on a security by security basis. Further, this discretion applies to only one of three factors in determining whether a NBBO is a Valid NBBO and where the NBBO is determined not to be a Valid NBBO, the Volume Based Tie Breaker will still be based on market conditions: the Final Last Sale Eligible Trade will be used instead of the midpoint of the NBBO. As part of this proposal, the Exchange would also eliminate the rule text requiring that there be a limit

order on either the Continuous Book or the Auction Book for the midpoint of the NBBO to be used as the Volume Based Tie Breaker.

Reference Price Range

Currently, the term Reference Price Range means the range from the ZBB to the ZBO for a particular security. In the event that there is either no ZBB or ZBO for the security, the NBBO will be used if there is at least one limit order on either the Continuous Book or the Auction Book. In the event that there is also either no NBB or NBO for the security or no limit orders on the Continuous Book and the Auction Book, the price of the Final Last Sale Eligible Trade will be used.

The Exchange is proposing to amend the definition of Reference Price Range in order to eliminate the concept of ZBBO from the calculation of the Reference Price Range. Specifically, the Exchange is proposing to amend the definition such that the Reference Price Range will either be the range from the NBB to the NBO for a particular security or the price of the Final Last Sale Eligible Trade. As part of this proposal, the Exchange would also eliminate the rule text requiring that there be a limit order on either the Continuous Book or the Auction Book for the Reference Price Range to be the range from the NBB to the NBO.

LLOC and LLOO

The Exchange is proposing to amend the definition of LLOC and LLOO orders to eliminate the use of ZBBO in pricing the orders. Currently, the Exchange first looks to the ZBBO to determine the most aggressive price that LLOC and LLOO orders can be priced and, where there is no ZBB or ZBO, the Exchange instead looks to the NBB or NBO, respectively. Where there is no NBB or NBO, the Exchange allows the LLOC or

LLOO bid or offer, respectively, to be priced at its entered limit price. The Exchange is proposing to eliminate the ZBBO component of the process and instead to either restrict an order's price based on the NBBO or, absent either a NBB or NBO, to allow a bid or offer, respectively, to be priced at its entered limit price. As part of these proposed changes, the Exchange is also proposing to add language to make clear that a LLOC or LLOO bid will only be priced as aggressively as the NBB, even if there is no NBO and that an offer will only be priced as aggressively as the NBO, even if there is no NBB. Currently, the rule states that if there is no NBBO, the LLOC or LLOO will assume its entered limit price. The Exchange is proposing to make clear that where there is no NBB, a LLOC or LLOO bid will assume its entered limit price and where there is no NBO, a LLOC or LLOO offer will assume its entered limit price. A LLOC or LLOO bid will not assume its entered price only because there is no NBO and a LLOC or LLOO offer will not assume its entered price only because there is no NBB. This is consistent with existing behavior and is merely intended to provide additional clarity about how LLOC and LLOO orders are priced.

ZBBO

In conjunction with the changes proposed above, the Exchange is also proposing to delete Rule 11.23(a)(24) which defines the terms ZBB, ZBO, and ZBBO because the Exchange is also proposing to delete each reference to ZBB, ZBO, and ZBBO in its rules and the definition is no longer necessary.

b. Statutory Basis

The Exchange believes that the rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that

are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.²³ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,²⁴ because it would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. Generally, the Exchange believes that the proposed changes will improve the price discovery process for securities listed on the Exchange along with those additional benefits enumerated below.

Limit Order Participation

The Exchange believes that the proposed amendments to each of the Opening Auction, Closing Auction, IPO and Halt Auction, and Volatility Closing Auction would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would eliminate a protection from the auction process that, as described above, was more restrictive than anticipated. As stated above, the current implementation that provides that an auction must occur at an Alternate Price where there would not be limit order participation on both sides of an auction was intended to eliminate the possibility that a single, non-marketable limit order could affect the price at which an auction occurred.²⁵ However, as illustrated by the examples above, the current rule text went beyond merely preventing a single limit order

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78f(b)(5).

²⁵ See supra notes 20 and 21.

from determining the price at which an auction would occur and instead provided that limit interest on both sides must participate in an auction or the auction would be forced to occur at an Alternative Price. The Exchange now believes, however, that the current rule text adopted the wrong approach to solving the problem described above, which has resulted in the unnecessary prevention of certain otherwise marketable limit orders, such as the \$9.99 Limit On Open order from the example above, from executing in auctions on the Exchange. Further, the Exchange also believes that the current rule text creates an overly restrictive collar on market orders entered to participate in auctions under the conditions described above: where no limit orders participate on one or both sides of the market, a market order can never be priced more aggressively than the Alternate Price. The Exchange believes that the rule text results in the treatment of market orders that differs from the general understanding of how market orders are priced and, as mentioned above, the Exchange has received feedback from market participants and issuers indicating an agreement with this belief. As such, the Exchange believes that the proposal would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest by allowing executions to occur in auctions at prices that are more reflective of market conditions at the time of the auction by allowing marketable limit orders priced within the Collar Price Range to interact with contra-side market orders. The Exchange emphasizes that it is not proposing to allow market orders to participate in its auctions without any price protections. Rather, the Exchange is proposing to treat market orders in its auctions in a manner broadly

