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

File No.* SR - 2015 - * 09
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 to amend rules 11.9, 11.12 and 11.13.

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
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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.

Date 01/30/2015

By Anders Franzon
(Name *)

(Title *)
VP, Associate General Counsel

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

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 Proposed Rule Change

Pursuant to 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 proposal to amend Rules 11.9, 11.12, and 11.13 to clarify and to include additional specificity regarding the current functionality of the Exchange's System,[3] including the operation of its order types and order instructions, as further described below.

(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

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

2 17 CFR 240.19b-4.

3 Exchange Rule 1.5(aa) defines "System" as "the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away."

comments on the proposed rule change are:

Eric Swanson	Anders Franzon
EVP, General Counsel	VP, Associate General Counsel
(913) 815-7000	(913) 815-7154

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

a. Purpose

On June 5, 2014, Chair Mary Jo White asked all national securities exchanges to conduct a comprehensive review of each order type offered to members and how it operates.[4] The proposals set forth below, therefore, are the product of a comprehensive review of Exchange system functionality conducted by the Exchange and are intended to add additional clarity and specificity regarding the current functionality of the Exchange's System,[5] including the operation of its order types and order instructions. The Exchange is not proposing any substantive modifications to the System.

The changes proposed below are designed to update the rulebook to reflect current System functionality and include: (i) making clear that orders with a Time-in-Force ("TIF") of Immediate-or-Cancel ("IOC") can be routed away from the Exchange; (ii) specifying the methodology used by the Exchange to determine whether BATS Post Only Orders[6] will remove liquidity from the BATS Book;[7] (iii) adding additional detail to

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4 *See* Mary Jo White, Chair, Commission, Speech at the Sandler O'Neill & Partners, L.P. Global Exchange and Brokerage Conference, (June 5, 2014) (*available at* http://www.sec.gov/News/Speech/Detail/Speech/1370542004312#.VD2HW610w6Y).

5 Exchange Rule 1.5(aa) defines "System" as "the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away."

6 See Rule 11.9(c)(6).

and re-structuring the description of Pegged Orders; (iv) adding additional detail to the description of Mid-Point Peg Orders; (v) adding additional detail to the description of Discretionary Orders; (vi) amending Rule 11.12, Priority of Orders, and Rule 11.13, Order Execution, to provide additional specificity and enhance the structure of Exchange rules describing the process for ranking, executing and routing orders; (vii) adding additional detail to the description of orders subject to Re-Route functionality; and (viii) making a series of conforming changes to Rules 11.9, 11.12 and 11.13 to update cross-references.

Routable Orders with Time in Force of Immediate-or-Cancel

The Exchange proposes to modify Rule 11.9(b)(1) to update the description of the TIF of IOC to make clear that orders with a TIF of IOC are routable even though such TIF indicates an instruction to execute an order immediately in whole or in part and/or cancel it back. Under current rules, the TIF of IOC indicates that an order is to be executed in whole or in part as soon as such order is received and the portion not executed is to be cancelled. The Exchange proposes to expand upon the description of IOC to specify that an order with such TIF may be routed away from the Exchange but that in no event will an order with such TIF be posted to the BATS Book. The Exchange notes that IOC orders routed away from the Exchange are in turn routed as IOC orders. The Exchange also notes that current Rule 11.13(a)(2) already includes reference to routable IOCs, and the proposed modifications to the rule text are intended to add further specificity that IOCs are routable.

In addition to the change described above, the Exchange proposes to make clear

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[7] As defined in Rule 1.5(e).

in Rule 11.9(b)(6) that an order with a TIF of FOK is not eligible for routing. Although orders with a TIF of FOK are generally treated the same as IOCs, the Exchange does not permit routing of orders with a FOK because the Exchange is unable to ensure the instruction of FOK (i.e., execution of an order in its entirety) through the routing process.

Finally, in connection with these changes, the Exchange also proposes to modify current Rule 11.13(a)(2) (to be re-numbered as Rule 11.13(b)(2)) to add the cancellation of an unfilled balance of an order as one possible outcome after an order has been routed away. Rule 11.13(a)(2) currently describes other variations of how the Exchange handles an order after it has been routed away, but does not specifically state that it may be cancelled after the routing process, which would be the case with an order submitted to the Exchange with a TIF of IOC.

Computation of Economic Best Interest for BATS Post Only Orders

The Exchange proposes to modify Rule 11.9(c)(6) to specify the methodology used by the Exchange to determine whether BATS Post Only Orders will remove liquidity from the Exchange's order book. Under the Exchange's current rules, a BATS Post Only Order is an order that an entering User[8] intends to be posted to the BATS Book, and thus will not ordinarily remove liquidity from the Exchange. However, BATS Post Only Orders will remove liquidity from the BATS Book if such execution is in the economic best interests of the User entering the BATS Post Only Order, taking into account applicable fees and rebates.[9] Specifically, as set forth in Rule 11.9(c)(6), BATS

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8 As defined in Exchange Rule 1.5(cc), a User is "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3."

9 See Securities Exchange Act Release No. 67093 (June 1, 2012), 77 FR 33798 (June 7, 2012) (SR-BATS-2012-018) (notice of filing and immediate

Post Only Orders remove liquidity from the BATS Book if the value of "price improvement" associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BATS Book and subsequently provided liquidity. The Exchange proposes three changes to the description of BATS Post Only Orders to make clear the methodology used in calculating whether a BATS Post Only Order should remove liquidity on entry. The Exchange notes that each of these changes will conform the Exchange's rule governing BATS Post Only Orders with Rule 11.6(n)(4) of the Exchange's affiliate, EDGX Exchange, Inc. ("EDGX").

First, the Exchange proposes to clarify that rather than requiring price improvement, which indicates an execution at a better price level than an order's limit price, the Exchange calculates the value of the overall execution taking into account applicable fees and rebates. Accordingly, to the extent the fee and rebate structure on its own (i.e., even at the limit price) makes it economically advantageous to remove liquidity rather than post to the BATS Book and subsequently provide liquidity, the Exchange will allow a BATS Post Only Order to remove liquidity.

Second, the Exchange proposes to make clear that this methodology is applied only to securities priced at $1.00 and above, and thus, that all BATS Post Only Orders in securities priced below $1.00 remove contra-side liquidity. The Exchange believes it is reasonable to allow BATS Post Only Orders to remove liquidity in lower priced securities because the Exchange's fee structure never has provided a significant rebate or charged a significant fee for such orders. Because the execution cost economics are

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effectiveness of rule change to amend the operation of BATS Post Only Orders).

relatively flat, the Exchange believes it is more efficient to simply allow all orders in such securities to remove liquidity.

Third, the Exchange proposes to make clear its methodology for determining the applicable fees and rebates given the fact that the Exchange maintains a tiered pricing structure. Under the Exchange's current tiered pricing structure, an entering User may receive a variable rebate for adding liquidity depending on the User's volume during the month in question. The Exchange determines whether Users qualify for higher rebates at the end of the month, looking back at the User's activity during the month. To account for this variable rebate structure and to ensure that the Exchange does not determine that an execution is in an entering User's economic best interests when, in fact, it is not due to a different rebate or fee[10] ultimately achieved by the User, the Exchange applies the highest possible rebate provided and highest possible fee charged for such executions on the Exchange. The Exchange proposes to make this rebate and fee assumption clear in the Exchange's rule text.

<u>Pegged Orders</u>

The Exchange proposes to restructure Rule 11.9(c)(8), related to Pegged Orders, and to add additional detail to such Rule regarding the handling of such orders. With respect to restructuring, the Exchange currently offers two types of Pegged Orders pursuant to Rule 11.9(c)(8), Primary Pegged Orders and Market Pegged Orders, and believes that each types of Pegged Order would be easier to understand if described in separate paragraphs. Given the proposal to split the Rule to address Primary Pegged

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10 The Exchange notes that its current fee structure does not have a variable fee depending on trading activity during the month. If, in the future, the Exchange implements such a fee structure the Exchange will use the highest possible fee for purposes of Rule 11.9(c)(6).

Orders and Market Pegged Orders separately, the Exchange also proposes to add an additional lead-in sentence that summarizes the operation of Pegged Orders generally.

Mid-Point Peg Orders

The Exchange proposes to add additional specificity regarding Mid-Point Peg Orders and the handling of such orders when the market is locked or crossed. Specifically, the Exchange proposes to add language stating that upon instruction from a User Mid-Point Peg Orders will not execute when the market is locked. The Exchange makes this feature optional because while some Users may prefer not to execute in a locked market given that there is no real mid-point in such a situation and it might be evidence of a pricing disparity in a security, other Users may prefer an execution. The Exchange also proposes to state that Mid-Point Peg Orders are not eligible to execute when the NBBO is crossed. The Exchange does not execute Mid-Point Peg Orders in a crossed market because the pricing of the mid-point, and the security generally, is uncertain in such a situation.

Discretionary Orders

The Exchange proposes to amend the description of Discretionary Orders contained in Rule 11.9(c)(10) and to add additional detail regarding the execution of such orders, as set forth below. First, the current description indicates that a Discretionary Order has a displayed price and size and a non-displayed “discretionary price”. The Exchange proposes to make clear that although a Discretionary Order may have a displayed price and size as well as a discretionary price, a Discretionary Order may also be fully non-displayed, and thus, will have a non-displayed ranked price as well as a discretionary price. In addition to reflecting the ability to have a non-displayed

Discretionary Order, the Exchange proposes various minor wording changes to improve the description of Discretionary Orders to make clear that such orders use the minimum amount of discretion when executing against incoming orders.

The Exchange also proposes to make clear how a Discretionary Order interacts with a BATS Post Only Order or Partial Post Only at Limit Order entered at the displayed or non-displayed ranked price of such Discretionary Order that does not remove liquidity on entry pursuant to Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively, by stating that the Discretionary Order is converted to an executable order and will remove liquidity against such incoming order. Similar to the Re-Route functionality described below, due to the fact that Discretionary Orders contain more aggressive prices at which they are willing to execute, the Exchange treats Discretionary Orders as aggressive orders that would prefer to execute at their displayed or non-displayed ranked price than to forgo an execution due to applicable fees or rebates. Accordingly, in order to facilitate transactions consistent with the instructions of its Users, the Exchange executes resting Discretionary Orders (and certain orders with a Re-Route instruction, as described below) against incoming orders, when such incoming orders would otherwise forego an execution. The Exchange notes that the determination of whether an order should execute on entry against resting interest, including against resting Discretionary Orders, is made prior to determining whether the price of such an incoming order should be adjusted pursuant to the Exchange's price sliding functionality pursuant to Rule 11.9(g). In other words, an execution will have already occurred as set forth above before the Exchange would consider whether an order could be displayed and/or posted to the BATS Book, and if so, at what price.

Examples – Discretionary Order Executes against BATS Post Only Orders

Assume that the NBBO is $10.00 by $10.05, and the Exchange's BBO is $9.99 by $10.06. Assume that the Exchange receives a non-routable order to buy 100 shares of a security at $10.00 per share designated with discretion to pay up to an additional $0.05 per share.

- Assume that the next order received by the Exchange is a BATS Post Only Order to sell 100 shares of the security at priced at $10.03 per share. The BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality, and would post to the BATS Book at $10.03. This would, in turn, trigger the discretion of the resting buy order and an execution would occur at $10.03. The BATS Post Only Order to sell would be treated as the adder of liquidity and the buy order with discretion would be treated as the remover of liquidity.
- Assume the same facts as above, but that the incoming BATS Post Only Order is priced at $10.00 instead of $10.03. As is true in the example above, the BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality. Rather than cancelling the incoming BATS Post Only Order to sell back to the User, particularly when the resting order is willing to buy the security for up to $10.05 per share, the Exchange executes at $10.00 the BATS Post Only Order against the resting buy order with discretion. As is also true in the example above, the BATS Post Only Order to sell would be

treated as the liquidity adder and the buy order with discretion would be treated as the liquidity remover. As set forth in more detail below, if the incoming order was not a BATS Post Only Order to sell, the incoming order could be executed at the ranked price of the Discretionary Order without restriction and would therefore be treated as the liquidity remover.

