



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68865; File No. SR-BATS-2013-006)

February 7, 2013

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the Short Term Options Series Program

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 23, 2013, 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”) to amend its rules to modify the short term option series (“Short Term Option Series” or “STOS”)

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).

Program⁵ to permit, during the week before expiration week and expiration week of an option class that is selected for the STOS Program, the strike price intervals for the related non-short term option series options to be the same as the strike price interval for the Short Term Option Series⁶ options, to permit the Exchange to open STOS that are opened by other securities exchanges, and to adopt a rule to open Short Term Option Series for trading at \$0.50 strike price intervals for option classes that trade in one dollar increments and are in the STOS Program. The Exchange also proposes to increase the number of expirations, strikes per class, and classes that are eligible to participate in the STOS Program, along with a clarifying change regarding the number of initial strikes per class. Lastly, the Exchange is proposing to amend the definition of Short Term Option Series in order to reflect the proposed increase in the number of expirations eligible for participation in the STOS Program and to add titles to several of its rules in order to make clear the subject matter that the rule covers.

⁵ The STOS Program was established in August of 2010 on BATS Options. See Securities Exchange Act Release No. 62597 (July 29, 2010), 75 FR 47335 (August 5, 2010)(SR-BATS-2010-020) (notice of filing and immediate effectiveness establishing Short Term Option Series Program on BATS). Other exchanges have also established permanent short term option programs, including The NASDAQ Stock Market LLC (“NOM”), NASDAQ OMX PHLX LLC (“PHLX”), Chicago Board Options Exchange (“CBOE”), International Securities Exchange (“ISE”), NYSE Arca Options (“NYSE Arca”), NYSE Amex, LLC (“Amex”), NASDAQ OMX BX (“BX”), and Boston Options Exchange LLC (“BOX”).

⁶ Short Term Option Series are series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively. See BATS Rules 16.1(a)(57) and 29.2(n).

The text of the proposed rule change is available at the Exchange's website at <http://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 purpose of this proposed rule change is to amend BATS Rules 16.1(a)(57), 19.6, 29.2(n), and 29.11(h) related to the STOS Program. Specifically, the Exchange proposes to: (1) adopt a rule to permit the Exchange to list Short Term Option Series at \$0.50 strike price intervals for option classes that trade in one dollar increments and are in the STOS Program ("Eligible Option Classes"); (2) expand the number of expirations to five consecutive expirations under the STOS Program for trading on the Exchange; (3) increase the number of classes (from 15 to 30) that are eligible to participate in the STOS Program; (4) increase the number of strikes that may be listed per class (from 20 to 30) that participates in the STOS Program; (5) allow the Exchange to open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules; (6) indicate that during the expiration week of an option class that is selected for the STOS Program, the strike price intervals for the related non-STOS option shall be the

same as the strike price intervals for the STOS option and that during the week before the expiration week of a STOS option, the Exchange shall open the related non-STOS option for trading in STOS option intervals in the same manner as for STOS options; (7) make clear that the Exchange may open up to 20 initial series for each option class that participates in the STOS Program; (8) amend the definitions of Short Term Option Series in order to reflect the proposed increase in expirations; and (9) make BATS Rules clearer by adding titles to certain paragraphs.

\$0.50 Strikes in the STOS Program

The Exchange is proposing to amend BATS Rules 19.6 and 29.11(h) to permit the Exchange to list Short Term Option Series at \$0.50 strike price intervals for option classes that trade in one dollar increments and are in the STOS Program. Currently, BATS Rules do not permit the Exchange to list Short Term Option Series at \$0.50 strike price intervals. Rather, BATS Rules 19.6 and 29.11(h) only state that after an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day series of options on that class that expire on the Friday of the following business week that is a business day.

The principal reason for the proposed structure is to compete on an equal playing field with other options exchanges in satisfying the high market demand for weekly options. Multiple options exchanges, including ISE, have implemented substantially similar STOS Programs, although there are some differences in the practical implementation of permitted strike prices. ISE's STOS Program differs from the other programs in that ISE permits \$0.50 strike price intervals for weekly options for option classes that trade in one dollar increments and are in the

STOS Program.⁷ On the other hand, PHLX, for instance, permits \$0.50 strike price intervals when the strike price is below \$75, and \$1 strike price intervals when the strike price is between \$75 and \$150.⁸ The Exchange is proposing to allow \$0.50 strikes in a manner identical to ISE.

