



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69088; File No. SR-BYX-2013-010)

March 8, 2013

Self-Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Exchange Rules in Connection with the Limit Up-Limit Down Plan

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 February 28, 2013, BATS Y-Exchange, Inc. (“BYX” or “Exchange”) 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 is proposing to amend Rule 11.18 in connection with the upcoming operation of the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan” or “Plan”).⁵

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).

⁵ See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (the “Limit Up-Limit Down Release”).

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 Exchange proposes to amend Exchange Rule 11.18 to establish rules to comply with the requirements of the Limit Up-Limit Down Plan. The Exchange proposes to adopt the changes to become operative on a date that coincides with the commencement of operations of the Plan, which is currently scheduled as a one-year pilot to begin on April 8, 2013. Accordingly, as proposed, the Exchange has designated an operative date of April 8, 2013 to allow the Rules to become effective and operative on the initial date of operation of the Plan.

Background

Since May 6, 2010, when the markets experienced excessive volatility in an abbreviated time period, i.e., the "flash crash," the equities exchanges and FINRA have implemented market-wide measures designed to restore investor confidence by reducing the potential for excessive market volatility. Among the measures adopted include pilot plans for stock-by-stock trading

pauses⁶ and related changes to the equities market clearly erroneous execution rules⁷ and more stringent equities market maker quoting requirements.⁸ On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.⁹ In addition, the Commission approved changes to the equities market-wide circuit breaker rules on a pilot basis to coincide with the pilot period for the Plan.¹⁰

The Plan is designed to prevent trades in individual NMS Stocks from occurring outside of specified Price Bands.¹¹ As described more fully below, the requirements of the Plan are coupled with Trading Pauses to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). All trading centers in NMS Stocks, including both those operated by Participants and those operated by members of Participants, are required to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the requirements specified in the Plan.¹² As set forth in more detail in the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are

⁶ See, e.g., Rule 11.18.

⁷ See, e.g., Rule 11.17.

⁸ See, e.g., Rule 11.8.

⁹ See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving, on a Pilot Basis, the National Market System Plan To Address Extraordinary Market Volatility).

¹⁰ See Securities Exchange Act Release No. 67090 (May 31, 2012), 77 FR 33531 (June 6, 2012) (SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SR-NYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129).

¹¹ Unless otherwise specified, capitalized terms used in this rule filing are based on the defined terms of the Plan.

¹² The Exchange is a Participant in the Plan.

calculated by the Processors.¹³ When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall disseminate such National Best Bid (Offer) with an appropriate flag identifying it as non-executable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation.¹⁴ All trading centers in NMS Stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS Stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, but with a flag that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.¹⁵

Trading in an NMS Stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band.¹⁶ Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary Listing Exchange would declare a five-minute Trading Pause pursuant to Section VII of the Limit Up-Limit Dow Plan, which would be applicable to all markets trading the security.¹⁷ In addition, the Plan defines a Straddle State as when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS Stock is not in a Limit

¹³ See Section (V)(A) of the Plan.

¹⁴ See Section VI(A) of the Plan.

¹⁵ See Section VI(A)(3) of the Plan.

¹⁶ See Section VI(B)(1) of the Plan.

¹⁷ The primary listing market would declare a trading pause in an NMS Stock; upon notification by the primary listing market, the Processor would disseminate this information to the public. No trades in that NMS Stock could occur during the trading pause, but all bids and offers may be displayed. See Section VII(A) of the Plan.

State. For example, assume the Lower Price Band for an NMS Stock is \$9.50 and the Upper Price Band is \$10.50, such NMS stock would be in a Straddle State if the National Best Bid were below \$9.50, and therefore non-executable, and the National Best Offer were above \$9.50 (including a National Best Offer that could be above \$10.50). If an NMS Stock is in a Straddle State and trading in that stock deviates from normal trading characteristics, the Primary Listing Exchange may declare a Trading Pause for that NMS Stock.

Proposed Amendment to Rule 11.18

The Exchange is required by the Plan to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the limit up-limit down and trading pause requirements specified in the Plan. In response to the new Plan, the Exchange proposes to amend its Rules accordingly.

The Exchange proposes to add Rule 11.18(e)(1)(A) to define that “Plan” means the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act, as amended from time to time. In addition, proposed Rule 11.18(e)(1)(B) provides that all capitalized terms not otherwise defined in paragraph (e) of the Rule shall have the meanings set forth in the Plan or Exchange rules, as applicable.

The Exchange proposes to add Rule 11.18(e)(2) to provide that the Exchange is a Participant in, and subject to the applicable requirements of, the Plan, which establishes procedures to address extraordinary volatility in NMS Stocks.

The Exchange proposes to add Rule 11.18(e)(3) to provide that Exchange Members shall comply with the applicable provisions of the Plan. The Exchange believes that this requirement

will help ensure the compliance by its Members with the provisions of the Plan as required pursuant to Section II(B) of the Plan.¹⁸

The Exchange proposes to add Rule 11.18(e)(4) to provide that the Exchange's System¹⁹ shall not display or execute buy (sell) interest above (below) the Upper (Lower) Price Bands, unless such interest is specifically exempted under the Plan. The Exchange believes that this requirement is reasonably designed to help ensure the compliance with the limit up-limit down and trading pause requirements specified in the Plan, by preventing executions outside the Price Bands as required pursuant to Section VI(A)(1) of the Plan.²⁰

The Exchange proposes Rules regarding the treatment of certain trading interest on the Exchange in order to prevent executions outside the Price Bands and to comply with the new Limit Up-Limit Down Plan. In particular, the Exchange proposes to add Rule 11.18(e)(5) to provide that Exchange systems shall re-price and/or cancel buy (sell) interest that is priced or could be executed²¹ above (below) the Upper (Lower) Price Band. When re-pricing resting orders because such orders are above (below) the Upper (Lower) Price Band, the Exchange will provide new timestamps to such orders. The Exchange will also provide new timestamps to resting orders at the less aggressive price to which such orders are re-priced. Any resting interest that is re-priced pursuant to this Rule shall maintain priority ahead of interest that was originally less aggressively priced, regardless of the original timestamps for such orders.