Additionally, the Exchange proposes to codify the process by which it handles all incoming orders that interact with Discretionary Orders. First, the Exchange proposes to codify its handling of a contra-side order that executes against a resting Discretionary Order at its displayed or non-displayed ranked price or that contains a time-in-force of IOC or FOK and a price in the discretionary range by expressly stating that such an incoming order will remove liquidity against the Discretionary Order. Second, the Exchange proposes to codify its handling of orders that are intended to post to the BATS Book at a price within a Discretionary Order's discretionary range. This includes, but is not limited to, BATS Post Only Orders and Partial Post Only at Limit Orders. Specifically, the Exchange proposes to codify current System functionality whereby any contra-side order with a time-in-force other than IOC or FOK and a price within the discretionary range but not at the displayed or non-displayed ranked price of a Discretionary Order will be posted to the BATS Book and then the Discretionary Order will remove liquidity against such posted order.

Examples – Discretionary Order Executes against Non-Post Only Orders

Assume that the NBBO is $10.00 by $10.05, and the Exchange's BBO is $9.99 by $10.06. Assume that the Exchange receives an order to buy 100 shares of a security at $10.00 per share designated with discretion to pay up to an additional $0.05 per share.

- Assume that the next order received by the Exchange is a BATS Only Order to sell 100 shares of the security with a TIF other than IOC or FOK priced at $10.03 per share. The BATS Only Order would not remove any liquidity upon entry and would post to the BATS Book at $10.03. This would, in turn, trigger the discretion of the resting buy order and an execution would occur at $10.03. The BATS Only Order to sell would be treated as the adder of liquidity and the buy order with discretion would be treated as the remover of liquidity.
- Assume the same facts as above, but that the incoming BATS Only Order is priced at $10.00 instead of $10.03. The BATS Only Order would remove liquidity upon entry at $10.00 per share pursuant to the Exchange's order execution rules, as described in detail below. Contrary to the examples set forth above, the BATS Only Order to sell would be treated as the liquidity remover and the resting buy order with discretion would be treated as the liquidity adder. The Exchange notes that this example operates the same whether an order contains a TIF of IOC, FOK or any other TIF.

The Exchange also proposes to modify the current description of the Discretionary Order by eliminating language stating, "[i]f a Discretionary Order is not executed in full, the unexecuted portion of the order is automatically re-posted and displayed in the BATS Book with a new timestamp, at its original displayed price, and with its non-displayed discretionary price offset." The Exchange believes this language is unnecessarily confusing because the unexecuted portion of Discretionary Orders does not actually re-post solely because part of the order was executed. Rather, the remaining portion will remain resting on the BATS Book without being removed from the BATS Book.

Finally, because Discretionary Orders have both a price at which they will be ranked and an additional discretionary price, the Exchange proposes to expressly state how the Exchange handles a routable Discretionary Order by stating that such an order will be routed away from the Exchange at its full discretionary price. As an example, assume the NBBO is $10.00 by $10.05 and the Exchange's BBO is $9.99 by $10.06. If the Exchange receives a routable Discretionary Order to buy at $10.00 with discretion to pay up to an additional $0.05 per share, the Exchange would route the order as a limit order to buy at $10.05. Any unexecuted portion of the order would be posted to the BATS Book with a ranked price of $10.00 and discretion to pay up to $10.05.

Priority and Execution Algorithm

With respect to the Exchange's priority and execution algorithm, the Exchange is proposing various minor and structural changes that are intended to emphasize the processes by which orders are accepted, priced, ranked and executed, as well as a new provision related to the ability of orders to rest at locking prices that is consistent with the changes to provisions related to the operation of Discretionary Orders described above. First, the Exchange proposes to modify Rule 11.12, Priority of Orders, to make clear that the ranking of orders described in such rule is in turn dependent on Exchange Rule 11.13(a) which discusses the pricing and execution of orders. The Exchange believes that this has always been the case under Exchange rules based on the reference to the "Execution Process" in Rule 11.12; however, this reference did not include a cross-reference to Rule 11.13. The Exchange also proposes to change the reference within Rule 11.12 to refer to ranking rather than executing equally priced trading interest, as the Rule as a whole is intended to describe the manner in which resting orders are ranked and maintained, specifically in price and time priority, while awaiting execution against incoming orders. The Exchange does not believe that the proposed modifications substantively modify the operation of the rules; however, the Exchange believes that it is important to clarify that the ranking of orders is a separate process from the execution of orders.

The Exchange also proposes to specify in Rule 11.12(a)(2)(C) that the priority afforded to Pegged Orders is applicable to all non-displayed Pegged Orders. The Exchange recently began accepting Primary Pegged Orders that can be displayed, and if so displayed, the Exchange ranks such orders with all other displayed orders. Thus, the Exchange proposes to clarify that reference to Pegged Orders in 11.12(a)(2)(C), which have lower priority than the displayed size of limit orders and non-displayed orders, is a reference specifically to non-displayed Pegged Orders.

Further, the Exchange proposes to adopt new Rule 11.12(a)(3), which recognizes existing match trade prevention rules that optionally prevent the execution of orders from the same User (i.e., based on the User's "Unique Identifier", as set forth in Rule 11.9(f)) by stating that in such a case the System will not permit such orders to execute against one another regardless of priority ranking. Proposed Rule 11.12(a)(3) is based on EDGX Rule 11.9(a)(3). The Exchange also proposes changes to current Rule 11.9(a)(3) and (a)(4) to re-number such rules as (a)(4) and (a)(5) as well as to clarify that orders retain and lose "time" priority under certain circumstances, as opposed to priority generally, because retaining or losing price priority does not require the same descriptions, as price priority will always be retained unless the price of an order changes.

Next, the Exchange proposes to re-structure Rule 11.13, which currently governs both execution and routing logic on the Exchange, by more clearly delineating between execution (to be contained in new paragraph (a)) and routing (to be contained in new paragraph (b)) and by adding additional sub-headings to the execution section. In this connection, the Exchange proposes to move language contained within Rule 11.13 to the beginning of new paragraph (a) such that the language is more generally applicable to the rules governing execution. Specifically, the Exchange proposes to relocate language stating that any order falling within the parameters of this paragraph shall be referred to as “executable” and that an order will be cancelled back to the User if, based on market conditions, User instructions, applicable Exchange Rules and /or the Act and the rules and regulations thereunder, such order is not executable, cannot be routed to another Trading Center pursuant to Rule 11.13(b) (as proposed to be re-numbered) or cannot be posted to the BATS Book. The proposed sub-headings for paragraph (a) regarding order execution are intended to delineate between the various rules and National Market System (“NMS”) plans that may render an order executable or not, including Regulation NMS and Regulation SHO. The Exchange is proposing to add a cross-reference in Rule 11.13(a)(3) to its rules related to the Limit Up-Limit Down Plan, which is contained in Rule 11.18(e).

The Exchange proposes to adopt paragraph (C) of Rule 11.13(a)(4) to provide further clarity regarding the situations where orders are not executable, which although covered in other existing rules, would focus on the incoming order on the same side of a displayed order rather than the resting order that is rendered not executable because it is opposite such displayed order. The proposed provision would replace existing text set forth in Rule 11.13(a)(1) to acknowledge that, under certain circumstances, there can be locking interest on the Exchange but that such interest will not be displayed by the System as a locked market. Proposed paragraph (C) would further state that if an incoming order is on the same side of the market as an order displayed on the BATS Book and upon entry would execute against contra-side interest at the same price as such displayed order, such incoming order will be cancelled or posted to the BATS Book and ranked in accordance with Rule 11.12. The Exchange does not allow non-displayed interest that locks a contra-side displayed order to execute at such price to avoid an apparent priority issue.

To demonstrate the functionality in place on the Exchange described above, assume the NBBO is $10.10 by $10.11. Assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at $10.10 per share and a resting non-displayed bid to buy 100 shares of a security priced at $10.11 per share. For purposes of this example, assume the resting non-displayed bid has not selected the Re-Route functionality, which, as described in further detail below, could make a resting order executable against an incoming BATS Post Only Order under certain circumstances.

- Assume that the next order received by the Exchange is a BATS Post Only Order to sell 100 shares of the security priced at $10.11 per share. The BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality, would post to the BATS Book, and would be displayed at $10.11. The display of this order would, in turn, make the resting non-displayed bid not executable at $10.11.

- Assume the next order received by the Exchange is an order to sell 100 shares of the security priced at $10.11 per share. The order would not remove any liquidity upon entry because there is a displayed order to sell at $10.11 posted on the BATS Book and thus, by rule, the Exchange does not maintain any executable buy interest priced at $10.11. If the later arriving order to sell at $10.11 contained a TIF other than IOC or FOK, it would be posted to the BATS Book and displayed at $10.11. If the later arriving order to sell at $10.11 contained a TIF of IOC or FOK, it would be cancelled back to the User.
- To the extent the BATS Book is in the state set forth to conclude the examples above, with a non-executable bid to buy at $10.11 and one or more offers to sell displayed by the Exchange at $10.11; there are several potential outcomes. For instance, any incoming order to buy at $10.11 or higher[11] will execute against the displayed order(s) to sell, as such resting orders are fully executable and displayed as available offers on the BATS Book. Once all displayed liquidity to sell at $10.11 has been executed on

11 The Exchange notes that an incoming order for purposes of comparison to a resting order can be any incoming order unless the terms of that incoming order itself preclude execution. For instance, in this example, an incoming buy order could be routable or non-routable, the order could be selected for potential display or could include instructions not to display the order, the order could have a discretionary price, or several other characteristics. Upon entry, unless the terms of the order preclude removing liquidity, such as a BATS Post Only order, the characteristics that govern the way that the order may be handled once posted to the Exchange's order book are irrelevant and any incoming buy order priced at $10.11 or higher will execute against the resting offers.

> the Exchange, the resting non-displayed bid to buy at $10.11 will again be fully executable. Similarly, if the resting displayed orders to sell that are priced at $10.11 are cancelled then the resting non-displayed bid to buy at $10.11 will again be fully executable at that price. As described in the text and examples below, an incoming sell order priced at $10.10 or better will execute against the resting bid at $10.105. Finally, the User representing the non-displayed bid to buy at $10.11 could cancel the order.

The Exchange is also proposing to modify and place in new paragraph (D) rule language contained in current Rule 11.13(a)(1) that governs the price at which non-displayed locking interest is executable in order to further clarify such rule text. Specifically, for bids or offers equal to or greater than $1.00 per share, in the event that an incoming order is a market order or is a limit order priced more aggressively than an order displayed on the Exchange, the Exchange will execute the incoming order at, in the case of an incoming sell order, one-half minimum price variation less than the price of the displayed order, and, in the case of an incoming buy order, at one-half minimum price variation more than the price of the displayed order. As is true under existing functionality, this order handling is inapplicable for bids or offers under $1.00 per share. Proposed paragraph (D) does not substantively modify the existing operation of the System but is intended to better describe in rule text the process for matching an incoming order against an order on the BATS Book when there is a displayed order on the same side of the market as the incoming order.

To demonstrate the operation of this provision, again assume the NBBO is $10.10 by $10.11. Assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at $10.10 per share and a resting non-displayed bid to buy 100 shares of a security priced at $10.11 per share.

- Assume that the next order received by the Exchange is a BATS Post Only Order to sell 100 shares of the security priced at $10.11 per share. The BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality, would post to the BATS Book and would be displayed at $10.11. The display of this order would, in turn, make the resting non-displayed bid not executable at $10.11.
- If an incoming offer to sell 100 shares at $10.10 is entered into the BATS Book, the resting non-displayed bid originally priced at $10.11 will be executed at $10.105 per share, thus providing a half-penny of price improvement as compared to the order's limit price of $10.11. The execution at $10.105 per share also provides the incoming offer with a half-penny of price improvement as compared to its limit price of $10.10. The result would be the same for an incoming market order to sell or any other incoming limit order offer priced at $10.10 or below, which would execute against the non-displayed bid at a price of $10.105 per share. As above, an offer at the full price of the resting and displayed $10.11 offer would not execute against the resting non-displayed bid, but would instead either cancel or post to the BATS Book behind the original $10.11 offer in priority.