consistent with the rules of other exchanges.²⁶ The Exchange believes that the Collar Price Range, which is based on the clearly erroneous standards in BATS Rule 11.17, and the clearly erroneous process in BATS Rule 11.17, which applies to executions in the auctions and could be used to cancel any executions to which it applies, provide sufficient protections against executions in the auctions occurring at extreme prices. As such, the Exchange believes that a better characterization is that the Exchange is proposing to treat market orders in a manner more similar to aggressively priced limit orders, which is more in line with the generally understood meaning of a market order. With this in mind, the Exchange believes that the proposed amendments to eliminate the Alternate Price where there would not be limit order participation on both sides of an auction would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest.

Volume Based Tie Breaker

The Exchange believes that the proposed amendments to the Volume Based Tie Breaker would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would ensure that the Volume Based Tie Breaker would be calculated using a full picture of the market in a particular

²⁶ See NYSE Arca, Inc. (“Arca”) Rule 7.35 and NASDAQ Stock Market LLC (“Nasdaq”) Rules 4752, 4753, and 4754. While each of the exchanges have very diverse rules governing auctions/crosses on their respective venues, neither Arca nor Nasdaq have a comparable requirement that unless limit interest from both sides would participate in the auction, the auction will occur at a default price. As such, the Exchange believes that elimination of the requirement is broadly consistent with the rules of other exchanges.

security by looking to the NBBO instead of the ZBBO, regardless of whether there are any limit orders on the Continuous Book or Auction Book. Because the NBBO by definition accounts for the ZBBO, the NBBO will always be equal to or tighter than the ZBBO, which the Exchange believes creates a Volume Based Tie Breaker that better reflects current market conditions. Further to this point, the Exchange believes that creating a process to validate the NBBO or, where the NBBO is not valid, to use the Final Last Sale Eligible Trade will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it will ensure that the NBBO is sufficiently tight to guarantee that the midpoint of the NBBO would be a meaningful and accurate Volume Based Tie Breaker.

Reference Price Range

The Exchange believes that the proposed amendments to the definition of Reference Price Range would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would ensure that the Reference Price Range would be calculated using a full picture of the market in a particular security by looking to the NBBO instead of the ZBBO, regardless of whether there are any limit orders on the Continuous Book or Auction Book. Because the NBBO by definition accounts for the ZBBO, the NBBO will always be equal to or tighter than the ZBBO, which the Exchange believes creates a Reference Price Range that better reflects current market conditions.

LLOC and LLOO

The Exchange believes that the proposed amendments to the definition of LLOC and LLOO would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would ensure that the LLOC and LLOO orders would be priced using a full picture of the market in a particular security by looking to the NBBO instead of the ZBBO. Because the NBBO by definition accounts for the ZBBO, the NBBO will always be equal to or tighter than the ZBBO, which the Exchange believes provides a better basis by which to price a LLOC or LLOO order because it better reflects current market conditions. The Exchange also believes that the clarifying changes to the definitions of LLOC and LLOO explained above will contribute to the protection of investors and the public interest by making the functionality of LLOC and LLOO orders as clear as possible.

ZBBO

The Exchange believes that the non-substantive proposal to delete the definitions of ZBB, ZBO, and ZBBO, as discussed above, will contribute to the protection of investors and the public interest by eliminating the definition of a term that is no longer used in the Exchange's Rules which will make the Exchange's Rules easier to understand and help to avoid confusion.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the act. To the contrary, allowing the Exchange to make the above proposed modifications to Rule 11.23 in order to allow an auction to occur at a price that is not the Alternate Price

where there isn't limit interest on both sides (Limit Order Participation), to eliminate the use of ZBB, ZBO, and ZBBO from the auction process (Volume Based Tie Breaker, Reference Price Range, LLOC and LLOO, and ZBBO), to validate the NBBO before using it to establish the Volume Based Tie Breaker (Volume Based Tie Breaker), and to eliminate the requirement that there be at least one limit order on either the Continuous Book or the Auction Book in order to use the NBBO for the Volume Based Tie Breaker or the Reference Price (Volume Based Tie Breaker and Reference Price) will, in the aggregate, allow the Exchange to better compete with other exchanges as a listing venue by improving the Exchange's auction process by allowing more executions to occur at more reasonable prices that are based on market-wide pricing. As mentioned above, the Exchange has received feedback from market participants and issuers alike regarding these issues and the proposed amendments will both address this feedback and improve the Exchange's auction process, allowing it to better compete as both a listing and execution venue.

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

The Exchange has not solicited, and does not intend to solicit, comments on the proposed rule change. The Exchange has, however, as described above, received unsolicited comments from both Members and issuers that helped lead to the changes proposed herein.

