| OMB APPROVAL |
|---|
| OMB Number: 3235-0045<br>Estimated average burden<br>hours per response............38 |

*Required fields are shown with yellow backgrounds and asterisks.*

Page 1 of * 27

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

File No.* SR - 2016 - * 06
Amendment No. (req. for Amendments *)

Filing by BATS Exchange

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

| Initial * | Amendment * | Withdrawal | Section 19(b)(2) * | Section 19(b)(3)(A) * | Section 19(b)(3)(B) * |
|---|---|---|---|---|---|
| ☑ | ☐ | ☐ | ☐ | ☑ | ☐ |

| Pilot | Extension of Time Period for Commission Action * | Date Expires * |
|---|---|---|
| ☐ | ☐ | |

Rule

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

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

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

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

Section 3C(b)(2) * ☐

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

**Description**

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

BATS Exchange, Inc. proposes a rule change to amend Rule 21.16, Risk Monitor Mechanism, relating to the BATS Equity Options Trading Platform.

**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 * SVP, Associate General Counsel
E-mail * afranzon@bats.com
Telephone * (913) 815-7154 Fax

**Signature**

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

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

Date 01/25/2016
By Anders Franzon
(Name *)

(Title *)
SVP, 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.

afranzon@bats.com

*Required fields are shown with yellow backgrounds and asterisks.*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

| | |
|---|---|
| **Form 19b-4 Information *** Add Remove View | The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act. |
| **Exhibit 1 - Notice of Proposed Rule Change *** Add Remove View | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| **Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *** Add Remove View | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| **Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications** Add Remove View Exhibit Sent As Paper Document ☐ | Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G. |
| **Exhibit 3 - Form, Report, or Questionnaire** Add Remove View Exhibit Sent As Paper Document ☐ | Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change. |
| **Exhibit 4 - Marked Copies** Add Remove View | The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working. |
| **Exhibit 5 - Proposed Rule Text** Add Remove View | The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change. |
| **Partial Amendment** Add Remove View | If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions. |

1. Text of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] BATS Exchange, Inc. (the "Exchange" or "BATS") is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend Rule 21.16, entitled "Risk Monitor Mechanism", in order to modify the risk monitoring functionality offered to all Users[3] of the BATS equity options trading platform ("BZX Options"). 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.[4]

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on February 11, 2014. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

[2] 17 CFR 240.19b-4.

[3] As defined in Exchange Rule 16.1(a)(63), a User is any Exchange member or sponsored participant authorized to obtain access to the Exchange.

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

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

Eric Swanson
EVP, General Counsel
(212) 378-8523

Anders Franzon
SVP, 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 purpose of the proposed rule change is to amend Exchange Rule 21.16 to modify the method by which the BZX Options Risk Monitor Mechanism measures risk and to modify the ability of a User to reset the Risk Monitor Mechanism when risk has been triggered in the Firm Category, as described below.

*Background*

Currently, the Exchange’s Risk Monitor Mechanism operates by maintaining a counting program for each User. A User may configure a single counting program or multiple counting programs to govern its trading activity (i.e., on a port by port basis). The System engages the Risk Monitor Mechanism in a particular option when the counting program has determined that a User’s trading has reached one of several specified triggers (“Specified Engagement Trigger”) established by such User during a specified time period or on an absolute basis.

*Elimination of Option Categories*

The current counting program counts executions in the following “Option Categories”: front-month puts, front-month calls, back-month puts, and back-month calls (each an "Option Category").[5] The counting program also counts a User's executions, contract volume and notional value across all options which a User trades ("Firm Category"). The Exchange proposes to eliminate the concept of the Option Category, such that the counting program will instead operate per option across all Option Categories (i.e., all front-month puts, front-month calls, back-month puts, and back-month calls). The Exchange does not propose to amend the Firm Category of the Risk Monitor Mechanism.

The Exchange believes that the change will result in a Risk Monitor Mechanism that is more consistent with that offered by other options exchanges. Although the Exchange implemented its Risk Monitor Mechanism with the concept of Option Categories for technical reasons, the Exchange is not aware of any other options exchange that uses the concept of Option Categories in the context of its risk mechanism.