The Exchange notes that it is proposing to add descriptive titles to paragraphs (A) and (B) of Rule 11.13(a)(4), which describe the process by which executable orders are matched within the System. Specifically, so long as it is otherwise executable, an incoming order to buy will be automatically executed to the extent that it is priced at an amount that equals or exceeds any order to sell in the BATS Book and an incoming order to sell will be automatically executed to the extent that it is priced at an amount that equals or is less than any order to buy in the BATS Book. These rules further state that an order to buy shall be executed at the price(s) of the lowest order(s) to sell having priority in the BATS Book and an order to sell shall be executed at the price(s) of the highest order(s) to buy having priority in the BATS Book. The Exchange emphasizes these current rules only insofar as to highlight the interconnected nature of the priority rule.

The Exchange also proposes to modify existing paragraph (b) of Rule 11.13 to re-number it as paragraph (b)(5) and to clarify the Exchange's rule regarding the priority of routed orders. Paragraph (b) currently sets forth the proposition that a routed order does not retain priority on the Exchange while it is being routed to other markets. The Exchange believes that its proposed clarification to paragraph (b) is appropriate because it more clearly states that a routed order is not ranked and maintained in the BATS Book pursuant to Rule 11.12(a), and therefore is not available to execute against incoming orders pursuant to Rule 11.13.

Re-Route Functionality

The Exchange currently allows Users to submit various types of limit orders to the Exchange that are processed pursuant to current Exchange Rule 11.13, as described elsewhere in this proposal. To the extent an order has not been executed in its entirety against the BATS Book, Rule 11.13 describes the process of routing marketable limit orders[12] to one or more Trading Centers, including a description of how the Exchange treats any unfilled balance that returns to the Exchange following the first attempt to fill the order through the routing process. If not filled through routing, and based on the order instructions, the unfilled balance of the order may be posted to the BATS Book.

Pursuant to Exchange Rule 11.13(a)(4) (to be re-numbered as Rule 11.13(b)(4) pursuant to this proposal), under certain circumstances the Exchange will re-route an order that has been posted to the BATS Book if subsequently locked or crossed by another accessible Trading Center. The Exchange offers two optional Re-Route instructions, the Super Aggressive Re-Route instruction and the Aggressive Re-Route instruction. The Super Aggressive Re-Route instruction reflects the willingness of the sender of the routable order posted to the BATS Book to route to away Trading Centers and to remove liquidity from such Trading Centers any time such order is locked or crossed (i.e., rather than passively waiting for an execution on the BATS Book). The Aggressive Re-Route instruction subjects an order to the routing process after being posted to the BATS Book only if the order is subsequently crossed by an accessible Trading Center (rather than if the order is locked or crossed). The Exchange proposes two changes to its rules to reflect current operation of the System in connection with Re-Route functionality, as described below.

Non-Displayed Routable Orders

First, the Exchange proposes to add language to the Aggressive Re-Route

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12 Market orders are also routed away pursuant to Rule 11.13, however the Exchange is not proposing any changes to the treatment of routed market orders at this time.

instruction that makes clear that any routable non-displayed limit order posted to the BATS Book that is crossed by another accessible Trading Center will be automatically routed to that Trading Center. As described in Rule 11.9(g)(4), the Exchange re-prices non-displayed orders to the extent they are crossed by another Trading Center to avoid trading-through Protected Quotations displayed by such Trading Center. In the process of such price sliding, to the extent a non-displayed order is routable, the Exchange will attempt to route the order to the Trading Center displaying the crossing quotation that prompted the price sliding process.

As an example of a routable non-displayed order that is handled consistent with the Aggressive Re-Route instruction, assume the Exchange receives a non-displayed order to buy 300 shares of a security at $10.10 per share. Assume further that the NBBO is $10.09 by $10.10 when the order is received, and the Exchange's lowest priced offer is priced at $10.11. The Exchange will route the order away from the Exchange as a bid to buy 300 shares at $10.10. Assume that the order obtains one 100 share execution through the routing process and then returns to the Exchange. The Exchange will post the order as a non-displayed bid to buy 200 shares at $10.10. If displayed liquidity then appears at one or more Trading Centers priced at $10.09 or lower (i.e., crossing the posted bid to buy at $10.10), the Exchange will take the non-displayed bid off of the BATS Book and again route such order to the displayed liquidity at other Trading Centers.

Second, the Exchange proposes to codify existing System functionality by adding rule text to state that, consistent with the Super Aggressive Re-Route instruction described in Rule 11.13(b)(4)(B), when any order with a Super Aggressive Re-Route instruction is locked by an incoming BATS Post Only Order or Partial Post Only at Limit

Order that does not remove liquidity pursuant to Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively,[13] the Re-Route order is converted to an executable order and will remove liquidity against such incoming order. The Exchange applies this logic in order to facilitate executions that would otherwise not occur due to the instruction of a BATS Post Only Order or Partial Post Only at Limit Order to not remove liquidity. Because a Super Aggressive Re-Route eligible order is willing to route to an away Trading Center and remove liquidity (i.e., pay a fee at such Trading Center) when locked or crossed, the Exchange believes it is reasonable and consistent with the instruction to force an execution between an incoming BATS Post Only Order and an order that has been posted to the BATS Book with the Super Aggressive Re-Route instruction. The Exchange notes that the determination of whether an order should execute on entry against resting interest, including against resting orders with a Super Aggressive Re-Route instruction, is made prior to determining whether the price of such an incoming order should be adjusted pursuant to the Exchange's price sliding functionality pursuant to Rule 11.9(g). The Exchange has limited the proposed language to BATS Post Only Orders that lock orders with a Super Aggressive Re-Route instruction because BATS Post Only Orders that cross resting orders will always remove liquidity because it is in their economic best interest to do so.[14] Similarly, Partial Post Only Limit Orders execute against crossing

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13 The Exchange notes that pursuant to Rule 11.9(c)(6), BATS Post Only Orders remove liquidity in certain circumstances based on an economic analysis that takes into account applicable fees and rebates. The Exchange has proposed clarifications to this economic analysis as described above. Similarly, Partial Post Only at Limit Orders are permitted to remove price improving liquidity as well as a User-selected percentage of the remaining order at the limit price if, following such removal, the order can post at its limit price. See Rule 11.9(c)(7).

14 See id.

interest as set forth in Rule 11.9(c)(7)(A). The Exchange also proposes to make clear that although it will execute an order with a Super Aggressive Re-Route instruction against a BATS Post Only Order that would lock it, if an order that does not contain a Super Aggressive Re-Route instruction maintains higher priority than one or more Super Aggressive Re-Route eligible orders, the Super Aggressive Re-Route eligible order(s) with lower priority will not be converted, as described above, and the incoming BATS Post Only Order or Partial Post Only at Limit Order will be posted or cancelled in accordance with Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively. The Exchange believes it is necessary to avoid applying the Re-Route functionality to Re-Route eligible orders that are resting behind orders that are not Re-Route eligible orders to avoid violating the Exchange's priority rule, Rule 11.12.

Example – Super Aggressive Re-Route and BATS Post Only Orders

Assume that the Exchange receives an order to buy 300 shares of a security at $10.10 per share designated with a Super Aggressive Re-Route instruction. Assume further that the NBBO is $10.09 by $10.10 when the order is received, and the Exchange's lowest offer is priced at $10.11. The Exchange will route the order away from the Exchange as a bid to buy 300 shares at $10.10. Assume that the order obtains one 100 share execution through the routing process and then returns to the Exchange. The Exchange will post the order as a bid to buy 200 shares at $10.10. If the Exchange subsequently receives a BATS Post Only Order to sell priced at $10.09 per share, such order will execute against the posted order to buy with an execution price of $10.10. The posted buy order will be treated as the liquidity provider and the incoming BATS Post Only Order to sell will be treated as the liquidity remover, based on the Exchange's rules that execute BATS Post Only Orders on entry if such execution is in their economic interest.

However, assuming the same facts as above, if the incoming BATS Post Only Order to sell is priced at $10.10 and thus does not remove liquidity pursuant to the economic best interest functionality, the posted order with a Super Aggressive Re-Route instruction will execute against such order at $10.10. In this scenario, the posted order to buy will be treated as the liquidity remover and the incoming BATS Post Only Order to sell will be treated as the liquidity provider.

Finally, assume that the NBBO is $10.10 by $10.11 and that the Exchange has a displayed bid to buy 100 shares of a security at $10.10 and a displayed offer to sell 100 shares of a security at $10.11. Assume that the displayed bid has not been designated with the Super Aggressive Re-Route instruction. Assume next that the Exchange receives a second displayable bid to buy 100 shares of the same security at $10.10 that has been designated as routable and subject to the Super Aggressive Re-Route instruction. Because there is no liquidity to which the Exchange can route the order, the second order will post to the BATS Book as a bid to buy at $10.10 behind the original displayed bid to buy at $10.10. If the Exchange then received a BATS Post Only Order to sell 100 shares at $10.10 then no execution would occur because the incoming BATS Post Only Order cannot remove liquidity at $10.10 based on the economic best interest analysis, the first order with priority to buy at $10.10 was not designated with the Super Aggressive Re-Route instruction and the second booked order to buy at $10.10 is not permitted to bypass the first order as this would result in a violation of the Exchange's priority rule, Rule 11.12.

b. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[15] and further the objectives of Section 6(b)(5) of the Act[16] because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule changes are also designed to support the principles of Section 11A(a)(1)[17] of the Act in that they seek to assure fair competition among brokers and dealers and among exchange markets.

The modifications related to routable orders with a TIF of IOC, Pegged Orders, Mid-Point Peg Orders, Discretionary Orders, and the Exchange's priority, execution and routing rules are each designed to add clarity and transparency regarding Exchange System functionality without substantively modifying such functionality. Specifically, the Exchange believes that the proposed rule changes will provide additional clarity and specificity regarding the functionality of the System and thus would promote just and equitable principles of trade and remove impediments to a free and open market. The Exchange also believes that the proposed amendments will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand.

With respect to the additional specificity proposed in connection with BATS Post Only Orders, the Exchange believes that the proposed rule change is consistent with the

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15 15 U.S.C. 78f(b).

16 15 U.S.C. 78f(b)(5).

17 15 U.S. C. 78k-1(a)(1).

Act in that the change will help to clarify the methodology used by the Exchange to determine whether BATS Post Only Orders will remove liquidity from the BATS Book. The Exchange again notes that any methodology other than using the highest possible rebate and highest possible fee could result in the Exchange determining that an execution was in an entering User's economic best interest when, in fact, it was not. For the reasons articulated above, the Exchange believes that the proposal is consistent with and supports just and equitable principles of trade, removes impediments to, and helps to perfect the mechanism of, a free and open market and a national market system, and, in general, protects investors and the public interest.

The Exchange also believes it is consistent with the Act to execute Discretionary orders and orders with a Super Aggressive Re-Route instruction against marketable liquidity (i.e., BATS Post Only Orders and Partial Post Only Orders) when an execution would not otherwise occur is consistent with both: (i) the Act, by facilitating executions, removing impediments and perfecting the mechanism of a free and open market and national market system; and (ii) a User's instructions, which have evidenced a willingness by the User to pay applicable execution fees and/or execute at more aggressive prices than they are currently ranked in favor of an execution. The Exchange also believes that the proposed rule change provides additional specificity regarding the functionality of the System with regard to routable non-displayed orders that have been crossed by another accessible Trading Center, thereby promoting just and equitable principles of trade and removing impediments to a free and open market.

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

The Exchange does not believe that the proposed rule changes will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule changes are not designed to address any competitive issue but rather to add specificity and clarity to Exchange rules, thus providing greater transparency regarding the operation of the System.

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

The Exchange has neither solicited nor received written comments on the proposed rule changes.

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)

Not applicable.