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 Act²⁷ and paragraph (f)(6) of Rule 19b-4 thereunder.²⁸ 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.²⁹

As described above, the proposed changes will not significantly affect the protection of investors or the public interest because the changes are relatively insignificant and reflect minor modifications of existing rules in order to optimize the outcome for very specific market conditions that may exist at the time of an auction. To this point, the proposed changes will only actually impact whether an execution occurs in an auction and the price of said auction in very specific circumstances and only for auctions in thinly traded securities. Additionally, the Exchange notes that no other exchange has comparable protections to the functionality which it is proposing delete and the changes proposed herein are broadly consistent with the auction rules of other exchanges.³⁰ Further, the Exchange is not removing all price protection from its auction

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 17 CFR 240.19b-4.

²⁹ 17 CFR 240.19b-4(f)(6)(iii).

³⁰ See supra note 26.

process, but again, is slightly modifying such protections as described above. 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 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

Not applicable.

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.

³¹ 15 U.S.C. 78s(b)(3)(A).

³² 17 CFR 240.19b-4.

Exhibit 5 – Text of the Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____; File No. SR-BATS-2015-31)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 11.23, "Auctions."

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 filed a proposal to amend Rule 11.23, entitled "Auctions."

The text of the proposed rule change is available at the Exchange's website at 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

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).

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 make several changes to Rule 11.23 in order to improve the Exchange auction process. Specifically, the Exchange is proposing to make several minor changes to Rule 11.23, which include: (i) to eliminate from each of the Opening Auction, Closing Auction, IPO and Halt Auction, and Volatility Closing Auction the language stating that an auction will occur at the price of the Volume Based Tie Breaker (or "VBTB"),⁵ Final Last Sale Eligible Trade,⁶ or issuing price, as applicable, where no limit orders from one or both sides would participate in the auction; (ii) to amend the definition of Volume Based Tie Breaker; (iii) to amend the definition of Reference Price Range;⁷ (iv) to amend the definition of Late-Limit-On-Close⁸ ("LLOC")

⁵ As defined in BATS Rule 11.23(a)(23).

⁶ As defined in BATS Rule 11.23(a)(9).

⁷ As defined in BATS Rule 11.23(a)(20).

⁸ As defined in BATS Rule 11.23(a)(11).

and Late-Limit-On-Open⁹ (“LLOO”); and (v) to make a non-substantive change to delete the definitions of ZBB,¹⁰ ZBO,¹¹ and ZBBO.¹²

Limit Order Participation

Currently, each of Rules 11.23(b)(2)(B), (c)(2)(B), (d)(2)(C), and (e)(2)(B) contain language that provides an alternate price at which an auction will occur where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would otherwise participate in an auction (an “Alternate Price”). For Opening and Closing Auctions the Alternate Price is the Volume Based Tie Breaker; for Halt and Volatility Closing Auctions the Alternate Price is the Final Last Sale Eligible Trade; and for IPO Auctions the Alternate Price is the issuing price. While the Exchange added the Alternate Price requirement in order to ensure that, for auctions with minimal liquidity, either limit orders were participating in the auction and would aid in price discovery or that the auction would occur at a pre-determined price, this protection has, based on analysis by the Exchange and feedback from issuers and market participants, resulted in orders not receiving executions in auctions that would have otherwise occurred at prices that would have been acceptable to both parties to the execution that did not occur. To illustrate this point, the Exchange presents the following example: at the time that an Opening Auction is occurring, there is no ZBBO and the NBBO is \$9.90 x \$10.10. In this

⁹ As defined in BATS Rule 11.23(a)(12).

¹⁰ As defined in BATS Rule 11.23(a)(24).

¹¹ *Id.*

¹² *Id.*

situation, the Volume Based Tie Breaker would be the midpoint of the NBBO,¹³ which would be \$10.00.¹⁴ Based on a Volume Based Tie Breaker of \$10.00, the Collar Price Range¹⁵ would be \$9.00 to \$11.00 (the range from 0.90*VBTB to 1.10*VBTB). In this example, there are only two orders on the Auction Book¹⁶ for the security: a Limit-On-Open¹⁷ buy order for 100 shares with a limit price of \$9.99 and a Market-On-Open¹⁸ sell order for 100 shares. Without the requirement that the auction occur at the Alternate Price where a limit order from both sides does not participate in the auction, there would have been an execution of 100 shares in the Opening Auction at \$9.99.¹⁹ However,

¹³ See supra note 4. By definition, where there is no ZBBO, the Volume Based Tie Breaker will be the midpoint of the NBBO.

¹⁴ The Exchange notes that it is proposing to amend the definition of Volume Based Tie Breaker, as further described below, but none of the proposed changes would affect the outcome of this example.

¹⁵ See BATS Rule 11.23(a)(6). By definition, for Opening Auctions where the Volume Based Tie Breaker is \$25.00 or less, the Collar Price Range shall be the range from 10% below the VBTB to 10% above the VBTB, which would be \$9.00 to \$11.00 in the example above.

¹⁶ As defined in BATS Rule 11.23(a)(1).

¹⁷ As defined in BATS Rule 11.23(a)(14).

¹⁸ As defined in BATS Rule 11.23(a)(16).

