

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77069; File No. SR-BATS-2016-07)

February 5, 2016

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Chapter XXI of BZX Options to Further Align the Rules with those of EDGX Options

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 January 27, 2016, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6)(iii) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal for the BATS Options Market (“BATS Options” or “BZX Options”) to amend various rules contained in Chapter XXI in order to further improve such rules and to align such rules with the rules applicable to the Exchange’s affiliated options platform operated by EDGX Exchange, Inc. (“EDGX Options”).

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

www.batstrading.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend various BZX Options Rules contained in Chapter XXI in order to further improve such rules and to align such rules with the rules applicable to EDGX Options, the Exchange's affiliated options platform. EDGX Options recently launched after receiving approval in August of 2015.⁵ In connection with the creation of EDGX Options as well as in connection with rule clarifications filed by the Exchange with respect to the Exchange's equity securities trading platform ("BZX Equities"),⁶ the Exchange has identified various BZX Options rules that could be improved or clarified. In addition, to the extent possible, the Exchange wishes to maintain identical rules with its affiliated trading platforms in order to avoid potential confusion by participants on the Exchange and such affiliated trading

⁵ See Securities Exchange Act Release No. 75650 (August 7, 2015), 80 FR 48600 (August 13, 2015) (SR-EDGX-2015-18).

⁶ See Securities Exchange Act Release No. 74738 (April 16, 2015), 80 FR 22600 (April 22, 2015) (SR-BATS-2015-09).

platforms. Each of the changes proposed below is consistent with these objectives and is intended to clarify and to include additional specificity regarding the current functionality of the Exchange's System,⁷ including the descriptions of BZX Options order types and order instructions, as further described below. None of the changes proposed below represents a proposed change to the operation of BZX Options.

Proposed Changes to Terminology

The Exchange proposes the following terminology changes that are applicable to one or more rules within Chapter XXI applicable to BZX Options:

- The Exchange proposes to re-name “BATS Only Orders”, which are not routable away from the Exchange, as “Book Only Orders.”
- The Exchange proposes to re-name “BATS Post Only Orders”, which do not remove liquidity from the Exchange, as “Post Only Orders.”
- The Exchange proposes to refer to other “options exchanges” rather than other “trading centers.”
- The Exchange proposes to refer to “contracts” rather than “shares.”

Proposed Changes to Order Type Modifiers and Routing Instructions

Rule 21.1 sets forth numerous definitions applicable to the operation of the BZX Options System, primarily the order types and order type modifiers accepted by BZX Options. Rule 21.9 describes the process for routing orders away from BZX Options. The Exchange proposes the following changes to Rules 21.1 and 21.9:

⁷ Exchange Rule 16.1(59) defines “System” as “the automated trading system used by BATS Options for the trading of options contracts.”

- Attributable and Non-Attributable Orders. The Exchange proposes to state in Rule 21.1(a)(3) that the Exchange’s data feed can be used to display orders with or without attribution. The Exchange also proposes to state in Rule 21.1(c) that the default treatment on BZX Options is that an order is a Non-Attributable Order unless the User directs otherwise. This is the opposite of EDGX Options and represents an example of a difference between the rules of BZX Options and EDGX Options that the Exchange currently intends to maintain. Finally, the Exchange proposes to make minor formatting and structural changes to conform to EDGX Options Rule 21.1(c). These changes will conform BZX Options Rules 21.1(a)(3) and 21.1(c) to EDGX Options Rules 21.1(a)(3) and 21.1(c).
- Price Improving Orders. The Exchange proposes to remove duplicative language from the definition of Price Improving Orders in Rule 21.1(d)(6). First, because all orders are displayed on BZX Options, the Exchange proposes to remove reference to orders “that are available for display.” Second, because the display-price sliding process described in Rule 21.1(h) describes the process by which orders are displayed at the applicable minimum price variation and the description of Price Improving Orders cross-references Rule 21.1(h), the Exchange proposes to remove language stating that Price Improving orders are “rounded to the minimum price variation.” These changes will conform BZX Options Rule 21.1(d)(6) to EDGX Options Rule 21.1(d)(6).
- Destination Specific Orders, Directed ISOs and Parallel T. Both Destination Specific Orders and Directed ISOs, described in Rule 21.1(d)(7) and 21.1(d)(12), respectively, are routing instructions rather than order types or order type modifiers. Accordingly, to conform BZX Options Rules to the structure of Exchange Rules 11.9 and 11.13,

applicable to BZX Equities, as well as EDGX Options Rules 21.1 and 21.9, the Exchange proposes to re-locate these rules in Rules 21.9(a)(2)(C) and 21.9(a)(2)(D), applicable to routing away from BZX Options. The Exchange also proposes to re-number the remainder of Rule 21.1(d) and to modify cross-references contained in other portions of Chapter XXI in connection with this change. These changes will conform BZX Options Rule 21.1(d) to EDGX Options Rule 21.1(d).

As noted above, the Exchange proposes to re-locate the descriptions of Destination Specific Orders and Directed ISOs to Rule 21.9, which governs routing from BZX Options. The Exchange also proposes stylistic changes to conform the descriptions of these routing strategies with other routing strategies described in Rule 21.9(a)(2). Further, the Exchange proposes to eliminate reference to an obsolete routing option, Parallel T, which is set forth in Rule 21.9(a)(2)(D) and is not offered on BZX Options (or EDGX Options).⁸ Finally, the Exchange proposes to eliminate current Rule 21.9(a)(2)(E), which is simply a cross-reference reflecting the fact that these routing strategies used to be contained within Rule 21.1; to move the Parallel D routing strategy to Rule 21.9(a)(2)(A), which is simply a paragraph that had been reserved for future use due to the prior elimination of a routing strategy; and to re-number all other routing strategies accordingly. These changes will conform BZX Options Rule 21.9(a)(2) to EDGX Options Rule 21.9(a)(2).