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

Exhibit 2–4: Not applicable.

Exhibit 5: Text of Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____________; File No. SR-BATS-2015-09)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend Rules 11.9, 11.12, and 11.13 of BATS Exchange, Inc.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on _________________________, BATS Exchange, Inc. (the "Exchange" or "BATS") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. 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 Rules 11.9, 11.12, and 11.13 to clarify and to include additional specificity regarding the current functionality of the Exchange's System,[3] including the operation of its order types and order instructions, as further described below.

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

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

2 17 CFR 240.19b-4.

3 Exchange Rule 1.5(aa) defines "System" as "the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away."

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

On June 5, 2014, Chair Mary Jo White asked all national securities exchanges to conduct a comprehensive review of each order type offered to members and how it operates.[4] The proposals set forth below, therefore, are the product of a comprehensive review of Exchange system functionality conducted by the Exchange and are intended to add additional clarity and specificity regarding the current functionality of the Exchange's System,[5] including the operation of its order types and order instructions. The Exchange is not proposing any substantive modifications to the System.

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4 *See* Mary Jo White, Chair, Commission, Speech at the Sandler O'Neill & Partners, L.P. Global Exchange and Brokerage Conference, (June 5, 2014) (*available at* http://www.sec.gov/News/Speech/Detail/Speech/1370542004312#.VD2HW610w6Y).

5 Exchange Rule 1.5(aa) defines "System" as "the electronic communications and trading facility designated by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away."

The changes proposed below are designed to update the rulebook to reflect current System functionality and include: (i) making clear that orders with a Time-in-Force ("TIF") of Immediate-or-Cancel ("IOC") can be routed away from the Exchange; (ii) specifying the methodology used by the Exchange to determine whether BATS Post Only Orders[6] will remove liquidity from the BATS Book;[7] (iii) adding additional detail to and re-structuring the description of Pegged Orders; (iv) adding additional detail to the description of Mid-Point Peg Orders; (v) adding additional detail to the description of Discretionary Orders; (vi) amending Rule 11.12, Priority of Orders, and Rule 11.13, Order Execution, to provide additional specificity and enhance the structure of Exchange rules describing the process for ranking, executing and routing orders; (vii) adding additional detail to the description of orders subject to Re-Route functionality; and (viii) making a series of conforming changes to Rules 11.9, 11.12 and 11.13 to update cross-references.

Routable Orders with Time in Force of Immediate-or-Cancel

The Exchange proposes to modify Rule 11.9(b)(1) to update the description of the TIF of IOC to make clear that orders with a TIF of IOC are routable even though such TIF indicates an instruction to execute an order immediately in whole or in part and/or cancel it back. Under current rules, the TIF of IOC indicates that an order is to be executed in whole or in part as soon as such order is received and the portion not executed is to be cancelled. The Exchange proposes to expand upon the description of

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6 See Rule 11.9(c)(6).

7 As defined in Rule 1.5(e).

IOC to specify that an order with such TIF may be routed away from the Exchange but that in no event will an order with such TIF be posted to the BATS Book. The Exchange notes that IOC orders routed away from the Exchange are in turn routed as IOC orders. The Exchange also notes that current Rule 11.13(a)(2) already includes reference to routable IOCs, and the proposed modifications to the rule text are intended to add further specificity that IOCs are routable.

In addition to the change described above, the Exchange proposes to make clear in Rule 11.9(b)(6) that an order with a TIF of FOK is not eligible for routing. Although orders with a TIF of FOK are generally treated the same as IOCs, the Exchange does not permit routing of orders with a FOK because the Exchange is unable to ensure the instruction of FOK (i.e., execution of an order in its entirety) through the routing process.

Finally, in connection with these changes, the Exchange also proposes to modify current Rule 11.13(a)(2) (to be re-numbered as Rule 11.13(b)(2)) to add the cancellation of an unfilled balance of an order as one possible outcome after an order has been routed away. Rule 11.13(a)(2) currently describes other variations of how the Exchange handles an order after it has been routed away, but does not specifically state that it may be cancelled after the routing process, which would be the case with an order submitted to the Exchange with a TIF of IOC.

Computation of Economic Best Interest for BATS Post Only Orders

The Exchange proposes to modify Rule 11.9(c)(6) to specify the methodology used by the Exchange to determine whether BATS Post Only Orders will remove liquidity from the Exchange's order book. Under the Exchange's current rules, a BATS

Post Only Order is an order that an entering User[8] intends to be posted to the BATS Book, and thus will not ordinarily remove liquidity from the Exchange. However, BATS Post Only Orders will remove liquidity from the BATS Book if such execution is in the economic best interests of the User entering the BATS Post Only Order, taking into account applicable fees and rebates.[9] Specifically, as set forth in Rule 11.9(c)(6), BATS Post Only Orders remove liquidity from the BATS Book if the value of "price improvement" associated with such execution equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the BATS Book and subsequently provided liquidity. The Exchange proposes three changes to the description of BATS Post Only Orders to make clear the methodology used in calculating whether a BATS Post Only Order should remove liquidity on entry. The Exchange notes that each of these changes will conform the Exchange's rule governing BATS Post Only Orders with Rule 11.6(n)(4) of the Exchange's affiliate, EDGX Exchange, Inc. ("EDGX").

First, the Exchange proposes to clarify that rather than requiring price improvement, which indicates an execution at a better price level than an order's limit price, the Exchange calculates the value of the overall execution taking into account applicable fees and rebates. Accordingly, to the extent the fee and rebate structure on its

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8 As defined in Exchange Rule 1.5(cc), a User is "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3."

9 See Securities Exchange Act Release No. 67093 (June 1, 2012), 77 FR 33798 (June 7, 2012) (SR-BATS-2012-018) (notice of filing and immediate effectiveness of rule change to amend the operation of BATS Post Only Orders).

own (i.e., even at the limit price) makes it economically advantageous to remove liquidity rather than post to the BATS Book and subsequently provide liquidity, the Exchange will allow a BATS Post Only Order to remove liquidity.

Second, the Exchange proposes to make clear that this methodology is applied only to securities priced at $1.00 and above, and thus, that all BATS Post Only Orders in securities priced below $1.00 remove contra-side liquidity. The Exchange believes it is reasonable to allow BATS Post Only Orders to remove liquidity in lower priced securities because the Exchange's fee structure never has provided a significant rebate or charged a significant fee for such orders. Because the execution cost economics are relatively flat, the Exchange believes it is more efficient to simply allow all orders in such securities to remove liquidity.

Third, the Exchange proposes to make clear its methodology for determining the applicable fees and rebates given the fact that the Exchange maintains a tiered pricing structure. Under the Exchange's current tiered pricing structure, an entering User may receive a variable rebate for adding liquidity depending on the User's volume during the month in question. The Exchange determines whether Users qualify for higher rebates at the end of the month, looking back at the User's activity during the month. To account for this variable rebate structure and to ensure that the Exchange does not determine that an execution is in an entering User's economic best interests when, in fact, it is not due to a different rebate or fee[10] ultimately achieved by the User, the Exchange applies the

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[10] The Exchange notes that its current fee structure does not have a variable fee depending on trading activity during the month. If, in the future, the Exchange implements such a fee structure the Exchange will use the highest possible fee for purposes of Rule 11.9(c)(6).

highest possible rebate provided and highest possible fee charged for such executions on the Exchange. The Exchange proposes to make this rebate and fee assumption clear in the Exchange's rule text.

Pegged Orders

The Exchange proposes to restructure Rule 11.9(c)(8), related to Pegged Orders, and to add additional detail to such Rule regarding the handling of such orders. With respect to restructuring, the Exchange currently offers two types of Pegged Orders pursuant to Rule 11.9(c)(8), Primary Pegged Orders and Market Pegged Orders, and believes that each types of Pegged Order would be easier to understand if described in separate paragraphs. Given the proposal to split the Rule to address Primary Pegged Orders and Market Pegged Orders separately, the Exchange also proposes to add an additional lead-in sentence that summarizes the operation of Pegged Orders generally.

Mid-Point Peg Orders

The Exchange proposes to add additional specificity regarding Mid-Point Peg Orders and the handling of such orders when the market is locked or crossed. Specifically, the Exchange proposes to add language stating that upon instruction from a User Mid-Point Peg Orders will not execute when the market is locked. The Exchange makes this feature optional because while some Users may prefer not to execute in a locked market given that there is no real mid-point in such a situation and it might be evidence of a pricing disparity in a security, other Users may prefer an execution. The Exchange also proposes to state that Mid-Point Peg Orders are not eligible to execute when the NBBO is crossed. The Exchange does not execute Mid-Point Peg Orders in a crossed market because the pricing of the mid-point, and the security generally, is uncertain in such a situation.

<u>Discretionary Orders</u>

The Exchange proposes to amend the description of Discretionary Orders contained in Rule 11.9(c)(10) and to add additional detail regarding the execution of such orders, as set forth below. First, the current description indicates that a Discretionary Order has a displayed price and size and a non-displayed "discretionary price". The Exchange proposes to make clear that although a Discretionary Order may have a displayed price and size as well as a discretionary price, a Discretionary Order may also be fully non-displayed, and thus, will have a non-displayed ranked price as well as a discretionary price. In addition to reflecting the ability to have a non-displayed Discretionary Order, the Exchange proposes various minor wording changes to improve the description of Discretionary Orders to make clear that such orders use the minimum amount of discretion when executing against incoming orders.

The Exchange also proposes to make clear how a Discretionary Order interacts with a BATS Post Only Order or Partial Post Only at Limit Order entered at the displayed or non-displayed ranked price of such Discretionary Order that does not remove liquidity on entry pursuant to Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively, by stating that the Discretionary Order is converted to an executable order and will remove liquidity against such incoming order. Similar to the Re-Route functionality described below, due to the fact that Discretionary Orders contain more aggressive prices at which they are willing to execute, the Exchange treats Discretionary Orders as aggressive orders that would prefer to execute at their displayed or non-displayed ranked price than to forgo an execution due to applicable fees or rebates. Accordingly, in order to facilitate transactions consistent with the instructions of its Users, the Exchange executes resting Discretionary Orders (and certain orders with a Re-Route instruction, as described below) against incoming orders, when such incoming orders would otherwise forego an execution. The Exchange notes that the determination of whether an order should execute on entry against resting interest, including against resting Discretionary Orders, is made prior to determining whether the price of such an incoming order should be adjusted pursuant to the Exchange's price sliding functionality pursuant to Rule 11.9(g). In other words, an execution will have already occurred as set forth above before the Exchange would consider whether an order could be displayed and/or posted to the BATS Book, and if so, at what price.

Examples – Discretionary Order Executes against BATS Post Only Orders

Assume that the NBBO is $10.00 by $10.05, and the Exchange's BBO is $9.99 by $10.06. Assume that the Exchange receives a non-routable order to buy 100 shares of a security at $10.00 per share designated with discretion to pay up to an additional $0.05 per share.

- Assume that the next order received by the Exchange is a BATS Post Only Order to sell 100 shares of the security at priced at $10.03 per share. The BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality, and would post to the BATS Book at $10.03. This would, in turn, trigger the discretion of the resting buy order and an execution would occur at $10.03. The BATS Post Only Order to sell would be treated as the adder of liquidity and the buy order with discretion would be treated as the remover of liquidity.

- Assume the same facts as above, but that the incoming BATS Post Only Order is priced at $10.00 instead of $10.03. As is true in the example above, the BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality. Rather than cancelling the incoming BATS Post Only Order to sell back to the User, particularly when the resting order is willing to buy the security for up to $10.05 per share, the Exchange executes at $10.00 the BATS Post Only Order against the resting buy order with discretion. As is also true in the example above, the BATS Post Only Order to sell would be treated as the liquidity adder and the buy order with discretion would be treated as the liquidity remover. As set forth in more detail below, if the incoming order was not a BATS Post Only Order to sell, the incoming order could be executed at the ranked price of the Discretionary Order without restriction and would therefore be treated as the liquidity remover.