There is continuing strong customer demand for having the ability to execute hedging and trading strategies effectively via STOS, particularly in the current fast, multi-faceted trading and investing environment that extends across numerous markets and platforms.⁹ The Exchange has observed increased demand for STOS classes and/or series, particularly when market moving events such as significant market volatility, corporate events, or large market, sector, or individual issue price swings have occurred. The STOS Program is one of the most popular and quickly expanding options expiration programs.

The changes proposed by the Exchange should allow execution of more trading and hedging strategies on the Exchange. The Exchange notes that in conformance with Exchange Rules, the Exchange shall not list \$0.50 or \$1 strike price intervals on Related non-STOS options within five (5) days of expiration. For example, if a Related non-STOS in an options class is set to expire on Friday, September 21, the Exchange could begin to trade \$0.50 strike price intervals surrounding that Related non-STOS on Thursday, September 13, but no later than Friday September 14.

The Exchange believes that there are substantial benefits to market participants in the ability to trade the Eligible Option Classes at more granular strike price intervals [sic] the

⁷ See Securities Exchange Act Release No. 67754 (August 29, 2012), 77 FR 54629 (September 5, 2012) (SR-ISE-2012-33).

⁸ See Securities Exchange Act Release No. 67753 (August 29, 2012) 77 FR 54635 (September 5, 2012) (SR-PHLX-2012-78).

⁹ These include, without limitation, options, equities, futures, derivatives, indexes, exchange traded funds, exchange traded notes, currencies, and over-the-counter instruments.

proposed interval for the Eligible Option Classes would allow traders and investors, and in particular public (retail) investors to more effectively and with greater precision consummate trading and hedging strategies on the Exchange. The Exchange believes that this precision is increasingly necessary, and in fact crucial, as traders and investors engage in trading and hedging strategies across various investment platforms (e.g. equity and ETF, index, derivatives, futures, foreign currency, and even commodities products).

Additional STOS Program Expirations

The Exchange is also proposing to amend BATS Rules 19.6 and 29.11(h) to permit the Exchange to open up to five consecutive expirations under the STOS Program for trading on the Exchange. Currently under the STOS Program, the Exchange may open STOS option series for only one week expirations.

This proposal seeks to allow the Exchange to add a maximum of five consecutive week expirations under the STOS Program, however it will not add a STOS expiration in the same week that a monthly options series expires or, in the case of Quarterly Option Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same class. In other words, the total number of consecutive expirations will be five, including any existing monthly or quarterly expirations.¹⁰ As noted above, the STOS Program has been well-received by market participants, in particular by retail investors, and the Exchange believes that the proposed revision to the STOS Program will permit the Exchange to meet increased customer demand and provide market participants with the ability to hedge in a greater number of option

¹⁰ For example, if quarterly options expire week 1 and monthly options expire week 3, the proposal would allow the following expirations: week 1 quarterly, week 2 STOS, week 3 monthly, week 4 STOS, and week 5 STOS. If quarterly options expire week 3 and monthly options expire week 5, the following expirations would be allowed: week 1 STOS, week 2 STOS, week 3 quarterly, week 4 STOS, and week 5 monthly.

classes and series as well as to allow the Exchange to compete with other options exchanges offering similar short term options programs, such as NYSE Arca.¹¹

Additional Classes Participating in the STOS Program

The Exchange is also proposing to amend BATS Rules 19.6 and 29.11(h) to permit the Exchange to increase the number of classes that are eligible to participate in the STOS Program from 15 to 30. Currently, for each option class that has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day series of options on no more than fifteen option classes that expire on the Friday of the following business week that is a business day.