*Calculation of Percentage-Based Engagement Trigger*

The Exchange currently offers a Specified Engagement Trigger to the Risk Monitor Mechanism based on percentage under Exchange Rule 21.16(b)(ii) (the "percentage trigger"). The percentage trigger is triggered whenever a trade counter has calculated that the User has traded a set percentage within a set time period against the User's orders in a specified class. The set percentage is specified by the User (the "Specified Percentage") and is proposed to be calculated as follows (and as shown in the examples below): (1) a counting program would first calculate, for each series of an

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5 For the purposes of Rule 21.16, a front-month put or call is an option that expires within the next two calendar months, including weeklies and other non-standard expirations, and a back-month put or call is an option that expires in any month more than two calendar months away from the current month.

option class, the percentage of each User's orders or Market Maker's quotes that are executed on each side of the market, including both displayed and non-displayed size; and (2) the counting program would then sum the overall series percentages for the entire option class to calculate the percentage trigger. The Exchange proposes to specify this methodology in Rule 21.16. As proposed, the Exchange would no longer aggregate all bids and offers in each series for purposes of counting the percentage trigger, as it currently does, but would instead count bids and offers in each series separately.

For example, assume a User enters 100 contract orders at both the National Best Bid ("NBB") and National Best Offer ("NBO") in two series of a class, its Specified Percentage is 100%, and the four executions in the example below occur within the time period specified by the User. The counting program would calculate the percentage of quote risk mechanism as follows:

| **Event / Series** | **Bid Size** | **# of Contracts Executed - Bids** | **Offer Size** | **# of Contracts Executed - Offers** | **Percentage of Quote of Execution** | **Aggregate Percentage of Quote following Execution** |
|---|---|---|---|---|---|---|
| Quotes Entered: Series 1 | 100 | 0 | 100 | 0 | 0% | 0% |
| Quotes Entered: Series 2 | 100 | 0 | 100 | 0 | 0% | 0% |
| Sell order for 40 contracts: Series 1 | 100 | 40 | 100 | 0 | 40% | 40% |
| Buy order for 50 contracts: Series 1 | 60 | 0 | 100 | 50 | 50% | 90% |
| Sell order for 5 contracts: | 100 | 5 | 100 | 0 | 5% | 95% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Series 2 | | | | | | |
| Buy order for 10 contracts: Series 2 | 95 | 0 | 100 | 10 | 10% | 105% |

In this example, the aggregate percentages of the User's quotes on each side in all series during the time period is 105%,[6] thus exceeding the specified percentage of 100%, at which point the percentage trigger would be triggered and the User's remaining orders in the appointed class would be cancelled.

*Re-Setting of Risk Monitor Mechanism*

Under current Rule 21.16, when a Specified Engagement Trigger is reached in the Firm Category, the Risk Monitor Mechanism will automatically remove such User's orders in all series of all options and reject any additional orders from a User until the counting program has been reset in accordance with paragraph (d) of the rule. The Risk Monitor Mechanism will also attempt to cancel any orders that have been routed away to other options exchanges on behalf of the User. The Exchange proposes to further amend Rule 21.16 so that unless otherwise instructed by a User, in the event a Specified

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6 As set forth in the table and consistent with the methodology as proposed to be defined in Rule 21.16, the percentage trigger is calculated by individually calculating the percentage of each execution in each series on each of the bid and the offer and then summing each of these percentages together. The percentage, thus, does not calculate the actual percentage as a whole in the options class over the time period – in the example, 105 contracts out of 400 contracts were executed over the time period yet this does not result in a percentage calculation of 26.25%. Instead, 40% of the quoted bid in Series 1 is executed, then 50% of the quoted offer in Series 1 is executed, then 5% of the quoted bid in Series 2 is executed, and finally 10% of the quoted offer in Series 2 is executed. By summing these percentages, the percentage trigger equals 105%. As set forth elsewhere in the proposal, the Exchange believes that this counting methodology is similar to that offered by other options exchanges.

Engagement Trigger is reached in the Firm Category, the Exchange will not allow a User to automatically reset the counting program and Users will instead need to contact the Exchange to request a reset. Because reaching a Specified Engagement Trigger in the Firm Category should be a rare event, the Exchange believes that most Users will prefer to pause in the event of a trigger, review the circumstances, and then slowly re-enter the market. The Exchange is proposing to maintain the ability to automatically reset the counting program, however, because that is how the Risk Monitor Mechanism operates today and because it is possible that a User's risk management program is established in a way where the User would take the trigger into account but prefers the ability to automatically reset to control their re-entry to the market rather than needing to contact the Exchange.

(b) Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[7] Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,[8] because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The

[7] 15 U.S.C. 78f(b).

[8] 15 U.S.C. 78f(b)(5).

