

Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2011 - * 009

Amendment No. (req. for Amendments *) 2

Proposed Rule Change 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) *

☐

Rule

☐

19b-4(f)(1)

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19b-4(f)(4)

☐

19b-4(f)(2)

☐

19b-4(f)(5)

☐

19b-4(f)(3)

☐

19b-4(f)(6)

Pilot
☒Extension of Time Period
for Commission Action *☐

Date Expires *

Exhibit 2 Sent As Paper Document

☐

Exhibit 3 Sent As Paper Document

☐**Description**

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

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 proposed rule change.

First Name * Anders

Last Name * Franzon

Title * VP, Associate General Counsel

E-mail * afranzone@batstrading.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 officer.

Date 06/02/2011

By Anders Franzon

(Name *)

VP, Associate General Counsel

(Title *)

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.

Anders Franzon,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

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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 (required)

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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 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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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.

BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing this partial amendment to SR-BATS-2011-009, which was originally filed on March 16, 2011, and amended on March 24, 2011, to modify the proposal to further enhance competition by permitting BATS Options Members to send Directed Orders to more than one BATS Options Market Maker. In order to effect this change, BATS proposes to replace the proposed rule text in its entirety with the following:

* * * * *

CHAPTER XXI. TRADING SYSTEMS

Rule 21.1. Definitions

The following definitions apply to Chapter XXI for the trading of options listed on BATS Options.

(a) – (c) (No changes)

(d) The term “Order Type” shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) – (5) (No changes)

(6) “Price Improving Orders” are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as (1) one cent. Price Improving Orders [that are available for display shall] will be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. Unless a User has entered instructions not to do so, Price Improving Orders will be subject to the “displayed price sliding process.” Pursuant to the displayed price sliding process, a Price Improving Order that after rounding to the minimum price variation, or any other order to be displayed on the BATS Options Book that at the time of entry, would lock or cross a Protected Quotation (collectively, “the original locking price”):

(A) such order will be displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers); and

(B) in the event the NBBO changes such that the order at the original locking price would not lock or cross a Protected Quotation, the

order will receive a new timestamp, and will be displayed at the original locking price.

(7) – (12) (No changes)

(13) “Market Maker Price Improving Orders” are orders submitted by registered BATS Options Market Makers to buy or sell an option that have a displayed price and size, as well as a non-displayed price at which the BATS Options Market Maker is willing to trade with a Directed Order. The non-displayed price of a Market Maker Price Improving Order may be entered in increments as small as (1) one cent. Market Maker Price Improving Orders will be ranked on the BATS Options Book at their displayed price. The non-displayed price of a Market Maker Price Improving Order is not entered into the BATS Options Book but is, along with the displayed size, converted to a buy or sell order at its non-displayed price in response to a Directed Order directed to the BATS Options Market Maker. If the Directed Order is marketable against the non-displayed price of the Market Maker Price Improving Order, the Market Maker Price Improving Order will execute against a Directed Order directed to the BATS Options Market Maker up to the full displayed size, and at the non-displayed price, of the Market Maker Price Improving Order, so long as the following conditions are satisfied:

(A) at the time the Directed Order arrives to the Exchange, the displayed price of the Market Maker Price Improving Order is equal to the NBB (for sell Directed Orders) or the NBO (for buy Directed Orders), and

(B) there are no other orders on the BATS Options Book at prices equal to or better than the non-displayed price of the Market Maker Price Improving Order.

If there are other non-displayed orders on the BATS Options Book at prices equal to or better than the non-displayed price of the Market Maker Price Improving Orders, those other non-displayed orders will in all cases have priority over the non-displayed price of the Market Maker Price Improving Order. In such circumstances, the Market Maker Price Improving Order may still execute at its non-displayed price against the Directed Order consistent with the price/time priority provisions of Rule 21.8 to the extent of any remaining contracts of the Directed Order. If a Directed Order is directed to multiple BATS Options Market Makers, the Market Maker Price Improving Orders against which such Directed Order can execute will execute in price/time priority based on the non-displayed price of such orders.

(14) “Directed Orders” are orders from a BATS Options Member that are directed to one or more BATS Options Market Makers for execution. Directed Orders will be eligible to trade at a price better than the NBB or NBO with the BATS Options Market Maker(s) to whom the Directed Order is directed

if the BATS Options Member submitting the Directed Order has been permitted by the BATS Options Market Maker(s) to submit Directed Orders to the BATS Options Market Maker(s), and the BATS Options Market Maker(s) has or have posted a Market Maker Price Improving Order on the BATS Options Book in the security that has a displayed price equal to the NBB (for sell Directed Orders) or the NBO (for buy Directed Orders) at the time the Directed Order arrives to the Exchange. If these conditions are not met, the Directed Order will be processed on the Exchange, consistent with the terms of the Directed Order, in compliance with the order display and book processing provisions of BATS Rule 21.8 and, as applicable, with the order routing provisions of BATS Rule 21.9.

(e) – (g) (No changes)

* * * * *

In conjunction with the change to allow Directed Orders to be directed to more than one BATS Options Market Maker, the Exchange proposes to replace the last paragraph on page 7 of 30 of the purpose section with the following:

The second new order type proposed would be new Rule 21.1(d)(14), entitled Directed Orders, which are orders from a BATS Options Member that are directed for execution to one or more BATS Options Market Makers. For a BATS Options Market Maker to participate in an execution against a Directed Order, (1) the Directed Order must be from a BATS Options Member that is on a list of eligible Options Members provided to the Exchange by the BATS Options Market Maker, in a manner prescribed by the Exchange, (2) the BATS Options Market Maker must be publicly quoting on BATS at the NBB (for sell Directed Orders) or NBO (for buy Directed Orders) with a Market Maker Price Improving Order that contains a non-displayed amount of price improvement over the NBB or NBO at the time the Directed Order arrives to the Exchange, and (3) the Directed Order must be marketable against the non-displayed price of the Market Maker Price Improving Order.

The Exchange proposes replacing the same paragraph of the purpose section of Exhibit 1, beginning at the bottom of page 19 of 30.

The Exchange also proposes to add the following text to the end of the second paragraph on page 8 of 30 of the purpose section:

If a Directed Order is directed to multiple BATS Options Market Makers, the Market Maker Price Improving Orders against which such Directed Order can execute will execute in price/time priority based on the non-displayed price of such orders.

The Exchange proposes inserting the same language in the Exhibit 1 in the same location of the purpose section, at the top of page 21 of 30.

BATS believes the proposed modification more accurately reflects the reality of the multiple relationships today between OFPs and market makers, and would have the effect of further enhancing the competitive quoting the Proposal is designed to foster.