Several other options exchanges, including NASDAQ Options Market (“NOM”),¹² have rules that allow 30 classes to be eligible to participate in their STOS Programs. As a result, the Exchange is competitively disadvantaged because it operates a substantially similar STOS Program as ISE, NOM, and PHLX, but is limited to selecting only 15 classes that may participate in its STOS Program (whereas ISE, NOM, and PHLX may each select 30 classes).

The proposed increase to the number of classes eligible to participate in the STOS Program is required for competitive purposes as well as to ensure consistency and uniformity among the competing options exchanges that have adopted similar short term options series programs.

Additional Series per Class in the STOS Program

The Exchange is also proposing to amend its rules to permit the Exchange to increase the number of series that the Exchange may open per class that is eligible to participate in the STOS

¹¹ See Securities Exchange Act Release No. 68190 (November 8, 2012), 77 FR 68193 (November 15, 2012) (SR-NYSEArca-2012-95).

¹² See Securities Exchange Act Release No. 65528 (October 11, 2011), 76 FR 64142 (October 17, 2011) (SR-NASDAQ-2011-138).

Program from 20 to 30 as well as to make a clarifying change that states that the Exchange may open 20 initial series for each option class that participates in the STOS Program. Currently, for each class that has been approved for listing and trading on the Exchange as part of the STOS Program, the Exchange may open up to 20 series.

ISE's rules and the rules of other exchanges allow them to open up to 30 STOS for each option class eligible for participation in the STOS Program.¹³ As a result, the Exchange is competitively disadvantaged because it operates a substantially similar STOS Program as ISE and other exchanges but is limited to opening only 20 series per expiration in each class that is eligible to participate in its STOS Program (whereas ISE may select 30 series).

The Exchange is proposing to amend its rules to allow the Exchange to open up to ten additional series (a total of 30) for each option class that participates in the STOS Program when the Exchange deems it necessary to maintain an orderly market, to meet customer demand, or when the market price of the underlying security moves substantially from the exercise price or prices of the series already opened. The Exchange is also proposing to amend its rules in order to clarify that it may open up to 20 initial series for each option class that participates in the STOS Program.

STOS Opened by Other Exchanges

The Exchange is also proposing to amend its rules to allow the Exchange to open STOS that are opened by other securities exchanges in option classes selected by other exchanges under their respective short term option rules. Currently, for each option class eligible for participation

¹³ See Securities Exchange Act Release Nos. 65771 (November 17, 2011), 76 FR 72472 (November 23, 2011) (SR-ISE-2011-60) and 65806 (November 22, 2011), 76 FR 73753 (November 29, 2011) (SR-NYSEArca-2011-88).

in the STOS Program, the Exchange may open up to 20 short term option series for each expiration date in that class.¹⁴

This proposal seeks to allow the Exchange to open STOS that are opened by other securities exchanges in option classes selected by other exchanges under their respective short term option rules. This change is being proposed notwithstanding the current cap of 20 series per class under the STOS Program. This too is a competitive change and is based on approved filings and existing rules of ISE, NOM, and PHLX.¹⁵

The Exchange is competitively disadvantaged because it operates a substantially similar STOS Program as ISE, NOM, and PHLX, but is limited to listing a maximum of 20 series per options class that participates in its STOS Program (whereas ISE, NOM, and PHLX are not similarly restricted).

The Exchange again notes that the STOS Program has been well-received by market participants, in particular by retail investors. The Exchange believes that the current proposed revision to the STOS Program will permit the Exchange to meet increased customer demand and provide market participants with the ability to hedge in a greater number of option classes and series, as well as provide consistency and uniformity among competing options exchanges.

Strike Price Intervals in the non-STOS Options

¹⁴ As previously discussed, the Exchange is also proposing to increase the number of series that may be opened on each class from 20 series per class to 30 series per class.

¹⁵ See Securities Exchange Act Release Nos. 65775 (November 17, 2011), 76 FR 72473 (November 23, 2011) (SR-NASDAQ-2011-138) (order granting approval of proposed rule change expanding the short term option series program) and 65776 (November 17, 2011), 76 FR 72482 (November 23, 2011) (SR-PHLX-2011-131) (order granting approval of proposed rule to increase the number of series permitted per class in the short term option series program); see also Securities Exchange Act Release No. 66623 (March 20, 2012), 77 FR 17531 (March 26, 2012) (SR-ISE-2012-23).