¹⁹ Absent the existing Alternate Price language, the price of the Opening Auction in the above described example would be determined by the first two sentences of BATS Rule 11.23(b)(2)(B), which provide the following: “The Opening Auction price will be established by determining the price level within the Collar Price Range that maximizes the number of shares executed between the Continuous Book and Auction Book in the Opening Auction. In the event of a volume based tie at multiple price levels, the Opening Auction price will be the price closest to the Volume Based Tie Breaker.” In the example described above, there would be an equal number of shares that could be executed at every price level from \$9.00 to \$9.99, however the price of the auction would be \$9.99 because that is the price level at which there is a volume based tie that is closest to the Volume Based Tie Breaker. Such language is currently the basis for determining the price of every

because there would be no limit orders on the sell side that would participate in the Opening Auction, under current functionality the Opening Auction would be forced to occur at the Volume Based Tie Breaker, which is \$10.00. However, because the limit price of the Limit-On-Open buy order is \$9.99, no execution will occur, both orders will be cancelled, and trading will transition into Regular Trading Hours.²⁰ This example is identical to how a Closing Auction would occur and is nearly identical to examples of how the Alternate Price could affect other auctions.

The Exchange is proposing to eliminate the language that provides an Alternate Price at which an auction will occur where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would otherwise participate in an auction. As proposed, the example constructed above would result in an execution of 100 shares at \$9.99, which would represent a full execution for both orders. It's worth noting that the Limit-On-Open order could have been priced as low as \$9.00 (the low end of the Collar Price Range) and the auction would have occurred at the price of the Limit-On-Open order. The Exchange originally added the language that it is proposing to delete as

auction that occurs on the exchange except in those instances that there is no limit interest participating in one or both sides or no auction occurs (noting that the Opening and Closing Auctions both use VBTB, while Halt and Volatility Closing Auctions use the Final Last Sale Eligible Trade and IPO Auctions use the issue price for resolving ties at multiple price levels). Further, in the event that there is no limit interest that would participate on either side of an auction (i.e. only market interest on both sides), such language would create the same auction price (the Alternate Price) as the language that the Exchange is proposing to delete because there would be a tie at every price level within the Collar Price Range, meaning that the price would default to the Alternate Price.

²⁰ As defined in BATS Rule 1.5(w).

part of a proposal to eliminate the possibility that a single, non-marketable limit order could affect the price at which an auction occurred.^{21, 22} The resulting rule text, however, took the solution beyond merely preventing a single limit order from determining the price at which an auction would occur and instead provided that limit interest on both sides must participate in an auction or the auction would be forced to occur at an Alternate Price. The Exchange now believes, however, that the current rule text adopted the wrong approach to solving the problem described above, which has resulted in the unnecessary prevention of certain otherwise marketable limit orders, such as the \$9.99 Limit On Open order from the example above, from executing in auctions on the Exchange. Further, the Exchange also believes that the current rule text creates an overly restrictive collar on market orders entered to participate in auctions under the conditions described above: where no limit orders participate on one or both sides of the market, a

²¹ See Securities Exchange Act Release No. 68788 (January 31, 2013), 78 FR 8640 (February 6, 2013) (SR-BATS-2012-046) (the “Filing”). On pages 7 and 8 of the Filing, the Exchange provides: “Where no limit orders from either or both sides would participate in the auction, the Exchange is proposing that the auction will occur at the price of the Default Price. By providing that the auction price will be the Default Price where no limit orders from one or both sides would participate in an Exchange Auction, this proposed language would aid in price discovery and help to prevent erroneous executions by ensuring that a single limit order on one side of an auction that might not even participate in the Exchange Auction cannot on its own determine the auction price.”

²² Prior to the changes implemented upon approval of the Filing, the language for Opening and Closing Auctions that preceded the current Alternate Price language read as follows: “In the event that at the time of the [auction] there are no limit orders on both the Continuous Book and the Auction Book, the [auction] will occur at the price of the Final Last Sale Eligible Trade.” For IPO and Halt Auctions, the language read as follows: “In the event that there are no limit orders among the Eligible Auction Orders for a [auction], the [auction] will occur at the [Alternate Price].”

market order can never be priced more aggressively than the Alternate Price. The Exchange believes that the rule text results in the treatment of market orders that differs from the general understanding of how market orders are priced and, as mentioned above, the Exchange has received feedback from market participants and issuers indicating an agreement with this belief. The proposed amendments would result in market orders being treated in a manner similar to aggressively priced limit orders, which is more in line with the generally understood definition of a market order. This feedback from stakeholders along with an internal review of auctions occurring on the Exchange that arrived at similar conclusions have led the Exchange to believe that allowing market orders to execute at any point within the Collar Price Range regardless of whether any limit interest would participate in the auction will allow executions to occur in the auctions at prices that are more reflective of market conditions at the time of the auction by allowing marketable limit orders priced within the Collar Price Range to interact with contra-side market orders. The Exchange notes that both market and limit orders will still have several protections in place as auctions can only occur within the Collar Price Range and the protections afforded under the Exchange's clearly erroneous rules in BATS Rule 11.17 also apply to executions that occur in an auction.