Exchange believes that the proposal is appropriate and reasonable because it offers additional functionality for Users to manage their risk.

Modifying the Risk Monitor Mechanism to eliminate the Option Category concept will allow Users to manage their risk in each option class in a way that is more consistent with the way they manage risk on other option exchanges. As noted above, although the Exchange implemented its Risk Monitor Mechanism with the concept of Option Categories for technical reasons, the Exchange is not aware of any other options exchange that uses the concept of Option Categories in the context of its risk mechanism.

Offering the percentage trigger without aggregation across the bid and the offer as part of the Risk Monitor Mechanism will provide Market Makers and other Users with greater control and flexibility with respect to managing risk and the manner in which they enter orders and quotes, which removes impediments to a free and open market and benefits all Users of BZX Options. The Exchange notes that similar functionality is offered by NYSE Arca, Inc. ("NYSE Arca Options") and NYSE Amex Options, Inc. ("NYSE Amex Options").[9]

Finally, creating a default that prevents the automatic reset of the counting program in the event a Specified Engagement Trigger is reached in the Firm Category will provide additional controls to Users that are trying to manage their risk. At the same time, allowing Users to maintain the ability to automatically reset the counting program will maintain the status quo with respect to the current Risk Monitor Mechanism and will allow Users to tailor their risk management programs as appropriate to their operations.

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9 See NYSE Arca Options Rule 6.40(d); see also NYSE Amex Options Rule 928NY(d).

The Exchange believes that this change is a modest extension of the current rule, that it is consistent with the overall purpose of the rule (*i.e.*, to mitigate risk), and that it does not raise any policy issues particularly because a User can still optionally use the same functionality offered today by informing the Exchange that it still wishes to utilize the feature to automatically reset the counting program even if a Specified Engagement Trigger has been reached in the Firm Category.

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, the proposed changes to the Exchange's Risk Monitor Mechanism will generally make the Exchange's offering more consistent with that offered by other exchanges. Thus, the proposed rule change will promote competition because it will allow the Exchange to offer its Users similar features as are available at other exchanges and thus further compete with other exchanges for order flow.

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 this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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 believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)[10] of the Act and Rule 19b-4(f)(6)(iii) thereunder[11] because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. Furthermore, Rule 19b-4(f)(6)(iii)[12] requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

The Exchange believes that its rule change proposal is appropriate for filing on an immediately effective basis under paragraph (f)(6) of Rule 19b-4. In particular, the Exchange believes that this proposal is non-controversial, will not significantly affect the protection of investors or the public interest, and is eligible to become effective immediately because it raises no novel issues and is substantially based on similar functionality that is available on the Exchange and on multiple competing exchanges.[13]

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[10] 15 U.S.C. § 78s(b)(3)(A)

[11] 17 CFR 240.19b-4(f)(6)(iii).

[12] Id.

[13] For example, NYSE Arca Options Rule 6.40(d) and NYSE Amex Options Rule 928NY(d) each provide for “Percentage-Based Risk Limitation Mechanism,” which are similar to the percentage trigger proposed by the Exchange and do not measure risk with regard to Option Categories.

Moreover, the Exchange believes that the proposal is consistent with the protection of investors and the public interest because it will permit Users to better manage their risk more consistently across options exchanges by eliminating nuanced differences from the Exchange's offering. Consistent with the ability to better manage risk, the Exchange anticipates that the proposed rule change could enhance the Exchange's overall market liquidity for series traded on the Exchange, which would benefit investors and the public interest. Additionally, the Exchange believes that the proposed rule change would not impose any significant burden on competition, but rather, that the proposal fosters competition. For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4.[14]

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests the Commission to waive the noted operative delay so that the Exchange may implement the proposal on or about February 8, 2016, when the Exchange anticipates that the features will be available. Such waiver is appropriate in order to provide Users with a risk mechanism that is more similar to that offered by other options exchanges and will assist Users in providing liquidity on the Exchange consistent with their risk profile, thus improving overall market quality on the Exchange for the benefit of all investors and the public. Waiver of the operative delay will enable these benefits to become available without undue delay. The Exchange

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[14] Id.

notes that this proposal does not propose any new policies or provisions that are unique or unproven, as the changes proposed herein are changes to the Exchange's rules based on the rules of another self-regulatory organization[15] or are non-controversial changes related to the functional implementation of the Risk Monitor Mechanism.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 Rule of Another Self-Regulatory Organization or of the Commission

The Exchange's proposed amendment to the methodology for calculating the percentage of quote engagement trigger is based on and is substantially similar in all material respects to NYSE Arca Options Rule 6.40(d) and NYSE Amex Rule 928NY(d), neither of which aggregates bids and offers in conducting such calculation. Similarly, the elimination of the Option Category concept from the Exchange's Risk Monitor Mechanism is consistent with such rules, as such rules do not contain such a concept.