Additionally, the Exchange proposes to codify the process by which it handles all incoming orders that interact with Discretionary Orders. First, the Exchange proposes to codify its handling of a contra-side order that executes against a resting Discretionary Order at its displayed or non-displayed ranked price or that contains a time-in-force of IOC or FOK and a price in the discretionary range by expressly stating that such an incoming order will remove liquidity against the Discretionary Order. Second, the Exchange proposes to codify its handling of orders that are intended to post to the BATS Book at a price within a Discretionary Order's discretionary range. This includes, but is not limited to, BATS Post Only Orders and Partial Post Only at Limit Orders. Specifically, the Exchange proposes to codify current System functionality whereby any contra-side order with a time-in-force other than IOC or FOK and a price within the discretionary range but not at the displayed or non-displayed ranked price of a Discretionary Order will be posted to the BATS Book and then the Discretionary Order will remove liquidity against such posted order.

Examples – Discretionary Order Executes against Non-Post Only Orders

Assume that the NBBO is $10.00 by $10.05, and the Exchange's BBO is $9.99 by $10.06. Assume that the Exchange receives an order to buy 100 shares of a security at $10.00 per share designated with discretion to pay up to an additional $0.05 per share.

- Assume that the next order received by the Exchange is a BATS Only Order to sell 100 shares of the security with a TIF other than IOC or FOK priced at $10.03 per share. The BATS Only Order would not remove any liquidity upon entry and would post to the BATS Book at $10.03. This would, in turn, trigger the discretion of the resting buy order and an execution would occur at $10.03. The BATS Only Order to sell would be treated as the adder of liquidity and the buy order with discretion would be treated as the remover of liquidity.
- Assume the same facts as above, but that the incoming BATS Only Order is priced at $10.00 instead of $10.03. The BATS Only Order would remove liquidity upon entry at $10.00 per share pursuant to the Exchange's order execution rules, as described in detail below. Contrary to the examples set forth above, the BATS Only Order to sell would be

treated as the liquidity remover and the resting buy order with discretion would be treated as the liquidity adder. The Exchange notes that this example operates the same whether an order contains a TIF of IOC, FOK or any other TIF.

The Exchange also proposes to modify the current description of the Discretionary Order by eliminating language stating, "[i]f a Discretionary Order is not executed in full, the unexecuted portion of the order is automatically re-posted and displayed in the BATS Book with a new timestamp, at its original displayed price, and with its non-displayed discretionary price offset." The Exchange believes this language is unnecessarily confusing because the unexecuted portion of Discretionary Orders does not actually re-post solely because part of the order was executed. Rather, the remaining portion will remain resting on the BATS Book without being removed from the BATS Book.

Finally, because Discretionary Orders have both a price at which they will be ranked and an additional discretionary price, the Exchange proposes to expressly state how the Exchange handles a routable Discretionary Order by stating that such an order will be routed away from the Exchange at its full discretionary price. As an example, assume the NBBO is $10.00 by $10.05 and the Exchange's BBO is $9.99 by $10.06. If the Exchange receives a routable Discretionary Order to buy at $10.00 with discretion to pay up to an additional $0.05 per share, the Exchange would route the order as a limit order to buy at $10.05. Any unexecuted portion of the order would be posted to the BATS Book with a ranked price of $10.00 and discretion to pay up to $10.05.

<u>Priority and Execution Algorithm</u>

With respect to the Exchange's priority and execution algorithm, the Exchange is proposing various minor and structural changes that are intended to emphasize the processes by which orders are accepted, priced, ranked and executed, as well as a new provision related to the ability of orders to rest at locking prices that is consistent with the changes to provisions related to the operation of Discretionary Orders described above. First, the Exchange proposes to modify Rule 11.12, Priority of Orders, to make clear that the ranking of orders described in such rule is in turn dependent on Exchange Rule 11.13(a) which discusses the pricing and execution of orders. The Exchange believes that this has always been the case under Exchange rules based on the reference to the "Execution Process" in Rule 11.12; however, this reference did not include a cross-reference to Rule 11.13. The Exchange also proposes to change the reference within Rule 11.12 to refer to ranking rather than executing equally priced trading interest, as the Rule as a whole is intended to describe the manner in which resting orders are ranked and maintained, specifically in price and time priority, while awaiting execution against incoming orders. The Exchange does not believe that the proposed modifications substantively modify the operation of the rules; however, the Exchange believes that it is important to clarify that the ranking of orders is a separate process from the execution of orders.

The Exchange also proposes to specify in Rule 11.12(a)(2)(C) that the priority afforded to Pegged Orders is applicable to all non-displayed Pegged Orders. The Exchange recently began accepting Primary Pegged Orders that can be displayed, and if so displayed, the Exchange ranks such orders with all other displayed orders. Thus, the Exchange proposes to clarify that reference to Pegged Orders in 11.12(a)(2)(C), which have lower priority than the displayed size of limit orders and non-displayed orders, is a reference specifically to non-displayed Pegged Orders.

Further, the Exchange proposes to adopt new Rule 11.12(a)(3), which recognizes existing match trade prevention rules that optionally prevent the execution of orders from the same User (i.e., based on the User's "Unique Identifier", as set forth in Rule 11.9(f)) by stating that in such a case the System will not permit such orders to execute against one another regardless of priority ranking. Proposed Rule 11.12(a)(3) is based on EDGX Rule 11.9(a)(3). The Exchange also proposes changes to current Rule 11.9(a)(3) and (a)(4) to re-number such rules as (a)(4) and (a)(5) as well as to clarify that orders retain and lose "time" priority under certain circumstances, as opposed to priority generally, because retaining or losing price priority does not require the same descriptions, as price priority will always be retained unless the price of an order changes.

Next, the Exchange proposes to re-structure Rule 11.13, which currently governs both execution and routing logic on the Exchange, by more clearly delineating between execution (to be contained in new paragraph (a)) and routing (to be contained in new paragraph (b)) and by adding additional sub-headings to the execution section. In this connection, the Exchange proposes to move language contained within Rule 11.13 to the beginning of new paragraph (a) such that the language is more generally applicable to the rules governing execution. Specifically, the Exchange proposes to relocate language stating that any order falling within the parameters of this paragraph shall be referred to as "executable" and that an order will be cancelled back to the User if, based on market conditions, User instructions, applicable Exchange Rules and /or the Act and the rules and regulations thereunder, such order is not executable, cannot be routed to another

Trading Center pursuant to Rule 11.13(b) (as proposed to be re-numbered) or cannot be posted to the BATS Book. The proposed sub-headings for paragraph (a) regarding order execution are intended to delineate between the various rules and National Market System ("NMS") plans that may render an order executable or not, including Regulation NMS and Regulation SHO. The Exchange is proposing to add a cross-reference in Rule 11.13(a)(3) to its rules related to the Limit Up-Limit Down Plan, which is contained in Rule 11.18(e).

The Exchange proposes to adopt paragraph (C) of Rule 11.13(a)(4) to provide further clarity regarding the situations where orders are not executable, which although covered in other existing rules, would focus on the incoming order on the same side of a displayed order rather than the resting order that is rendered not executable because it is opposite such displayed order. The proposed provision would replace existing text set forth in Rule 11.13(a)(1) to acknowledge that, under certain circumstances, there can be locking interest on the Exchange but that such interest will not be displayed by the System as a locked market. Proposed paragraph (C) would further state that if an incoming order is on the same side of the market as an order displayed on the BATS Book and upon entry would execute against contra-side interest at the same price as such displayed order, such incoming order will be cancelled or posted to the BATS Book and ranked in accordance with Rule 11.12. The Exchange does not allow non-displayed interest that locks a contra-side displayed order to execute at such price to avoid an apparent priority issue.

To demonstrate the functionality in place on the Exchange described above, assume the NBBO is $10.10 by $10.11. Assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at $10.10 per share and a resting non-displayed bid to buy 100 shares of a security priced at $10.11 per share. For purposes of this example, assume the resting non-displayed bid has not selected the Re-Route functionality, which, as described in further detail below, could make a resting order executable against an incoming BATS Post Only Order under certain circumstances.

- Assume that the next order received by the Exchange is a BATS Post Only Order to sell 100 shares of the security priced at $10.11 per share. The BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality, would post to the BATS Book, and would be displayed at $10.11. The display of this order would, in turn, make the resting non-displayed bid not executable at $10.11.
- Assume the next order received by the Exchange is an order to sell 100 shares of the security priced at $10.11 per share. The order would not remove any liquidity upon entry because there is a displayed order to sell at $10.11 posted on the BATS Book and thus, by rule, the Exchange does not maintain any executable buy interest priced at $10.11. If the later arriving order to sell at $10.11 contained a TIF other than IOC or FOK, it would be posted to the BATS Book and displayed at $10.11. If the later arriving order to sell at $10.11 contained a TIF of IOC or FOK, it would be cancelled back to the User.
- To the extent the BATS Book is in the state set forth to conclude the examples above, with a non-executable bid to buy at $10.11 and one or

more offers to sell displayed by the Exchange at $10.11; there are several potential outcomes. For instance, any incoming order to buy at $10.11 or higher[11] will execute against the displayed order(s) to sell, as such resting orders are fully executable and displayed as available offers on the BATS Book. Once all displayed liquidity to sell at $10.11 has been executed on the Exchange, the resting non-displayed bid to buy at $10.11 will again be fully executable. Similarly, if the resting displayed orders to sell that are priced at $10.11 are cancelled then the resting non-displayed bid to buy at $10.11 will again be fully executable at that price. As described in the text and examples below, an incoming sell order priced at $10.10 or better will execute against the resting bid at $10.105. Finally, the User representing the non-displayed bid to buy at $10.11 could cancel the order.

The Exchange is also proposing to modify and place in new paragraph (D) rule language contained in current Rule 11.13(a)(1) that governs the price at which non-displayed locking interest is executable in order to further clarify such rule text. Specifically, for bids or offers equal to or greater than $1.00 per share, in the event that an incoming order is a market order or is a limit order priced more aggressively than an

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[11] The Exchange notes that an incoming order for purposes of comparison to a resting order can be any incoming order unless the terms of that incoming order itself preclude execution. For instance, in this example, an incoming buy order could be routable or non-routable, the order could be selected for potential display or could include instructions not to display the order, the order could have a discretionary price, or several other characteristics. Upon entry, unless the terms of the order preclude removing liquidity, such as a BATS Post Only order, the characteristics that govern the way that the order may be handled once posted to the Exchange's order book are irrelevant and any incoming buy order priced at $10.11 or higher will execute against the resting offers.

order displayed on the Exchange, the Exchange will execute the incoming order at, in the case of an incoming sell order, one-half minimum price variation less than the price of the displayed order, and, in the case of an incoming buy order, at one-half minimum price variation more than the price of the displayed order. As is true under existing functionality, this order handling is inapplicable for bids or offers under $1.00 per share. Proposed paragraph (D) does not substantively modify the existing operation of the System but is intended to better describe in rule text the process for matching an incoming order against an order on the BATS Book when there is a displayed order on the same side of the market as the incoming order.

To demonstrate the operation of this provision, again assume the NBBO is $10.10 by $10.11. Assume the Exchange has a posted and displayed bid to buy 100 shares of a security priced at $10.10 per share and a resting non-displayed bid to buy 100 shares of a security priced at $10.11 per share.

- Assume that the next order received by the Exchange is a BATS Post Only Order to sell 100 shares of the security priced at $10.11 per share. The BATS Post Only Order would not remove any liquidity upon entry pursuant to the Exchange's economic best interest functionality, would post to the BATS Book and would be displayed at $10.11. The display of this order would, in turn, make the resting non-displayed bid not executable at $10.11.
- If an incoming offer to sell 100 shares at $10.10 is entered into the BATS Book, the resting non-displayed bid originally priced at $10.11 will be executed at $10.105 per share, thus providing a half-penny of price

improvement as compared to the order's limit price of $10.11. The execution at $10.105 per share also provides the incoming offer with a half-penny of price improvement as compared to its limit price of $10.10. The result would be the same for an incoming market order to sell or any other incoming limit order offer priced at $10.10 or below, which would execute against the non-displayed bid at a price of $10.105 per share. As above, an offer at the full price of the resting and displayed $10.11 offer would not execute against the resting non-displayed bid, but would instead either cancel or post to the BATS Book behind the original $10.11 offer in priority.