Volume Based Tie Breaker

Currently, the term "Volume Based Tie Breaker" shall mean the midpoint of the ZBBO for a particular security. In the event that there is either no ZBB or ZBO for the security, the NBBO will be used if there is at least one limit order on either the

Continuous Book²³ or the Auction Book. In the event that there is also no NBB or NBO for the security or no limit orders on the Continuous Book and the Auction Book, the price of the Final Last Sale Eligible Trade will be used.

The Exchange is proposing to eliminate the concept of ZBBO from the definition of Volume Based Tie Breaker. Specifically, the Exchange is proposing to amend the definition such that the Volume Based Tie Breaker will either be the midpoint of the NBBO or the price of the Final Last Sale Eligible Trade.

The Exchange is also proposing to validate a NBBO prior to using the midpoint of that NBBO as the Volume Based Tie Breaker. Specifically, the Exchange is proposing to validate that a NBBO is sufficiently tight to use the NBBO as a basis for establishing the Volume Based Tie Breaker as follows: a NBBO is a valid NBBO where (i) there is both a NBB and NBO for the security; (ii) the NBBO is not crossed; and (iii) the midpoint of the NBBO is less than the Maximum Percentage away from both the NBB and the NBO. The Maximum Percentage will be determined by the Exchange and will be published in a circular distributed to Members with reasonable advance notice prior to initial implementation and any change thereto. The Exchange will retain discretion to set and adjust the Maximum Percentage as it deems appropriate, but notes that the Maximum Percentage will never exceed the clearly erroneous thresholds from BATS Rule 11.17 based on the price of the security and that it will communicate any changes to the Maximum Percentage via circular to Members. The Exchange has monitored its auction process historically and believes that the initial levels that it sets for the Maximum

²³ As defined in BATS Rule 11.23(a)(7).

Percentage will be appropriate. The Exchange does not anticipate adjusting the Maximum Percentage on a regular basis, however it will continue to monitor its auction process going forward and believes that retaining the discretion to increase or decrease the Maximum Percentage in order to adjust the threshold for what it believes to be a sufficiently narrow NBBO to choose a reasonable Volume Based Tie Breaker will allow it the administrative flexibility to make adjustments that will ensure sufficient protections for all participants in auctions on the Exchange. The Exchange notes that it will not apply separate standards for the Maximum Percentage on a security by security basis. Further, this discretion applies to only one of three factors in determining whether a NBBO is a Valid NBBO and where the NBBO is determined not to be a Valid NBBO, the Volume Based Tie Breaker will still be based on market conditions: the Final Last Sale Eligible Trade will be used instead of the midpoint of the NBBO. As part of this proposal, the Exchange would also eliminate the rule text requiring that there be a limit order on either the Continuous Book or the Auction Book for the midpoint of the NBBO to be used as the Volume Based Tie Breaker.

Reference Price Range

Currently, the term Reference Price Range means the range from the ZBB to the ZBO for a particular security. In the event that there is either no ZBB or ZBO for the security, the NBBO will be used if there is at least one limit order on either the Continuous Book or the Auction Book. In the event that there is also either no NBB or NBO for the security or no limit orders on the Continuous Book and the Auction Book, the price of the Final Last Sale Eligible Trade will be used.

The Exchange is proposing to amend the definition of Reference Price Range in

order to eliminate the concept of ZBBO from the calculation of the Reference Price Range. Specifically, the Exchange is proposing to amend the definition such that the Reference Price Range will either be the range from the NBB to the NBO for a particular security or the price of the Final Last Sale Eligible Trade. As part of this proposal, the Exchange would also eliminate the rule text requiring that there be a limit order on either the Continuous Book or the Auction Book for the Reference Price Range to be the range from the NBB to the NBO.

LLOC and LLOO

The Exchange is proposing to amend the definition of LLOC and LLOO orders to eliminate the use of ZBBO in pricing the orders. Currently, the Exchange first looks to the ZBBO to determine the most aggressive price that LLOC and LLOO orders can be priced and, where there is no ZBB or ZBO, the Exchange instead looks to the NBB or NBO, respectively. Where there is no NBB or NBO, the Exchange allows the LLOC or LLOO bid or offer, respectively, to be priced at its entered limit price. The Exchange is proposing to eliminate the ZBBO component of the process and instead to either restrict an order's price based on the NBBO or, absent either a NBB or NBO, to allow a bid or offer, respectively, to be priced at its entered limit price. As part of these proposed changes, the Exchange is also proposing to add language to make clear that a LLOC or LLOO bid will only be priced as aggressively as the NBB, even if there is no NBO and that an offer will only be priced as aggressively as the NBO, even if there is no NBB. Currently, the rule states that if there is no NBBO, the LLOC or LLOO will assume its entered limit price. The Exchange is proposing to make clear that where there is no NBB, a LLOC or LLOO bid will assume its entered limit price and where there is no

NBO, a LLOC or LLOO offer will assume its entered limit price. A LLOC or LLOO bid will not assume its entered price only because there is no NBO and a LLOC or LLOO offer will not assume its entered price only because there is no NBB. This is consistent with existing behavior and is merely intended to provide additional clarity about how LLOC and LLOO orders are priced.