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.

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15 See supra notes 9 and 13.

11. Exhibits

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

Exhibits 2 – 4: Not applicable.

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____________; File No. SR-BATS-2016-06

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 21.16, Risk Monitor Mechanism, Relating to the BATS Equity Options Trading Platform

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 Act[3] and Rule 19b-4(f)(6)(iii) thereunder,[4] which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to amend Rule 21.16, entitled "Risk Monitor Mechanism", in order to modify the risk monitoring functionality offered to all Users[5] of the BATS equity options trading platform ("BZX Options").

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

2 17 CFR 240.19b-4.

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

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

5 As defined in Exchange Rule 16.1(a)(63), a User is any Exchange member or sponsored participant authorized to obtain access to the Exchange.

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 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 purpose of the proposed rule change is to amend Exchange Rule 21.16 to modify the method by which the BZX Options Risk Monitor Mechanism measures risk and to modify the ability of a User to reset the Risk Monitor Mechanism when risk has been triggered in the Firm Category, as described below.

*Background*

Currently, the Exchange's Risk Monitor Mechanism operates by maintaining a counting program for each User. A User may configure a single counting program or multiple counting programs to govern its trading activity (i.e., on a port by port basis). The System engages the Risk Monitor Mechanism in a particular option when the counting program has determined that a User's trading has reached one of several specified triggers ("Specified Engagement Trigger") established by such User during a specified time period or on an absolute basis.

*Elimination of Option Categories*

The current counting program counts executions in the following "Option Categories": front-month puts, front-month calls, back-month puts, and back-month calls (each an "Option Category").[6] The counting program also counts a User's executions, contract volume and notional value across all options which a User trades ("Firm Category"). The Exchange proposes to eliminate the concept of the Option Category, such that the counting program will instead operate per option across all Option Categories (i.e., all front-month puts, front-month calls, back-month puts, and back-month calls). The Exchange does not propose to amend the Firm Category of the Risk Monitor Mechanism.

The Exchange believes that the change will result in a Risk Monitor Mechanism that is more consistent with that offered by other options exchanges. Although the Exchange implemented its Risk Monitor Mechanism with the concept of Option Categories for technical reasons, the Exchange is not aware of any other options exchange that uses the concept of Option Categories in the context of its risk mechanism.

*Calculation of Percentage-Based Engagement Trigger*

The Exchange currently offers a Specified Engagement Trigger to the Risk Monitor Mechanism based on percentage under Exchange Rule 21.16(b)(ii) (the

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6 For the purposes of Rule 21.16, a front-month put or call is an option that expires within the next two calendar months, including weeklies and other non-standard expirations, and a back-month put or call is an option that expires in any month more than two calendar months away from the current month.

"percentage trigger"). The percentage trigger is triggered whenever a trade counter has calculated that the User has traded a set percentage within a set time period against the User's orders in a specified class. The set percentage is specified by the User (the "Specified Percentage") and is proposed to be calculated as follows (and as shown in the examples below): (1) a counting program would first calculate, for each series of an option class, the percentage of each User's orders or Market Maker's quotes that are executed on each side of the market, including both displayed and non-displayed size; and (2) the counting program would then sum the overall series percentages for the entire option class to calculate the percentage trigger. The Exchange proposes to specify this methodology in Rule 21.16. As proposed, the Exchange would no longer aggregate all bids and offers in each series for purposes of counting the percentage trigger, as it currently does, but would instead count bids and offers in each series separately.