The Exchange notes that it is proposing to add descriptive titles to paragraphs (A) and (B) of Rule 11.13(a)(4), which describe the process by which executable orders are matched within the System. Specifically, so long as it is otherwise executable, an incoming order to buy will be automatically executed to the extent that it is priced at an amount that equals or exceeds any order to sell in the BATS Book and an incoming order to sell will be automatically executed to the extent that it is priced at an amount that equals or is less than any order to buy in the BATS Book. These rules further state that an order to buy shall be executed at the price(s) of the lowest order(s) to sell having priority in the BATS Book and an order to sell shall be executed at the price(s) of the highest order(s) to buy having priority in the BATS Book. The Exchange emphasizes these current rules only insofar as to highlight the interconnected nature of the priority rule.

The Exchange also proposes to modify existing paragraph (b) of Rule 11.13 to re-number it as paragraph (b)(5) and to clarify the Exchange's rule regarding the priority of routed orders. Paragraph (b) currently sets forth the proposition that a routed order does not retain priority on the Exchange while it is being routed to other markets. The Exchange believes that its proposed clarification to paragraph (b) is appropriate because it more clearly states that a routed order is not ranked and maintained in the BATS Book pursuant to Rule 11.12(a), and therefore is not available to execute against incoming orders pursuant to Rule 11.13.

Re-Route Functionality

The Exchange currently allows Users to submit various types of limit orders to the Exchange that are processed pursuant to current Exchange Rule 11.13, as described elsewhere in this proposal. To the extent an order has not been executed in its entirety against the BATS Book, Rule 11.13 describes the process of routing marketable limit orders[12] to one or more Trading Centers, including a description of how the Exchange treats any unfilled balance that returns to the Exchange following the first attempt to fill the order through the routing process. If not filled through routing, and based on the order instructions, the unfilled balance of the order may be posted to the BATS Book.

Pursuant to Exchange Rule 11.13(a)(4) (to be re-numbered as Rule 11.13(b)(4) pursuant to this proposal), under certain circumstances the Exchange will re-route an order that has been posted to the BATS Book if subsequently locked or crossed by another accessible Trading Center. The Exchange offers two optional Re-Route

12 Market orders are also routed away pursuant to Rule 11.13, however the Exchange is not proposing any changes to the treatment of routed market orders at this time.

instructions, the Super Aggressive Re-Route instruction and the Aggressive Re-Route instruction. The Super Aggressive Re-Route instruction reflects the willingness of the sender of the routable order posted to the BATS Book to route to away Trading Centers and to remove liquidity from such Trading Centers any time such order is locked or crossed (i.e., rather than passively waiting for an execution on the BATS Book). The Aggressive Re-Route instruction subjects an order to the routing process after being posted to the BATS Book only if the order is subsequently crossed by an accessible Trading Center (rather than if the order is locked or crossed). The Exchange proposes two changes to its rules to reflect current operation of the System in connection with Re-Route functionality, as described below.

Non-Displayed Routable Orders

First, the Exchange proposes to add language to the Aggressive Re-Route instruction that makes clear that any routable non-displayed limit order posted to the BATS Book that is crossed by another accessible Trading Center will be automatically routed to that Trading Center. As described in Rule 11.9(g)(4), the Exchange re-prices non-displayed orders to the extent they are crossed by another Trading Center to avoid trading-through Protected Quotations displayed by such Trading Center. In the process of such price sliding, to the extent a non-displayed order is routable, the Exchange will attempt to route the order to the Trading Center displaying the crossing quotation that prompted the price sliding process.

As an example of a routable non-displayed order that is handled consistent with the Aggressive Re-Route instruction, assume the Exchange receives a non-displayed order to buy 300 shares of a security at $10.10 per share. Assume further that the NBBO is $10.09 by $10.10 when the order is received, and the Exchange's lowest priced offer is priced at $10.11. The Exchange will route the order away from the Exchange as a bid to buy 300 shares at $10.10. Assume that the order obtains one 100 share execution through the routing process and then returns to the Exchange. The Exchange will post the order as a non-displayed bid to buy 200 shares at $10.10. If displayed liquidity then appears at one or more Trading Centers priced at $10.09 or lower (i.e., crossing the posted bid to buy at $10.10), the Exchange will take the non-displayed bid off of the BATS Book and again route such order to the displayed liquidity at other Trading Centers.

Second, the Exchange proposes to codify existing System functionality by adding rule text to state that, consistent with the Super Aggressive Re-Route instruction described in Rule 11.13(b)(4)(B), when any order with a Super Aggressive Re-Route instruction is locked by an incoming BATS Post Only Order or Partial Post Only at Limit Order that does not remove liquidity pursuant to Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively,[13] the Re-Route order is converted to an executable order and will remove liquidity against such incoming order. The Exchange applies this logic in order to facilitate executions that would otherwise not occur due to the instruction of a BATS Post Only Order or Partial Post Only at Limit Order to not remove liquidity. Because a Super Aggressive Re-Route eligible order is willing to route to an away Trading Center and

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13 The Exchange notes that pursuant to Rule 11.9(c)(6), BATS Post Only Orders remove liquidity in certain circumstances based on an economic analysis that takes into account applicable fees and rebates. The Exchange has proposed clarifications to this economic analysis as described above. Similarly, Partial Post Only at Limit Orders are permitted to remove price improving liquidity as well as a User-selected percentage of the remaining order at the limit price if, following such removal, the order can post at its limit price. See Rule 11.9(c)(7).

remove liquidity (i.e., pay a fee at such Trading Center) when locked or crossed, the Exchange believes it is reasonable and consistent with the instruction to force an execution between an incoming BATS Post Only Order and an order that has been posted to the BATS Book with the Super Aggressive Re-Route instruction. The Exchange notes that the determination of whether an order should execute on entry against resting interest, including against resting orders with a Super Aggressive Re-Route instruction, is made prior to determining whether the price of such an incoming order should be adjusted pursuant to the Exchange's price sliding functionality pursuant to Rule 11.9(g). The Exchange has limited the proposed language to BATS Post Only Orders that lock orders with a Super Aggressive Re-Route instruction because BATS Post Only Orders that cross resting orders will always remove liquidity because it is in their economic best interest to do so.[14] Similarly, Partial Post Only Limit Orders execute against crossing interest as set forth in Rule 11.9(c)(7)(A). The Exchange also proposes to make clear that although it will execute an order with a Super Aggressive Re-Route instruction against a BATS Post Only Order that would lock it, if an order that does not contain a Super Aggressive Re-Route instruction maintains higher priority than one or more Super Aggressive Re-Route eligible orders, the Super Aggressive Re-Route eligible order(s) with lower priority will not be converted, as described above, and the incoming BATS Post Only Order or Partial Post Only at Limit Order will be posted or cancelled in accordance with Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively. The Exchange believes it is necessary to avoid applying the Re-Route functionality to Re-Route eligible orders

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[14] See id.

that are resting behind orders that are not Re-Route eligible orders to avoid violating the Exchange's priority rule, Rule 11.12.

Example – Super Aggressive Re-Route and BATS Post Only Orders

Assume that the Exchange receives an order to buy 300 shares of a security at $10.10 per share designated with a Super Aggressive Re-Route instruction. Assume further that the NBBO is $10.09 by $10.10 when the order is received, and the Exchange's lowest offer is priced at $10.11. The Exchange will route the order away from the Exchange as a bid to buy 300 shares at $10.10. Assume that the order obtains one 100 share execution through the routing process and then returns to the Exchange. The Exchange will post the order as a bid to buy 200 shares at $10.10. If the Exchange subsequently receives a BATS Post Only Order to sell priced at $10.09 per share, such order will execute against the posted order to buy with an execution price of $10.10. The posted buy order will be treated as the liquidity provider and the incoming BATS Post Only Order to sell will be treated as the liquidity remover, based on the Exchange's rules that execute BATS Post Only Orders on entry if such execution is in their economic interest.

However, assuming the same facts as above, if the incoming BATS Post Only Order to sell is priced at $10.10 and thus does not remove liquidity pursuant to the economic best interest functionality, the posted order with a Super Aggressive Re-Route instruction will execute against such order at $10.10. In this scenario, the posted order to buy will be treated as the liquidity remover and the incoming BATS Post Only Order to sell will be treated as the liquidity provider.

Finally, assume that the NBBO is $10.10 by $10.11 and that the Exchange has a displayed bid to buy 100 shares of a security at $10.10 and a displayed offer to sell 100 shares of a security at $10.11. Assume that the displayed bid has not been designated with the Super Aggressive Re-Route instruction. Assume next that the Exchange receives a second displayable bid to buy 100 shares of the same security at $10.10 that has been designated as routable and subject to the Super Aggressive Re-Route instruction. Because there is no liquidity to which the Exchange can route the order, the second order will post to the BATS Book as a bid to buy at $10.10 behind the original displayed bid to buy at $10.10. If the Exchange then received a BATS Post Only Order to sell 100 shares at $10.10 then no execution would occur because the incoming BATS Post Only Order cannot remove liquidity at $10.10 based on the economic best interest analysis, the first order with priority to buy at $10.10 was not designated with the Super Aggressive Re-Route instruction and the second booked order to buy at $10.10 is not permitted to bypass the first order as this would result in a violation of the Exchange's priority rule, Rule 11.12.

2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[15] and further the objectives of Section 6(b)(5) of the Act[16] because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with

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

[16] 15 U.S.C. 78f(b)(5).

persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule changes are also designed to support the principles of Section 11A(a)(1)[17] of the Act in that they seek to assure fair competition among brokers and dealers and among exchange markets.

The modifications related to routable orders with a TIF of IOC, Pegged Orders, Mid-Point Peg Orders, Discretionary Orders, and the Exchange's priority, execution and routing rules are each designed to add clarity and transparency regarding Exchange System functionality without substantively modifying such functionality. Specifically, the Exchange believes that the proposed rule changes will provide additional clarity and specificity regarding the functionality of the System and thus would promote just and equitable principles of trade and remove impediments to a free and open market. The Exchange also believes that the proposed amendments will contribute to the protection of investors and the public interest by making the Exchange's rules easier to understand.

With respect to the additional specificity proposed in connection with BATS Post Only Orders, the Exchange believes that the proposed rule change is consistent with the Act in that the change will help to clarify the methodology used by the Exchange to determine whether BATS Post Only Orders will remove liquidity from the BATS Book. The Exchange again notes that any methodology other than using the highest possible rebate and highest possible fee could result in the Exchange determining that an execution was in an entering User's economic best interest when, in fact, it was not. For the reasons articulated above, the Exchange believes that the proposal is consistent with

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[17] 15 U.S. C. 78k-1(a)(1).

and supports just and equitable principles of trade, removes impediments to, and helps to perfect the mechanism of, a free and open market and a national market system, and, in general, protects investors and the public interest.

The Exchange also believes it is consistent with the Act to execute Discretionary orders and orders with a Super Aggressive Re-Route instruction against marketable liquidity (i.e., BATS Post Only Orders and Partial Post Only Orders) when an execution would not otherwise occur is consistent with both: (i) the Act, by facilitating executions, removing impediments and perfecting the mechanism of a free and open market and national market system; and (ii) a User's instructions, which have evidenced a willingness by the User to pay applicable execution fees and/or execute at more aggressive prices than they are currently ranked in favor of an execution. The Exchange also believes that the proposed rule change provides additional specificity regarding the functionality of the System with regard to routable non-displayed orders that have been crossed by another accessible Trading Center, thereby promoting just and equitable principles of trade and removing impediments to a free and open market.

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

The Exchange does not believe that the proposed rule changes will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule changes are not designed to address any competitive issue but rather to add specificity and clarity to Exchange rules, thus providing greater transparency regarding the operation of the System.