ZBBO

In conjunction with the changes proposed above, the Exchange is also proposing to delete Rule 11.23(a)(24) which defines the terms ZBB, ZBO, and ZBBO because the Exchange is also proposing to delete each reference to ZBB, ZBO, and ZBBO in its rules and the definition is no longer necessary.

2. Statutory Basis

The Exchange believes that the rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.²⁴ Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,²⁵ because it would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. Generally, the Exchange believes that the proposed changes will improve the price discovery process for securities listed on the Exchange along with those additional

²⁴ 15 U.S.C. 78f(b).

²⁵ 15 U.S.C. 78f(b)(5).

benefits enumerated below.

Limit Order Participation

The Exchange believes that the proposed amendments to each of the Opening Auction, Closing Auction, IPO and Halt Auction, and Volatility Closing Auction would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would eliminate a protection from the auction process that, as described above, was more restrictive than anticipated. As stated above, the current implementation that provides that an auction must occur at an Alternate Price where there would not be limit order participation on both sides of an auction was intended to eliminate the possibility that a single, non-marketable limit order could affect the price at which an auction occurred.²⁶ However, as illustrated by the examples above, the current rule text went beyond merely preventing a single limit order from determining the price at which an auction would occur and instead provided that limit interest on both sides must participate in an auction or the auction would be forced to occur at an Alternative Price. The Exchange now believes, however, that the current rule text adopted the wrong approach to solving the problem described above, which has resulted in the unnecessary prevention of certain otherwise marketable limit orders, such as the \$9.99 Limit On Open order from the example above, from executing in auctions on the Exchange. Further, the Exchange also believes that the current rule text creates an overly restrictive collar on market orders entered to participate in auctions under the

²⁶ See supra notes 21 and 22.

conditions described above: where no limit orders participate on one or both sides of the market, a market order can never be priced more aggressively than the Alternate Price. The Exchange believes that the rule text results in the treatment of market orders that differs from the general understanding of how market orders are priced and, as mentioned above, the Exchange has received feedback from market participants and issuers indicating an agreement with this belief. As such, the Exchange believes that the proposal would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest by allowing executions to occur in auctions at prices that are more reflective of market conditions at the time of the auction by allowing marketable limit orders priced within the Collar Price Range to interact with contra-side market orders. The Exchange emphasizes that it is not proposing to allow market orders to participate in its auctions without any price protections. Rather, the Exchange is proposing to treat market orders in its auctions in a manner broadly consistent with the rules of other exchanges.²⁷ The Exchange believes that the Collar Price Range, which is based on the clearly erroneous standards in BATS Rule 11.17, and the clearly erroneous process in BATS Rule 11.17, which applies to executions in the auctions and could be used to cancel any executions to which it applies, provide

²⁷ See NYSE Arca, Inc. (“Arca”) Rule 7.35 and NASDAQ Stock Market LLC (“Nasdaq”) Rules 4752, 4753, and 4754. While each of the exchanges have very diverse rules governing auctions/crosses on their respective venues, neither Arca nor Nasdaq have a comparable requirement that unless limit interest from both sides would participate in the auction, the auction will occur at a default price. As such, the Exchange believes that elimination of the requirement is broadly consistent with the rules of other exchanges.

sufficient protections against executions in the auctions occurring at extreme prices. As such, the Exchange believes that a better characterization is that the Exchange is proposing to treat market orders in a manner more similar to aggressively priced limit orders, which is more in line with the generally understood meaning of a market order. With this in mind, the Exchange believes that the proposed amendments to eliminate the Alternate Price where there would not be limit order participation on both sides of an auction would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest.

Volume Based Tie Breaker

The Exchange believes that the proposed amendments to the Volume Based Tie Breaker would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would ensure that the Volume Based Tie Breaker would be calculated using a full picture of the market in a particular security by looking to the NBBO instead of the ZBBO, regardless of whether there are any limit orders on the Continuous Book or Auction Book. Because the NBBO by definition accounts for the ZBBO, the NBBO will always be equal to or tighter than the ZBBO, which the Exchange believes creates a Volume Based Tie Breaker that better reflects current market conditions. Further to this point, the Exchange believes that creating a process to validate the NBBO or, where the NBBO is not valid, to use the Final Last Sale Eligible Trade will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national

market system and, in general, protect investors and the public interest in that it will ensure that the NBBO is sufficiently tight to guarantee that the midpoint of the NBBO would be a meaningful and accurate Volume Based Tie Breaker.

Reference Price Range

The Exchange believes that the proposed amendments to the definition of Reference Price Range would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would ensure that the Reference Price Range would be calculated using a full picture of the market in a particular security by looking to the NBBO instead of the ZBBO, regardless of whether there are any limit orders on the Continuous Book or Auction Book. Because the NBBO by definition accounts for the ZBBO, the NBBO will always be equal to or tighter than the ZBBO, which the Exchange believes creates a Reference Price Range that better reflects current market conditions.

