BATS U.S. May 2011 Newsletter

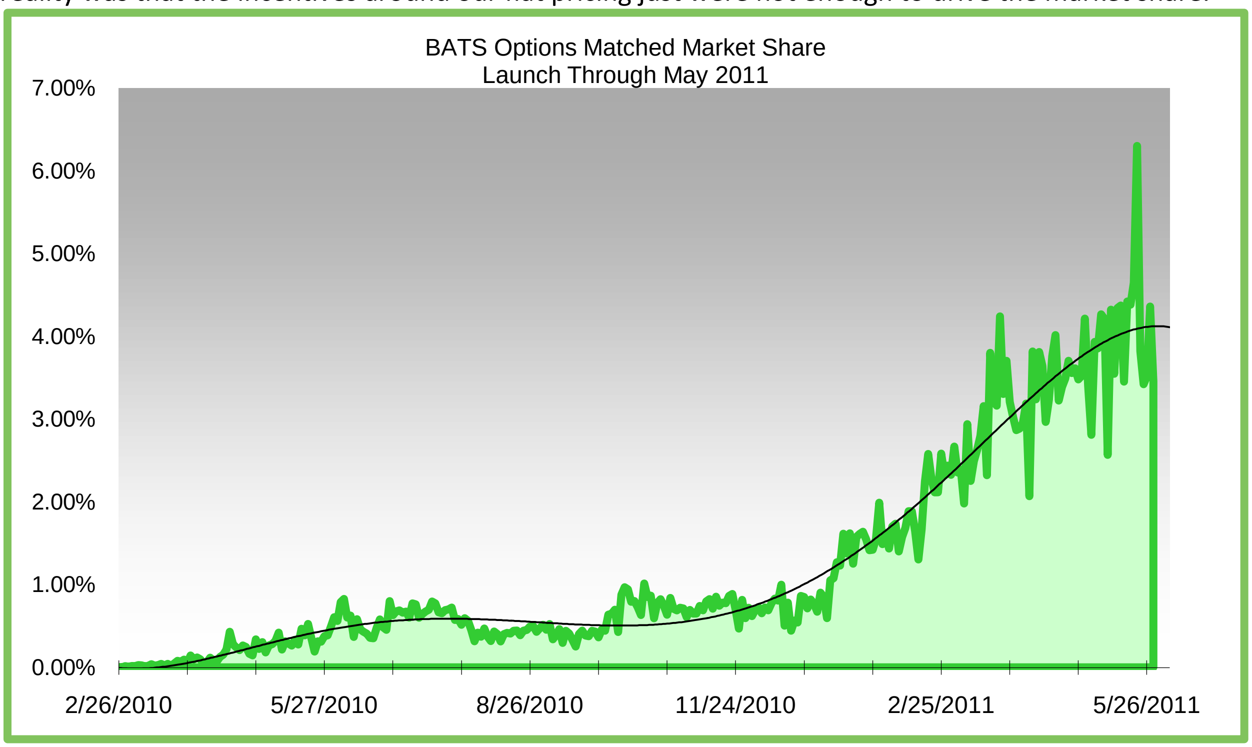
Dear BATS Members and Prospective Members,

One year ago, in May 2010, BATS Options completed its listings roll out. In June 2010, we lifted our market maker restriction, allowing the trading of all series listed on BATS, regardless of whether or not there was a market maker registered in that series.

Looking back on one year in production, there are some things that we got right; things that really worked. There are also some things that we tried that missed the mark. A constant that has run through the past year, one thing that we haven't wavered from, and that holds as true today as it ever has is our commitment to ***making markets better***.

What Did and Didn't Work

We came to market with a pricing structure that could not have been simpler. It was flat, it was clean, it was easy to understand and program into systems. We had heard the industry voice that said, "Options exchange pricing is too complex," and we responded. Our pricing was the same regardless of capacity, or tick type, the same for everybody and everything they could trade on BATS Options. This message around pricing was one that resonated with members. We were addressing their needs. We were lauded and complimented. But we gained little market share for it. While simpler sounded better, the reality was that the incentives around our flat pricing just were not enough to drive the market share.



During the 2nd half of last year, we tried something a little bit different – subsidized access to away markets. Expanding on the "one under" routing pricing concept that has been a success for us in the cash markets, we put in place an aggressive routing pricing schedule. The thought was: Attract valuable order flow to the BATS market. Once we have the orders coming in, we'll be able to get liquidity providers to actively make markets that interact with the new flow. The routing pricing brought the take flow in, but after an initial pop, there was no real change in the behavior of our liquidity providers. After a few months, it was clear that something else was needed… NBBO Setter.

The NBBO Setter program was introduced in January and has been a phenomenal success – so much so that we've carried it over to the cash side of the business where it is helping grow our business and drive liquidity provision there. By offering an ultra high rebate on orders that set new price levels in the market, we are providing a sizeable reward for the members who are taking the most risk and who are contributing the most to price discovery. The program is helping to keep spreads as narrow and tight as possible, a benefit to all market participants. As the benefits of the program are accruing to our members, market share on BATS Options has been ramping up quickly.

Continuing to Make Markets Better

Our directed order program has created some controversy. It seems like now that QCC has been passed and is in the books, some industry participants have decided that BATS is the next harbinger of doom to the listed options markets. Without fully understanding the structure of what we're proposing, or its positive implications for the markets with regards to price and size discovery and competition for valuable orders, they accuse us of fostering "dark markets" and internalization. BATS' commitment to ***making markets better*** is no less in the options market than in any other market that we've entered. Offering directed orders on BATS will make the markets better. Compare the structure of BATS continuous price-time auction to other price improvement auctions that are out there:

In other, similar programs, while avoiding the risk of trading against all incoming orders, directed order receiving firms are *guaranteed* an allocation of the orders directed to them, as long as they are willing to *only match* competitive prices. In these programs, firms can react a posteriori, with a full set of information on the orders and their parameters. In these auctions, a firm can react to a directed order *without the risk* of trading against all incoming orders, *without the obligation* to provide price improvement, and *with the guarantee of order allocation*. BATS' Proposal turns this structure on its head. Firms must act a priori. They must enter orders that *assume the risk* of trading with all participants. They must *commit to price improvement* without knowing the details of the order. And firms wishing to receive directed orders *have no guarantees* of *any* order allocation.

Let's make that even clearer. Market makers that wish to receive directed orders under our proposal would be *required to be quoting on the NBBO and at risk of trading against all incoming orders*. This is a competitive burden that is not present in other comparable programs. They must contribute to price discovery. They must contribute to size discovery. They must provide liquidity to the entire market. This is a healthily competitive structure, one that ***makes the markets better.***

In Closing

We look forward to continuing to work with all of our members, listening to your feedback on what is working and what isn't in the options markets. We look forward to growing our market share as we help you do your business in better ways. Thank you for your participation and thank you for helping us make the markets better.

Jeromee Johnson
VP, Head of US Options
BATS... Making Markets Better