The Exchange is also proposing to add Rule 19.6(g) and to amend Rule 19.6 Commentary .05(e) and Rule 29.11(h)(5) to indicate during the expiration week of an option class that is selected for the STOS Program, the strike price intervals for the related non-STOS option shall be the same as the strike price intervals for the STOS option. Currently, the Exchange does not list STOS options during the expiration week of an option class. The Exchange is not proposing to change this functionality, but rather, the Exchange is proposing to allow the use of the same strike price intervals for the related non-short term option during expiration week as are used for the short term option. This will allow option classes that are selected for the STOS Program that are trading at narrower strike price intervals as part of the STOS Program to continue trading at the narrower strike price intervals during expiration week, even though the short term option will not be traded during that week. In addition, the Exchange proposes that during the week before the expiration week of a STOS option, the Exchange shall open the related non-STOS option for trading in STOS option intervals in the same manner that they are opened for STOS options. Thus, a non-STOS option may be opened in STOS option intervals on a Thursday or Friday that is a business day before the non-STOS option expiration week. This functionality is identical to that of BOX,¹⁶ among others, and would promote consistency in strike prices during the week prior to expiration, when the Exchange does not list short term options.

Definition of STOS

The Exchange is also proposing to amend Rules 16.1(a)(57) and 29.2(n) to make the definition of Short Term Option Series accurately reflect the proposed additional expirations

¹⁶ See Securities Exchange Act Release No. 67870 (September 17, 2012), 77 FR 58600 (September 21, 2012) (SR-BOX-2012-012).

proposed above. Currently, the definitions only include one expiration for STOS. The Exchange is proposing to include the additional expirations proposed above in both definitions of STOS.

Adding Titles to Certain Paragraphs

The Exchange is also proposing to amend its rules in order to make more clear which paragraphs are related to the initials series and additional series for each option class that participates in the STOS Program as well as the strike intervals on Short Term Option Series.

With regard to the impact of these proposals on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with proposed expansion to the STOS Program.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁸ 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. This will be effectuated by the following rule changes: STOS Program strike price intervals of \$0.50 for option classes that trade in \$1 increments; during the expiration week of the non-short term option, the strike price intervals for the non-short term option will be the same as for the short term option; allowing the Exchange to open STOS that are opened by other securities exchanges in option classes selected under their respective short term option rules; expanding the number of expirations to five consecutive expirations under the STOS Program for trading on the Exchange; and increasing the number of classes and strikes

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

that are eligible to participate in the STOS Program. The Exchange believes that expanding the current STOS Program will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment and hedging decisions, while ensuring conformity between short term options and related non-short term options. While the expansion of the STOS Program will generate additional quote traffic, the Exchange does not believe that this increased traffic will become unmanageable since the proposal is limited to a limited number of classes. Further, the Exchange does not believe that the proposal will result in a material proliferation of additional series because it is limited to a fixed number of classes and the Exchange does not believe that the additional price points will result in fractured liquidity.

(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 not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposal will allow the Exchange to compete more effectively with other options exchanges that have already adopted changes to their short term options series programs that are identical to the changes proposed by this filing.

(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 change.

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public

interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁹ and Rule 19b-4(f)(6) thereunder.²⁰

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest because the proposal is substantially similar to those of other exchanges that have expanded and modified their STOS programs, which been approved by the Commission or filed for immediate effectiveness as “copycat” filings.²¹ Waiver of the delay would allow BATS to compete with these exchanges and clarify its rules without undue delay. Therefore, the Commission grants the Exchange’s waiver request and designates the proposal operative upon filing.²²

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate 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.

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6). 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 the 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 satisfied this requirement.

²¹ See supra, notes 7-8, 11-13, and 15-16.

²² For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2013-006 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 Number SR-BATS-2013-006. 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 such 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-BATS-2013-006 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.²³

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2013-03304 Filed 02/12/2013 at 8:45 am; Publication Date: 02/13/2013]

²³ 17 CFR 200.30-3(a)(12).