



BZX Regulatory Circular 11-003
BYX Regulatory Circular 11-003

Date: May 18, 2011

To: Market Makers Registered with BATS Exchange, Inc. and BATS Y-Exchange, Inc.

From: Membership Services

**Re: Proposed Expansion of Single Stock Circuit Breakers to All NMS Stocks and
Amendments to Market Maker Quotation Rules**

SUMMARY

On May 4, 2011, BATS Exchange, Inc. ("BZX") and BATS Y-Exchange, Inc. ("BYX", and together with BZX, generally referred to hereafter as "BATS" or the "Exchange") in conjunction with other exchanges and FINRA, each filed a proposal to expand a pilot program previously approved by the Commission related to Rule 11.18, entitled "Trading Halts Due to Extraordinary Market Volatility," to include additional securities in the pilot by which such rule operates.¹ Specifically, the Exchange proposed to recognize individual stock trading halts applicable to all NMS stocks. The Exchange also proposed to amend Rule 11.8, entitled "Obligations of Market Makers," to conform certain of the percentages thereunder to the proposed expanded pilot and to implement necessary changes to the optional functionality offered by BATS to assist Market Makers with maintenance of their quotations under Rule 11.8.

EXPANSION OF PILOT

The Commission approved Rule 11.18(d) on a pilot basis on June 10, 2010 to allow BZX to pause trading in an individual stock when the primary listing market for such stock issues a trading pause due to extraordinary market volatility ("Trading Pause") in a security included within the S&P 500® Index ("S&P 500") ("Trading Pause Pilot" or "Pilot").² BZX subsequently received approval to add to the Pilot the securities included in the Russell 1000® Index ("Russell 1000") and a specified list of Exchange Traded Products ("ETPs").³ BYX adopted the Pilot, including applicability to the Russell 1000 and the specified ETPs prior to commencing operations as a national securities exchange.⁴ In consultation with other markets and the staff of the Commission, BATS has proposed to expand the Pilot to include all NMS stocks.⁵

¹ See Securities Exchange Act Release No. 64435 (May 6, 2011), 76 FR 27684 (May 12, 2011) ([SR-BATS-2011-016](#)) and Securities Exchange Act Release No. 64433 (May 6, 2011), 76 FR 27680 (May 12, 2011) ([SR-BYX-2011-011](#)).

² See Securities Exchange Act Release No. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) ([SR-BATS-2010-014](#)).

³ See Securities Exchange Act Release No. 62884 (September 10, 2010), 75 FR 56618 (September 16, 2010) ([SR-BATS-2010-018](#)). Recently, the Exchange extended the operation of the Pilot until the earlier of August 11, 2011 or the date on which a limit up / limit down mechanism to address extraordinary market volatility, if adopted, applies. Securities Exchange Act Release No. 64207 (April 6, 2011), 76 FR 20424 (April 12, 2011) ([SR-BATS-2011-011](#)).

⁴ See Securities Exchange Act Release No. 63097 (October 13, 2010), 75 FR 64767 (October 20, 2011) ([SR-BYX-2010-002](#)).

⁵ See note 1.

AMENDMENTS TO MARKET MAKER QUOTATION RULES

In order to adopt the proposed changes to the Pilot, the primary listing markets will apply different percentages that will trigger a Trading Pause on the primary listing markets (a "Trigger Percentage") with respect to the newly added securities, including: (a) 30% for NMS stocks priced equal to or greater than \$1 per share that are not included in the S&P 500, the Russell 1000 or the specified list of ETPs and (b) 50% for NMS stocks priced below \$1 per share that are not included in the S&P 500, the Russell 1000 or the specified list of ETPs ("Low Priced Securities"). In order to accommodate this change, the Exchange proposes to modify the language of its quoting requirements for Market Makers, which are intended to be within the bounds of the Trigger Percentages.

Currently, the Exchange's formula for calculating the Designated Percentage is the Trigger Percentage minus 2%. The current formula for calculating the Defined Limit is the Trigger Percentage minus 0.5%. The Exchange proposes to apply the existing formulas for calculating the Designated Percentage and Defined Limit to all NMS stocks other than Low Priced securities. Thus, there will be no change to the existing Designated Percentage of 8% and Defined Limit of 9.5% for securities included in the S&P 500, the Russell 1000 or the specified list of ETPs (or 20% and 21.5% when trading pauses are not in effect). For newly added NMS stocks priced \$1 or above, this formula will mean a Designated Percentage of 28% and a Defined Limit of 29.5%. As proposed, for Low Priced Securities, the Designated Percentage and Defined Limit would be 30% and 31.5%, respectively.

IMPACT OF AMENDMENTS ON OPTIONAL BATS MARKET MAKER QUOTATION FUNCTIONALITY

The Exchange has also proposed to modify Rule 11.8(e), which describes an optional functionality that the Exchange offers to Exchange Market Makers to assist such Market Makers with maintenance of their quotations under Rule 11.8. Specifically, for Market Makers that utilize the functionality, the Exchange enters bids and offers at the Designated Percentage and cancels and replaces the bid or offer if it drifts away from the NBBO to the Defined Limit or away from the Designated Percentage towards the NBBO by a number of percentage points determined by the Exchange.

In order to reduce the operational burden on the Exchange, the Exchange proposed to use the same Designated Percentage and Defined Limit for all NMS stocks that are being added to the Pilot regardless of the price per share of such stocks. Accordingly, for purposes of its optional quotation functionality, as proposed, the Exchange will use a consistent Designated Percentage of 28% and a consistent Defined Limit of 29.5% for all NMS stocks not included in S&P 500, the Russell 1000 or the specified list of ETPs. Market Makers managing their own quoting on the Exchange may still quote in accordance with the rule based on the Designated Percentage and Defined Limit established for Low Priced Securities (30% and 31.5%, respectively).

Subject to Commission approval of the proposed rule changes, the applicable primary listing market individual stock pause trigger percentages, Designated Percentages and Defined Limits are illustrated on the table included as Exhibit A.

If you have any questions in connection with this Circular, please contact the BATS Trade Desk at 913-815-7001 or Membership Services at 913-815-7002.

Exhibit A

Proposed Pause Trigger Percentages, Designated Percentages and Defined Limits:

	<u>Security Type</u>	<u>Pause Trigger Percentage</u>	<u>Designated Percentage</u>	<u>Defined Limit</u>
Regular Trading Hours when stock pause triggers are in effect under the rules of the primary listing market (i.e., between 9.45 a.m. and 3:35 p.m. Eastern Time)	S&P 500® Index, Russell 1000® Index, and pilot list of Exchange Traded Products	10%	8%	9.5%
	Other NMS stocks, priced \$1 and above	30%	28%	29.5%
	Other NMS stocks, priced below \$1	50%	30%*	31.5%*
Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market (i.e., prior to 9.45 a.m. and after 3:35 p.m. Eastern Time)	S&P 500® Index, Russell 1000® Index, and pilot list of Exchange Traded Products	Not applicable	20%	21.5%
	Other NMS stocks, priced \$1 and above	Not applicable	28%	29.5%
	Other NMS stocks, priced below \$1	Not applicable	30%*	31.5%*

* The optional process set forth in Rule 11.8(e), through which the Exchange will enter two-sided quotations on behalf of a Market Maker, will apply a Designated Percentage of 28% and a Defined Limit of 29.5% for all other NMS stocks, including other NMS stocks priced below \$1.