LLOC and LLOO

The Exchange believes that the proposed amendments to the definition of LLOC and LLOO would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, protect investors and the public interest in that it would ensure that the LLOC and LLOO orders would be priced using a full picture of the market in a particular security by looking to the NBBO instead of the ZBBO. Because the NBBO by definition accounts for the ZBBO, the NBBO will always be equal to or tighter than the ZBBO, which the Exchange believes provides a better basis by which to price a LLOC or LLOO

order because it better reflects current market conditions. The Exchange also believes that the clarifying changes to the definitions of LLOC and LLOO explained above will contribute to the protection of investors and the public interest by making the functionality of LLOC and LLOO orders as clear as possible.

ZBBO

The Exchange believes that the non-substantive proposal to delete the definitions of ZBB, ZBO, and ZBBO, as discussed above, will contribute to the protection of investors and the public interest by eliminating the definition of a term that is no longer used in the Exchange's Rules which will make the Exchange's Rules easier to understand and help to avoid confusion.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the act. To the contrary, allowing the Exchange to make the above proposed modifications to Rule 11.23 in order to allow an auction to occur at a price that is not the Alternate Price where there isn't limit interest on both sides (Limit Order Participation), to eliminate the use of ZBB, ZBO, and ZBBO from the auction process (Volume Based Tie Breaker, Reference Price Range, LLOC and LLOO, and ZBBO), to validate the NBBO before using it to establish the Volume Based Tie Breaker (Volume Based Tie Breaker), and to eliminate the requirement that there be at least one limit order on either the Continuous Book or the Auction Book in order to use the NBBO for the Volume Based Tie Breaker or the Reference Price (Volume Based Tie Breaker and Reference Price) will, in the aggregate, allow the Exchange to better compete with other exchanges as a listing venue

by improving the Exchange's auction process by allowing more executions to occur at more reasonable prices that are based on market-wide pricing. As mentioned above, the Exchange has received feedback from market participants and issuers alike regarding these issues and the proposed amendments will both address this feedback and improve the Exchange's auction process, allowing it to better compete as both a listing and execution venue.

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

The Exchange has not solicited, and does not intend to solicit, comments on the proposed rule change. The Exchange has, however, as described above, received unsolicited comments from both Members and issuers that helped lead to the changes proposed herein.

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 Act²⁸ and paragraph (f)(6) of Rule 19b-4 thereunder.²⁹

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

²⁸ 15 U.S.C. 78s(b)(3)(A).

²⁹ 17 C.F.R. 240.19b-4.

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:

- 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-2015-31 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-2015-31. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing

will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BATS-2015-31 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.³⁰

Kevin M. O'Neill
Deputy Secretary

³⁰ 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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Rule 11.23. Auctions

(a) Definitions

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(11) The term “Late-Limit-On-Close” or “LLOC” shall mean a BATS limit order that is designated for execution only in the Closing Auction. To the extent a LLOC bid or offer received by the Exchange has a limit price that is more aggressive than the [ZBB or ZBO]NBB or NBO, the price of such bid or offer is adjusted to be equal to the [ZBB or ZBO]NBB or NBO, respectively, at the time of receipt by the Exchange. Where the [ZBB or ZBO]NBB or NBO becomes more aggressive, the limit price of the LLOC bid or offer will be adjusted to the more aggressive price, only to the extent that the more aggressive price is not more aggressive than the original User entered limit price. The limit price will never be adjusted to a less aggressive price. [In the event that there is no ZBBO, the NBBO will be used to constrain the limit price.]If there is [also]no NBB[O]or NBO, the LLOC bid or offer, respectively, will assume its entered limit price.

(12) The term “Late-Limit-On-Open” or “LLOO” shall mean a BATS limit order that is designated for execution only in the Opening Auction. To the extent a LLOO bid or offer received by the Exchange has a limit price that is more aggressive than the [ZBB or ZBO]NBB or NBO, the price of such bid or offer is adjusted to be equal to the [ZBB or ZBO]NBB or NBO, respectively, at the time of receipt by the Exchange. Where the [ZBB or ZBO]NBB or NBO becomes more aggressive, the limit price of the LLOO bid or offer will be adjusted to the more aggressive price, only to the extent that the more aggressive price is not more aggressive than the original User entered limit price. The limit price will never be adjusted to a less aggressive price. [In the event that there is no ZBBO, the NBBO will be used to constrain the limit price.]If there is [also]no NBB[O]or NBO, the LLOO bid or offer, respectively, will assume its entered limit price. Notwithstanding the foregoing, a LLOO order entered during the Quote-Only Period of an IPO will be converted to a limit order with a limit price equal to the original User entered limit price and any LLOO orders not executed in their entirety during the IPO Auction will be cancelled upon completion of the IPO Auction.

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(20) The term “Reference Price Range” shall mean the range from the [ZBB to the ZBO for a particular security. In the event that there is either no ZBB or ZBO for the security, the]NBB to the NBO for a particular security[will be used if there is at least one limit order on either the Continuous Book or the Auction Book]. In the event that there is

[also]either no NBB or NBO for the security[or no limit orders on the Continuous Book and the Auction Book], the price of the Final Last Sale Eligible Trade will be used.