⁸ The Exchange notes that it adopted rules describing the Parallel T routing strategy along with several other routing strategies based the routing rules for BZX Equities. However, the Exchange never implemented or offered the Parallel T routing strategy for BZX Options. See Securities Exchange Act Release No. 63090 (October 13, 2010), 75 FR 64387 (October 19, 2010) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change by BATS Exchange, Inc. To Amend BATS Rule 21.9, Entitled “Order Routing”).

- Routable Orders with Time in Force of Immediate-or-Cancel or Fill-or-Kill. The Exchange proposes to modify Rule 21.1(f)(2) to update the description of the Time in Force (“TIF”) of Immediate Or Cancel (“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 Options 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 21.9 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 21.1(f)(5) 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 21.9(a)(1) to add the cancellation of an unfilled balance of an order as one possible outcome after an order has been routed away. Rule 21.9(a)(1) 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.

The Exchange also proposes to re-number the remainder of Rule 21.9(a)(1) accordingly and to eliminate current Rule 21.9(a)(1)(D), which is duplicative to Rule 21.9(a)(1)(C).

Finally, the Exchange proposes to number certain un-numbered text at the end of Rule 21.9(a)(1) as Rule 21.9(a)(1)(E). These changes will conform BZX Options Rules 21.9(f) and 21.9(a)(1) to EDGX Options Rules 21.9(f) and 21.9(a)(1).

Proposed Changes to Priority Rule and Related Routing Rule

The Exchange proposes two changes applicable to the priority of orders on BZX Options.

- First, the Exchange proposes to adopt new paragraph (d) to Rule 21.8, 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 21.1(g)) by stating that in such a case the System will not permit such orders to execute against one another regardless of priority ranking. Proposed BZX Options Rule 21.8(d) is based on and identical to EDGX Options Rule 21.8(k).
- Second, the Exchange proposes to modify existing paragraph (b) of Rule 21.9 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 Options Book pursuant to Rule 21.8, and therefore is not available to execute against incoming orders. These changes will conform BZX Options Rule 21.8(b) to EDGX Options Rule 21.8(b).

Proposed Changes to Other Rules Within Chapter XXI

In addition to the changes proposed above, the Exchange proposes to make the following changes:

- Rephrasing language within Rule 21.2 to avoid use of the phrase “BATS Options options.”
- Adding reference to the price adjust process, as defined in Rule 21.1(i), to Rule 21.6(f) and Rule 21.9(a)(1)(B) where there are currently already references to the display-price sliding process.
- Adding the term intra-day to Rule 21.10 when referring to anonymous transaction reports because participants do learn the identity of contra-parties in connection with the clearance and settlement of transactions.

Adding a new paragraph (a) to Rule 21.15 based on EDGX Options Rule 21.15(a). The new paragraph simply reflects the regulations already applicable to the Exchange by stating that the Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act. In accordance with this change, the Exchange proposes to re-name the rule as “Data Dissemination.” The Exchange also proposes to add a new paragraph title within the Rule, “Exchange Data Products”, to describe the existing rule text, and to re-number the existing rule text of Rule 21.15.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁰ in particular, in that it is 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, and, in general to protect investors and the public interest.

The proposed rule changes are generally intended to better align certain Exchange rules with the rules of EDGX Options (as well as BZX Equities) in order to provide a consistent description of functionality across the Exchange and its affiliates. Consistent descriptions of functionality between the Exchange and EDGX Options will reduce complexity and help to avoid potential confusion by Users of the Exchange that are also participants on EDGX Options. The proposed rule changes do not propose to implement new or unique functionality that has not been previously filed with the Commission or is not available on BZX Options already. The Exchange notes that the proposed rule text is based on applicable EDGX Options Rules; the proposed language of the Exchange's Rules differs only to extent necessary to conform to existing Exchange rule text. The Exchange believes the proposed changes will increase the understanding of the Exchange's operations for all Members of the Exchange. Where possible, the Exchange has mirrored EDGX Options rules verbatim, because consistent rules will simplify the regulatory requirements and increase the understanding of the Exchange's operations for Members of the Exchange that are also participants on EDGX Options. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposal will provide consistent descriptions of functionality between the BZX Options and EDGX Options, thereby reducing complexity and providing improvements to rules to avoid potential confusion by Users of the Exchange that are also participants on EDGX Options. As noted elsewhere in the proposal, the Exchange is not proposing any substantive changes to the System. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹² Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19b-4(f)(6).

become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.¹³

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiver of the 30-day operative delay would provide immediate clarity to the Exchange's rules described above. Because the proposal would provide consistent descriptions of the same functionality on BZX Options and EDGX Options, the Commission believes that the proposal could avoid potential confusion by users of the Exchange that are also participants on EDGX Options. Based on the foregoing, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.¹⁴ The Commission hereby grants the Exchange's request and designates the proposal operative upon filing.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

¹³ In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁴ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 Number SR-BATS-2016-07 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-BATS-2016-07. 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 a.m.

and 3:00 p.m. Copies of the filing also will 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 Number SR-SR-BATS-2016-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Brent J. Fields
Secretary

¹⁵ 17 CFR 200.30-3(a)(12).