For example, assume a User enters 100 contract orders at both the National Best Bid ("NBB") and National Best Offer ("NBO") in two series of a class, its Specified Percentage is 100%, and the four executions in the example below occur within the time period specified by the User. The counting program would calculate the percentage of quote risk mechanism as follows:

| **Event / Series** | **Bid Size** | **# of Contracts Executed - Bids** | **Offer Size** | **# of Contracts Executed - Offers** | **Percentage of Quote of Execution** | **Aggregate Percentage of Quote following Execution** |
|---|---|---|---|---|---|---|
| Quotes Entered: Series 1 | 100 | 0 | 100 | 0 | 0% | 0% |
| Quotes Entered: Series 2 | 100 | 0 | 100 | 0 | 0% | 0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Sell order for 40 contracts: Series 1 | 100 | 40 | 100 | 0 | 40% | 40% |
| Buy order for 50 contracts: Series 1 | 60 | 0 | 100 | 50 | 50% | 90% |
| Sell order for 5 contracts: Series 2 | 100 | 5 | 100 | 0 | 5% | 95% |
| Buy order for 10 contracts: Series 2 | 95 | 0 | 100 | 10 | 10% | 105% |

In this example, the aggregate percentages of the User's quotes on each side in all series during the time period is 105%,[7] thus exceeding the specified percentage of 100%, at which point the percentage trigger would be triggered and the User's remaining orders in the appointed class would be cancelled.

*Re-Setting of Risk Monitor Mechanism*

Under current Rule 21.16, when a Specified Engagement Trigger is reached in the

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[7] As set forth in the table and consistent with the methodology as proposed to be defined in Rule 21.16, the percentage trigger is calculated by individually calculating the percentage of each execution in each series on each of the bid and the offer and then summing each of these percentages together. The percentage, thus, does not calculate the actual percentage as a whole in the options class over the time period – in the example, 105 contracts out of 400 contracts were executed over the time period yet this does not result in a percentage calculation of 26.25%. Instead, 40% of the quoted bid in Series 1 is executed, then 50% of the quoted offer in Series 1 is executed, then 5% of the quoted bid in Series 2 is executed, and finally 10% of the quoted offer in Series 2 is executed. By summing these percentages, the percentage trigger equals 105%. As set forth elsewhere in the proposal, the Exchange believes that this counting methodology is similar to that offered by other options exchanges.

Firm Category, the Risk Monitor Mechanism will automatically remove such User's orders in all series of all options and reject any additional orders from a User until the counting program has been reset in accordance with paragraph (d) of the rule. The Risk Monitor Mechanism will also attempt to cancel any orders that have been routed away to other options exchanges on behalf of the User. The Exchange proposes to further amend Rule 21.16 so that unless otherwise instructed by a User, in the event a Specified Engagement Trigger is reached in the Firm Category, the Exchange will not allow a User to automatically reset the counting program and Users will instead need to contact the Exchange to request a reset. Because reaching a Specified Engagement Trigger in the Firm Category should be a rare event, the Exchange believes that most Users will prefer to pause in the event of a trigger, review the circumstances, and then slowly re-enter the market. The Exchange is proposing to maintain the ability to automatically reset the counting program, however, because that is how the Risk Monitor Mechanism operates today and because it is possible that a User's risk management program is established in a way where the User would take the trigger into account but prefers the ability to automatically reset to control their re-entry to the market rather than needing to contact the Exchange.

2. Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[8]

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[8] 15 U.S.C. 78f(b).

Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,[9] because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The Exchange believes that the proposal is appropriate and reasonable because it offers additional functionality for Users to manage their risk.

Modifying the Risk Monitor Mechanism to eliminate the Option Category concept will allow Users to manage their risk in each option class in a way that is more consistent with the way they manage risk on other option exchanges. As noted above, although the Exchange implemented its Risk Monitor Mechanism with the concept of Option Categories for technical reasons, the Exchange is not aware of any other options exchange that uses the concept of Option Categories in the context of its risk mechanism.

Offering the percentage trigger without aggregation across the bid and the offer as part of the Risk Monitor Mechanism will provide Market Makers and other Users with greater control and flexibility with respect to managing risk and the manner in which they enter orders and quotes, which removes impediments to a free and open market and benefits all Users of BZX Options. The Exchange notes that similar functionality is offered by NYSE Arca, Inc. ("NYSE Arca Options") and NYSE Amex Options, Inc. ("NYSE Amex Options").[10]

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[9] 15 U.S.C. 78f(b)(5).

[10] See NYSE Arca Options Rule 6.40(d); see also NYSE Amex Options Rule 928NY(d).

Finally, creating a default that prevents the automatic reset of the counting program in the event a Specified Engagement Trigger is reached in the Firm Category will provide additional controls to Users that are trying to manage their risk. At the same time, allowing Users to maintain the ability to automatically reset the counting program will maintain the status quo with respect to the current Risk Monitor Mechanism and will allow Users to tailor their risk management programs as appropriate to their operations. The Exchange believes that this change is a modest extension of the current rule, that it is consistent with the overall purpose of the rule (*i.e.*, to mitigate risk), and that it does not raise any policy issues particularly because a User can still optionally use the same functionality offered today by informing the Exchange that it still wishes to utilize the feature to automatically reset the counting program even if a Specified Engagement Trigger has been reached in the Firm Category.