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

The Exchange has neither solicited nor received written comments on the proposed rule changes.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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-2015-09 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-2015-09. 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-2015-09 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.[18]

Kevin M. O'Neill
Deputy Secretary

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[18] 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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CHAPTER XI. TRADING RULES

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Rule 11.9. Orders and Modifiers

Users may enter into the System the types of orders listed in this Rule 11.9, subject to the limitations set forth in this Rule or elsewhere in these Rules.

(a) *General Order Types*.

(1) (No change.)

(2) BATS Market Order. An order to buy or sell a stated amount of a security that is to be executed at the NBBO when the order reaches the Exchange. BATS market orders shall not trade through Protected Quotations. A BATS market order that is designated as "BATS Only" will be cancelled if, when reaching the Exchange, it cannot be executed on the System in accordance with Rule 11.13(a)([1]4). BATS market orders that are not designated as "BATS Only" and that cannot be executed in accordance with Rule 11.13(a)([1]4) on the System when reaching the Exchange will be eligible for routing away pursuant to Rule 11.13([a)(2]b). Any portion of a BATS market order that would execute at a price more than $0.50 or 5 percent worse than the NBBO at the time the order initially reaches the Exchange, whichever is greater, will be cancelled. BATS market orders are not eligible for execution during the Pre-Opening Session or the After Hours Trading Session.

(b) *Time-in-Force*. Limit orders must have one of the following time-in-force terms.

(1) Immediate-or-Cancel ("IOC") Order. A limit order that is to be executed in whole or in part as soon as such order is received[, and t]. The portion not [so] executed immediately on the Exchange or another trading center is [to be] treated as cancelled and is not posted to the BATS Book. IOC limit orders that are not designated as "BATS Only" and that cannot be executed in accordance with Rule 11.13(a)(4) on the System when reaching the Exchange will be eligible for routing away pursuant to Rule 11.13(b).

(2)-(6) (No change.)

(6) Fill-or-Kill ("FOK"). A limit order that is to be executed in its entirety as soon as it is received and, if not executed cancelled. A limit order designated as FOK is not eligible for routing away pursuant to Rule 11.13(b).

(c) *Other Types of Orders.*

(1)-(3) (No change.)

(4) *BATS Only Order*. An order that is to be ranked and executed on the Exchange pursuant to Rule 11.12 and Rule 11.13(a)([1]4) or cancelled, without routing away to another trading center. A BATS Only Order will be subject to the price sliding process as set forth in paragraph (g) below unless a User has entered instructions not to use the price sliding process.

(5) (No change.)

(6) *BATS Post Only Order*. An order that is to be ranked and executed on the Exchange pursuant to Rule 11.12 and Rule 11.13(a)([1]4) or cancelled, as appropriate, without routing away to another trading center except that the order will not remove liquidity from the BATS Book, other than as described below. A BATS Post Only Order will remove contra-side liquidity from [execute against an order resting on] the BATS Book if the order is an order to buy or sell a security priced below $1.00 or if the value of [price improvement associated with] such execution when removing liquidity equals or exceeds the value of such execution [sum of fees charged for such execution and the value of any rebate that would be provided] if the order instead posted to the BATS Book and subsequently provided liquidity, including the applicable fees charged or rebates provided. To determine at the time of a potential execution whether the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the BATS Book and subsequently provided liquidity, the Exchange will use the highest possible rebate paid and highest possible fee charged for such executions on the Exchange. A BATS Post Only Order will be subject to the price sliding process as set forth in paragraph (g) below unless a User has entered instructions not to use the price sliding process.

(7) *Partial Post Only at Limit Order*. An order that is to be ranked and executed on the Exchange pursuant to Rule 11.12 and Rule 11.13(a)([1]4) or cancelled, as appropriate, without routing away to another trading center except that the order will only remove liquidity from the BATS Book under the following circumstances:

(A)-(B) (No change.)

(No change.)

(8) *Pegged Order*. A limit order that after entry into the System, the price of the order is automatically adjusted by the System in response to changes in the NBBO. A

Pegged Order will peg to the NBB or NBO or a certain amount away from the NBB or NBO, as described below. Pegged Orders are not eligible for routing pursuant to Rule 11.13(b). A new timestamp is created for a Pegged Order order each time it is automatically adjusted.

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

(B) Market Pegged Order. A User entering a Pegged Order can specify that such order's price will offset the inside quote on the contra side of the market by an amount (the "Offset Amount") set by the User (a "Market Pegged Order"). Market Pegged Orders are not eligible to be displayed on the Exchange.

(9) *Mid-Point Peg Order*. A limit order that after entry into the System, the price of the order is automatically adjusted by the System in response to changes in the NBBO to be pegged to the mid-point of the NBBO, or, alternatively, pegged to the less aggressive of the midpoint of the NBBO or one minimum price variation inside the same side of the NBBO as the order. Upon instruction from a User, a Mid-Point Peg Order will not be eligible to execute when the NBBO is locked. All Mid-Point Peg Orders are ineligible to execute when the NBBO is crossed. Mid-Point Peg Orders are not eligible for routing pursuant to Rule 11.13([a)(2]b), and are not displayed on the Exchange. A new timestamp is created for the order each time it is automatically adjusted.

(10) *Discretionary Order*. A limit order with a displayed or non-displayed ranked price and size and an additional [un]non-displayed "discretionary["] price". The discretionary price is a non-displayed upward offset at which a User is willing to buy, if necessary, or a non-displayed downward offset at which a User is willing to sell, if necessary. [The undisplayed price of a]A Discretionary Order is available for execution against opposing limit orders at its displayed or ranked price or within the discretionary range (*i.e.*, at the discretionary price or at a price that is between the displayed or non-displayed ranked price and the discretionary price). Discretionary Orders will be executed at a price that uses the minimum amount of discretion necessary to execute the order against an incoming order. To the extent a Discretionary Order's displayed or non-displayed ranked price is equal to an incoming BATS Post Only Order or Partial Post Only at Limit Order that does not remove liquidity on entry pursuant to Rule 11.9(c)(6)

or Rule 11.9(c)(7), respectively, the Discretionary Order will remove liquidity against such incoming order. Any contra-side order that executes against a resting Discretionary Order at its displayed or non-displayed ranked price or that contains a time-in-force of IOC or FOK and a price in the discretionary range will remove liquidity against the Discretionary Order. Any contra-side order with a time-in-force other than IOC or FOK and a price in the discretionary range but not at the displayed or non-displayed ranked price will be posted to the BATS Book and then the Discretionary Order will remove liquidity against such posted order. [If a Discretionary Order is not executed in full, the unexecuted portion of the order is automatically re-posted and displayed in the BATS Book with a new timestamp, at its original displayed price, and with its non-displayed discretionary price offset.] A Discretionary Order that is eligible for routing away pursuant to Rule 11.13(b) will be routed away from the Exchange at its full discretionary price.

(11)-(15) (No change.)

(16) *Market Maker Peg Order.* A limit order that, upon entry or at the beginning of Regular Trading Hours, as applicable, the bid or offer is automatically priced by the System at the Designated Percentage (as defined in Rule 11.8) away from the then current NBB and NBO, or if no NBB or NBO, at the Designated Percentage away from the last reported sale from the responsible single plan processor in order to comply with the quotation requirements for Market Makers set forth in Rule 11.8(d). Users may submit Market Maker Peg Orders to the Exchange starting at the beginning of the Pre-Opening Session, but the order will not be executable or automatically priced until the beginning of Regular Trading Hours and will expire at the end of Regular Trading Hours. Upon reaching the Defined Limit (as defined in Rule 11.8), the price of a Market Maker Peg Order bid or offer will be adjusted by the System to the Designated Percentage away from the then current NBB and NBO, or, if no NBB or NBO, the order will, by default, be the Designated Percentage away from the last reported sale from the responsible single plan processor. If a Market Maker Peg Order bid or offer moves a specified number of percentage points away from the Designated Percentage towards the then current NBB or NBO, which number of percentage points will be determined and published in a circular distributed to Members from time to time, the price of such bid or offer will be adjusted to the Designated Percentage away from the then current NBB and NBO. If no NBB or NBO, the order will be adjusted to the Designated Percentage away from the last reported sale from the responsible single plan processor. If, after entry, the Market Maker Peg Order is priced based on the last reported sale from the single plan processor and such Market Maker Peg Order is established as the NBB or NBO, the Market Maker Peg Order will not be subsequently adjusted in accordance with this rule until either there is a new consolidated last sale or a new NBB or NBO is established by a national securities exchange. Market Maker Peg Orders are not eligible for routing pursuant to Rule 11.13([a)(2]b) and are always displayed on the Exchange. Notwithstanding the availability of Market Maker Peg Order functionality, a Market Maker remains responsible for entering, monitoring, and re-submitting, as applicable, quotations that meet the requirements of Rule 11.8(d). A new timestamp is created for

the order each time that it is automatically adjusted. For purposes of this paragraph, the Exchange will apply the Designated Percentage and Defined Limit as set forth in Rule 11.8, subject to the following exceptions. For all NMS stocks with a price less than $1 per share that are not included in the S&P 500® Index, Russell 1000® Index, and a pilot list of Exchange Traded Products, the Exchange will use the Designated Percentage and Defined Limit applicable to NMS stocks equal to or greater than $1 per share that are not included in the S&P 500® Index, Russell 1000® Index, and a pilot list of Exchange Traded Products. Market Maker Peg Orders may only be entered by a registered Market Maker. Market Maker Peg Orders will expire at the end of Regular Trading Hours.

(17)-(19) (No change.)

(d) *Intermarket Sweep Orders*. The System will accept incoming Intermarket Sweep Orders ("ISO") (as such term is defined in Regulation NMS). In order to be eligible for treatment as an Intermarket Sweep Order, the limit order must be marked "ISO" and the User entering the order must simultaneously route one or more additional limit orders marked "ISO," as necessary, to away markets to execute against the full displayed size of any Protected Quotation for the security with a price that is superior to the limit price of the Intermarket Sweep Order entered in the System. Such orders, if they meet the requirements of the foregoing sentence, may be executed at one or multiple price levels in the system without regard to Protected Quotations at away markets consistent with Regulation NMS (*i.e.*, may trade through such quotations). The Exchange relies on the marking of an order as an ISO order when handling such order, and thus, it is the entering Member's responsibility, not the Exchange's responsibility, to comply with the requirements of Regulation NMS relating to Intermarket Sweep Orders. ISOs are not eligible for routing pursuant to Rule 11.13([a)(2]b).

(e)-(f) (No change.)

(g) *Price Sliding.* The System will process orders, subject to a User's instructions, pursuant to the "price sliding process," as defined below.

(1) Display-Price Sliding.

(A)-(D) (No change.)

(E) BATS Post Only Orders will be permitted to post and be displayed opposite the ranked price of orders subject to display-price sliding. In the event an order subject to display-price sliding is ranked on the BATS Book with a price equal to an opposite side order displayed by the Exchange, it will be subject to processing as set forth in Rule 11.13(a)([1]4)(D).

(2)-(6) (No change.)

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Rule 11.12. Priority of Orders

(a) *Ranking.* Orders of Users shall be ranked and maintained in the BATS Book based on the following priority:

(1) Price. The highest-priced order to buy (or lowest-priced order to sell) shall have priority over all other orders to buy (or orders to sell) in all cases.

(2) Time. Subject to the [E]execution [P]process described in Rule 11.13(a) below, where orders to buy (or sell) are made at the same price, the order clearly established as the first entered into the System at such particular price shall have precedence at that price, up to the number of shares of stock specified in the order. The System shall [execute]rank equally priced trading interest within the System in time priority in the following order:

(A) Displayed size of limit orders;

(B) Non-Displayed limit orders;

(C) Non-Displayed Pegged Orders;

(D) Mid-Point Peg Orders;

(E) Reserve size of orders;

(F) Discretionary portion of Discretionary Orders as set forth in Rule 11.9(c)(9);

(G) Supplemental Peg Orders.