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(23) The term “Volume Based Tie Breaker” shall mean the midpoint of the [ZBBO]NBBO for a particular security where the NBBO is a Valid NBBO. [In the event that there is either no ZBB or ZBO for the security, the NBBO will be used if there is at least one limit order on either the Continuous Book or the Auction Book. In the event that there is also either] A NBBO is a Valid NBBO where: (i)[no] there is both a NBB [or]and NBO for the security; (ii)[or] the NBBO is not crossed; and (iii) the midpoint of the NBBO is less than the Maximum Percentage away from both the NBB and the NBO. The Maximum Percentage will be determined by the Exchange and will be published in a circular distributed to Members with reasonable advance notice prior to initial implementation and any change thereto.[no limit orders on the Continuous Book and the Auction Book] Where the NBBO is not a Valid NBBO, the price of the Final Last Sale Eligible Trade will be used.

[(24) The term “ZBB” or “BATS Best Bid” shall mean the highest displayed price in the Continuous Book. The term “ZBO” or “BATS Best Offer” shall mean the lowest displayed price in the Continuous Book. The term “ZBBO” shall mean BATS Best Bid or BATS Best Offer.]

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(b) Opening Auction

(1) (No changes.)

(2) Opening Auction Process. The Exchange will conduct an Opening Auction for all BATS listed securities.

(A) (No changes.)

(B) Determination of BATS Official Opening Price. The Opening Auction price will be established by determining the price level within the Collar Price Range that maximizes the number of shares executed between the Continuous Book and Auction Book in the Opening Auction. In the event of a volume based tie at multiple price levels, the Opening Auction price will be the price closest to the Volume Based Tie Breaker.[Where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would participate in an Opening Auction, the Opening Auction will occur at the price of the Volume Based Tie Breaker.] The Opening Auction price will be the BATS Official Opening Price. In the event that there is no Opening Auction for an issue, the BATS Official Opening Price will be the price of the Final Last Sale Eligible Trade, which will be the previous BATS Official Closing Price.

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(c) Closing Auction

(1) (No changes.)

(2) Closing Auction Process. The Exchange will conduct a Closing Auction for all BATS listed securities.

(A) (No changes.)

(B) Determination of BATS Official Closing Price. The Closing Auction price will be established by determining the price level within the Collar Price Range that maximizes the number of shares executed between the Continuous Book and Auction Book in the Closing Auction. In the event of a volume based tie at multiple price levels, the Closing Auction price will be the price closest to the Volume Based Tie Breaker.[Where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would participate in a Closing Auction, the Closing Auction will occur at the price of the Volume Based Tie Breaker.] The Closing Auction price will be the BATS Official Closing Price. In the event that there is no Closing Auction for an issue, the BATS Official Closing Price will be the price of the Final Last Sale Eligible Trade.

* * * * *

(d) IPO and Halt Auctions. For trading in a BATS listed security in an initial public offering (an "IPO") or following a trading halt in that security, the Exchange will conduct an IPO or Halt Auction, as described below.

(1) (No changes.)

(2) IPO and Halt Auction Process.

(A)-(B) (No changes.)

(C) Determination of BATS IPO and Halt Auction Price. Orders will be executed at the price that maximizes the number of shares executed in the auction. For ETPs, orders will be executed at the price level within the Collar Price Range that maximizes the number of shares executed in the auction. In the event of a volume based tie at multiple price levels, the price level closest to the issuing price will be used for IPO Auctions and the price level closest to the Final Last Sale Eligible Trade will be used for Halt Auctions.[Where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would participate in a Halt Auction, the Halt Auction will occur at the price of the Final Last Sale Eligible Trade. Where there are no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would participate in an IPO Auction, the IPO Auction will occur at the issuing price.] The IPO Auction price will be BATS Official IPO Opening Price.

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(e) Volatility Closing Auction. Where a security is halted between 3:50 p.m. and 4:00 p.m. pursuant to Rule 11.18 or the Quote-Only Period of a Halt Auction for a security halted before 3:50 p.m. pursuant to Rule 11.18 would otherwise be extended by the Exchange after 3:50 p.m., no Closing Auction or Halt Auction for the security will occur. Instead, the Exchange will conduct a Volatility Closing Auction at 4:00 p.m. as described below.

(1) (No changes.)

(2) Volatility Closing Auction Process.

(A) (No changes.)

(B) Determination of Closing Price. Orders will be executed at the price level within the Collar Price Range that maximizes the number of shares executed in the auction. In the event of a volume based tie at multiple price levels, the price level closest to the Final Last Sale Eligible Trade will be used for Volatility Closing Auctions.[Where no limit orders from one or both sides (the buy side, the sell side, or both the buy and sell side) would participate in a Volatility Closing Auction, the Volatility Closing Auction will occur at the price of the Final Last Sale Eligible Trade.] The Volatility Closing Auction price will be the BATS Official Closing Price.

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