(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, the proposed changes to the Exchange's Risk Monitor Mechanism will generally make the Exchange's offering more consistent with that offered by other exchanges. Thus, the proposed rule change will promote competition because it will allow the Exchange to offer its Users similar features as are available at other exchanges and thus further compete with other exchanges for order flow.

(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 this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (A) significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designate it has become effective pursuant to Section 19(b)(3)(A) of the Act[11] and paragraph (f)(6) of Rule 19b-4 thereunder,[12] the Exchange has designated this rule filing as non-controversial. The Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

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: (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.

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11 15 U.S.C. 78s(b)(3)(A).

12 17 CFR 240.19b-4.

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-2016-06 on the subject line.

Paper Comments:

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

All submissions should refer to File No. SR-BATS-2016-06. 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-2016-06 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.[13]

Robert W. Errett
Deputy Secretary

[13] 17 CFR 200.30-3(a)(12).

Note: Proposed new language is <u>underlined</u>.

**Rules of BATS Exchange, Inc.**

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**CHAPTER XVI. GENERAL PROVISIONS – BATS OPTIONS**

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**CHAPTER XXI. TRADING SYSTEMS**

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Rule 21.16. Risk Monitor Mechanism

(a) The System will maintain a counting program ("counting program") for each User. A single User may configure a single counting program or multiple counting programs to govern its trading activity (i.e., on a per port basis). The counting program will count executions of contracts traded by each User [and in specific Option Categories (as defined below) by each User]. The counting program counts executions, contract volume and notional value, within a specified time period established by each User (the "specified time period") and on an absolute basis for the trading day ("absolute limits"). The specified time period will commence for an option when a transaction occurs in any series in such option. [The counting program will count executions in the following "Options Categories": front-month puts, front-month calls, back-month puts, and back-month calls (each an "Option Category").] The counting program will also count a User's executions, contract volume and notional value across all options which a User trades ("Firm Category"). [For the purposes of this Rule 21.16, a front-month put or call is an option that expires within the next two calendar months, including weeklies and other non-standard expirations, and a back-month put or call is an option that expires in any month more than two calendar months away from the current month]

(b)

(i) Risk Monitor Mechanism. The System will engage the Risk Monitor Mechanism in a particular option when the counting program has determined that a User's trading has reached a Specified Engagement Trigger (as defined below) established by such User during the specified time period or on an absolute basis. When a Specified Engagement Trigger is reached in an <u>option</u>[Options Category], the Risk Monitor Mechanism will automatically remove such User's orders in all series of the particular option and reject any additional orders from a User in such option until the counting program has been reset in accordance with paragraph (d) below. When a Specified Engagement Trigger is reached in the Firm Category, the Risk Monitor Mechanism will automatically remove such User's orders in all series of all options and reject any additional orders from a User until the counting program has been reset in accordance with paragraph (d) below. The Risk Monitor Mechanism will also attempt to cancel any orders that have been routed away to other options exchanges on behalf of the User. Unless otherwise instructed by the User, the Exchange will not allow a User to automatically reset the counting program when the Specified Engagement Trigger has been reached in the Firm Category and Users will instead need to contact the Exchange to request a reset.

(ii) Specified Engagement Triggers. Each User can, optionally, establish Engagement Triggers[ in each Options Category,] per option[,] or in the Firm Category. Engagement Triggers can be set as follows:

(A) a contract volume trigger, measured against the number of contracts executed (the "volume trigger");

(B) a notional value trigger, measured against the notional value of executions ("notional trigger");

(C) an execution count trigger, measured against the number of executions ("count trigger"); and

(D) a percentage based trigger, measured against the number of contracts executed as a percentage of the number of contracts outstanding within a time period designated by the Exchange ("percentage trigger"). The percentage trigger specified shall be calculated as follows:

(1) the counting program shall first calculate, for each series of an option class, the percentage of a User's order size in the specified class or a Market Maker's quote size in the appointed class that is executed on each side of the market, including both displayed and non-displayed size;

(2) the counting program shall then sum the overall series percentages for the entire option class to calculate the percentage trigger.

(c)-(e) (No changes.)

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