(3) Match Trade Prevention. Pursuant to Rule 11.9(f), Users may direct that orders entered into the System not execute against orders entered under the same Unique Identifier. In such a case, the System will not permit such orders to execute against one another, regardless of priority ranking.

[(3)](4) In the event an order has been cancelled or replaced in accordance with Rule 11.9(e) above, such order only retains time priority if such modification involves a decrease in the size of the order, a change to Max Floor of a Reserve Order, a change to the stop price of a Stop Order or Stop Limit Order or a change in position from sell long to sell short or vice-versa. Any other modification to an order, including an increase in the size of the order and/or price change, will result in such order losing time priority as compared to other orders in the BATS Book and the timestamp for such order being revised to reflect the time of the modification.

[(4)](5) Except as provided in subparagraphs (a)(6) [hereof]and (a)(7) below, in the event that an order is executed against an incoming order in accordance with Rule 11.13 for less than [the]its full size [of an order is executed], the unexecuted size of the order shall retain its original time priority [at the same limit price] and be ranked in accordance with paragraphs (1) and (2) above.

[(5)](6) The Display Quantity of a Reserve Order shall have time priority as of the time of display. A new timestamp is created both for the Display Quantity and the Reserve Quantity of the order each time it is refreshed from reserve.

[(6)](7) If a Supplemental Peg Order is executed in part, the remaining portion of the order shall continue to be eligible for execution but shall be assigned a new timestamp after each partial execution.

(b) (No change.)

Rule 11.13. Order Execution and Routing

Subject to the restrictions under these Exchange Rules or the Act and the rules and regulations thereunder, orders shall be matched for execution and routed in accordance with this Rule 11.13.

(a) Execution Against BATS Book.

For purposes of this Rule 11.13 any order falling within the parameters of this paragraph shall be referred to as "executable". An order will be cancelled back to the User if, based on market conditions, User instructions, applicable Exchange Rules and/or the Act and the rules and regulations thereunder, such order is not executable, cannot be routed to another Trading Center pursuant to Rule 11.13(b) below and cannot be posted to the BATS Book.

(1) *Compliance with Regulation SHO.* For any execution of a short sale order to occur on the Exchange when a short sale price test restriction is in effect, the price must be better than the NBB, unless the sell order was initially displayed by the System at a price above the then current NBB or is marked "short exempt" pursuant to Regulation SHO.

(2) *Compliance with Regulation NMS and Trade-Through Protection.*

(A) Regular Trading Hours. For any execution to occur during Regular Trading Hours, the price must be equal to or better than the Protected NBBO, unless the order is marked ISO or unless the execution falls within another exception set forth in Rule 611(b) of Regulation NMS.

(B) Other Trading Sessions. For any execution to occur during the Pre-Opening Session or the After Hours Trading Session, the price must be equal to or better than the highest Protected Bid or lowest Protected Offer, unless the order is marked ISO or a Protected Bid is crossing a Protected Offer.

(C) Crossed Markets. Notwithstanding sub-paragraphs (A) and (B) above[the foregoing], in the event that a Protected Bid is crossing a Protected Offer, whether during or outside of Regular Trading Hours, unless an order is marked ISO, the Exchange will not execute any portion of a bid at a price more than the greater of 5 cents or 0.5 percent higher than the lowest Protected Offer or any portion of an offer that would execute at a price more than the greater of 5 cents or 0.5 percent lower than the highest Protected Bid. Upon instruction from a User, the Exchange will cancel any incoming order from such User in the event a Protected Bid is crossing a Protected Offer. [For purposes of this Rule 11.13 any order falling within the parameters of this paragraph shall be referred to as "executable".] To the extent an incoming order is executable because a Protected Bid is crossing a Protected Offer but such incoming order is eligible for routing and there is a Protected Bid or Protected Offer available at another Trading Center that is better priced than the bid or offer against which the order would execute on the Exchange, the Exchange will first seek to route the order to such better priced quotation pursuant to Rule 11.13([a)(2]b). [An order will be cancelled back to the User if, based on market conditions, User instructions, applicable Exchange Rules and/or the Act and the rules and regulations thereunder, such order is not executable, cannot be routed to another Trading Center pursuant to Rule 11.13(a)(2) below and cannot be posted to the BATS Book.]

[(a) *Execution and Routing*.]

(3) *Compliance with the Limit Up-Limit Down Plan.* For any executions to occur during Regular Trading Hours, such executions must comply with the Plan, as set forth in Rule 11.18(e) below.

[(1)](4) *Execution against BATS Book*. An incoming order shall first attempt to be matched for execution against orders in the BATS Book, as described below, unless the User instructs the System to bypass the BATS Book and route the order to an away Trading Center, in accordance with Exchange Rules.

(A) Buy Orders. An incoming order to buy will be automatically executed to the extent that it is priced at an amount that equals or exceeds any order to sell in the BATS Book and is executable, as defined above. Such order to buy shall be executed at the price(s) of the lowest order(s) to sell having priority in the BATS Book.

(B) Sell Orders. An incoming order to sell will be automatically executed to the extent that it is priced at an amount that equals or is less than any other order to buy in the BATS Book and is executable, as defined above. Such order to sell shall be executed at the price(s) of the highest order(s) to buy having priority in the BATS Book.

(C) Consistent with Rule 11.9, based on User instructions, certain orders are permitted to post and rest on the BATS Book at prices that lock contra-side liquidity, provided, however, that the System will never display a locked market. Subject to sub-paragraph (D) below, if an incoming order, pursuant to paragraph (A) or (B) above, would execute at the price of a displayed order on the same side of the market, such order will be cancelled or posted to the BATS Book and ranked in accordance with Rule 11.12. [Consistent with Rule 11.12, which sets forth the Exchange's rule regarding priority of orders, Non-Displayed Orders and orders subject to display-price sliding, as set forth in Rule 11.9(g) (for purposes of this paragraph, the "Resting Orders") cannot be executed by the Exchange pursuant to this Rule 11.13 when such Resting Orders would be executed at prices equal to displayed orders on the opposite side of the market (the "locking price"), and thus, any incoming order that would execute against the Resting Order at the locking price would receive a priority advantage over the displayed order at the locking price.]

(D) For bids or offers equal to or greater than $1.00 per share, in the event that an incoming order described in sub-paragraphs (A) and (B) above [submitted to the Exchange on the side opposite such a Resting Order] is a market order or is a limit order priced more aggressively than the displayed order[locking price], the Exchange will execute the [Resting Order]incoming order at, in the case of [a Resting Order bid]an incoming sell order, one-half minimum price variation less than the [locking] price of the displayed order, and, in the case of [a Resting Order offer]an incoming buy order, at one-half minimum price variation more than the [locking] price of the displayed order. For bids or offers under $1.00 per share, this sub-paragraph is inapplicable[Resting Orders priced at the locking price will not be executed by the Exchange].

(b)[(2)] *Routing to Away Trading Centers*. Depending on the instructions set by the User when the incoming order was originally entered, if a market or marketable limit order has not been executed in its entirety pursuant to paragraph (a)[(1)] above, the order shall be eligible for additional processing under one or more of the routing options listed under paragraph (a)(3) below.

(1) Orders Eligible for Routing. An order marked "short" when a short sale price test restriction is in effect is not eligible for routing by the Exchange. If an order is ineligible for routing due to a short sale price test restriction and such order is an or a market order, then the order will be cancelled. If an order is ineligible for routing due to a short sale price test restriction and such order is a limit order, the Exchange will post the unfilled balance of the order to the BATS Book, subject to the price sliding process as defined in paragraph (g) of Rule 11.9.

(2) Routing Process. With respect to an order that is eligible for routing, the System will designate orders as IOCs and will cause such orders to be routed to one or more Trading Centers (as defined in Rule 2.11) for potential execution, per the entering User's instructions, in compliance with Rule 611 under Regulation NMS. After the System receives responses to orders that were routed away, to the extent an order is not executed in full through the routing process, the System will process the balance of such order as follows. Depending on parameters set by the User when the incoming order was originally entered, the System will either:

(A) Cancel the unfilled balance of the order back to the User;

[(A)](B) [If a limit order,] post the unfilled balance of the order to the BATS Book, subject to the price sliding process as defined in paragraph (g) of Rule 11.9;

[(B)](C) repeat the process described in paragraph (a)([1]4) above and this paragraph ([a]b)(2) by executing against the BATS Book and/or routing orders to other Trading Centers until the original, incoming order is executed in its entirety or, if not executed in its entirety and a limit order, post the unfilled balance of the order in the BATS Book if the order's limit price is reached; [or]

[(C)](D) repeat the process described in paragraph (a)([1]4) above and this paragraph ([a]b)(2) by executing against the BATS Book and/or routing orders to other Trading Centers, provided that the System will check the BATS Book for liquidity at the order's limit price only one time pursuant to paragraph (a)([1]4), then route orders at that limit price to other Trading Centers pursuant to this paragraph ([a]b)(2), and then cancel any unfilled balance of the order back to User[.]; or

(E) [Notwithstanding the foregoing,] to the extent the System is unable to access a Protected Quotation and there are no other accessible Protected Quotations at the NBBO, the System will cancel the order back to the User, provided, however, that this provision will not apply to Protected Quotations published by a Trading Center against which the Exchange has declared self-help pursuant to paragraph (d) below.

(3) (No change.)

(A)-(N) (No change.)

(4) Re-Route Instructions. Unless otherwise specified, the Re-Route instructions set forth below may be combined with any of the System routing options specified in paragraph [(a)](b)(3) above.

(A) Aggressive. To the extent the unfilled balance of a routable order has been posted to the BATS Book pursuant to paragraph [(a)](b)(2) above, should the order subsequently be crossed by another accessible Trading Center, the System shall route the order to the crossing Trading Center if the User has selected the Aggressive Re-Route instruction. Any routable non-displayed limit order posted to the BATS Book that is crossed by another accessible Trading Center will be automatically routed to the crossing Trading Center.

(B) Super Aggressive. To the extent the unfilled balance of a routable order has been posted to the BATS Book pursuant to paragraph [(a)](b)(2) above, should the order subsequently be locked or crossed by another accessible Trading Center, the System shall route the order to the locking or crossing Trading Center if the User has selected the Super Aggressive Re-Route instruction. A User may instruct the Exchange to apply the Super Aggressive Re-Route instruction solely to routable orders posted to the BATS Book with remaining size of less than one round lot.

(C) Re-Route Against Incoming Orders. Consistent with the Super Aggressive Re-Route instruction described above, when any order with a Super Aggressive Re-Route instruction is locked by an incoming BATS Post Only Order or Partial Post Only at Limit Order that does not remove liquidity pursuant to Rule 11.9(c)(6) or Rule 11.9(c)(7), respectively, the Re-Route order is converted to an executable order and will remove liquidity against such incoming order. Notwithstanding the foregoing, if an order that does not contain a Super Aggressive Re-Route instruction maintains higher priority than one or more Super Aggressive Re-Route eligible orders, the Re-Route eligible order(s) with lower priority will not be converted, as described above, and the incoming BATS Post Only Order or Partial Post Only at Limit Order will be posted or cancelled in accordance with Rule 11.9(c)(6) or Rule 11.9(c)(7) above.

[(b)](5) *Priority of Routed Orders*. Orders that have been routed[sent] by the System to other markets are not ranked and maintained in the BATS Book pursuant to Rule 11.12(a), and therefore are not available to execute against incoming orders pursuant to paragraph (a) above[do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center]. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, short-sale regulation and order cancellation. Requests from Users to cancel their orders while the order is routed away to another trading center and remains outside the System shall be processed, subject to the applicable trading rules of the relevant trading center. If a routed order is subsequently returned, in whole or in part, that order, or its remainder, shall receive a new timestamp reflecting the time of its return to the System. Following the routing process described above, unless the terms of the order direct otherwise, any unfilled portion of the order originally entered into the System shall be ranked in the

BATS Book in accordance with the terms of such order under Rule 11.12 and such order shall be eligible for execution under this Rule 11.13.

(c)-(e) (No change.)

Interpretations and Policies

.01 (No change.)

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