¹⁸ See Section II(B) of the Plan.

¹⁹ The "System" is defined in BYX Rule 1.5(aa) 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."

²⁰ See Section VI(A)(1) of the Plan.

²¹ The Exchange notes that this includes any interest that is displayed and/or resting at a less aggressive price but executable at a more aggressive price, such as orders subject to price sliding and discretionary order types.

Specifically, the Exchange proposes the following provisions regarding the re-pricing or canceling of certain trading interest:

- Market Orders and IOC Orders. The System will only execute BATS market orders or IOC Orders at or within the Price Bands. If a Market Order or IOC Order cannot be fully executed at or within the Price Bands, the System shall cancel any unexecuted portion of the order without posting such order to the Exchange's order book.
- Limit-priced Interest. Limit-priced Interest.
 - Orders Not Subject to Re-Pricing. Limit-priced interest will be cancelled if a User has entered instructions not to use the re-pricing process and such interest to buy (sell) is priced above (below) the Upper (Lower) Price Band.
 - Incoming Orders. If re-pricing is permitted based on a User's instructions, both displayable and non-displayable incoming limit-priced interest to buy (sell) that is priced above (below) the Upper (Lower) Price Band shall be re-priced to the Upper (Lower) Price Band.
 - Resting Orders. The System shall re-price resting limit-priced interest to buy (sell) to the Upper (Lower) Price Band if Price Bands move such that the price of resting limit-priced interest to buy (sell) would be above (below) the Upper (Lower) Price Band. If the Price Bands move again and the original limit price of displayed and re-priced interest is at or within the Price Bands and a User has opted into the Exchange's optional multiple price sliding process, as described in Rule 11.9(g), the System shall re-price such displayed limit interest to the most aggressive permissible price up to the order's limit price. All other displayed and

non-displayed limit interest re-priced pursuant to this paragraph (e) will remain at its new price unless the Price Bands move such that the price of resting limit-priced interest to buy (sell) would again be above (below) the Upper (Lower) Price Band.

- Pegged Interest. Pegged interest to buy (sell) shall peg to the specified pegging price or the Upper (Lower) Price Band, whichever is lower (higher).
- Routable Orders. If routing is permitted based on a User's instructions, orders shall be routed away from the Exchange pursuant to Rule 11.13. The Exchange is not proposing any changes to its routing functionality in connection with the implementation of the Limit Up-Limit Down Plan.
- Sell Short Orders. During a Short Sale Price Test, as defined in Rule 11.19(b)(2), Short Sale Orders priced below the Lower Price Band shall be re-priced to the higher of the Lower Price Band or the Permitted Price, as defined in Rule 11.9(g)(2)(A).

The Exchange proposes to adopt Rule 11.18(e)(6) to state that securities shall remain subject to the requirements of paragraph (d) of the Rule until such securities become subject to the Plan. Paragraph (d) of the Rule relates to existing individual single stock trading pauses issued by each primary listing market for an NMS Stock. As set forth in proposed Rule 11.18(e)(6), once an NMS Stock is subject to the Plan, the security shall only be subject to a Trading Pause under the Plan consistent with paragraph (f) of the Rule. Thus, paragraph (d) will no longer apply to NMS Stocks subject to the Plan.

The Exchange believes that the provisions proposed above are reasonably designed to prevent executions outside the Price Bands as required by the limit up-limit down and trading pause requirements specified in the Plan.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act²² in general, and furthers the objectives of Section 6(b)(5) of the Act²³ 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 proposal will ensure that the Exchange's System will not display or execute trading interest outside the Price Bands in a manner that promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system.

The proposal will also ensure that the trading interest on the Exchange is either re-priced to maintain priority or canceled in a manner that promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system. Specifically, the proposal will help allow market participants to continue to trade NMS Stocks within Price Bands in compliance with the Plan with certainty on how certain orders and trading interest will be treated. Thus, reducing uncertainty regarding the treatment and priority of trading interest with the Price Bands should help encourage market participants to continue to provide liquidity during extraordinary market volatility. The Exchange believes it is consistent with the protection of investors and the promotion of just and equitable principles of trade to allow resting orders to retain their priority ahead of less aggressively priced liquidity in the event such resting orders are re-priced in compliance with the Plan. To do otherwise, the Exchange believes, would reduce incentives to enter the most aggressively priced, displayed liquidity, and might encourage firms to maintain interest that is

²² 15 U.S.C. 78f(b).

²³ 15 U.S.C. 78f(b)(5).

one increment away from the most aggressive price level in order to be first in priority in the event of a re-pricing due to a Price Band.

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 enhances cooperation among markets and other trading venues to promote fair and orderly markets and to protect the interests of the public and of investors. The Limit Up-Limit Down Plan is part of a coordinated effort amongst various parties including the Exchange and other self-regulatory organizations as well as other market participants. While the specific proposals to implement changes to Exchange functionality consistent with the Plan may differ in certain ways from the implementation adopted by other market centers, the Exchange believes its proposals are consistent with the requirements and purpose of the Plan.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act²⁴ and Rule 19b-4(f)(6) thereunder.²⁵ Because the proposed rule change does not: (i)

²⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁵ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) 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.

significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

At any time within 60 days of the filing of such 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.

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-BYX-2013-010 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-BYX-2013-010. 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 publicly available. All submissions should refer to File Number SR-BYX-2013-010 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.²⁶

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2013-05893 Filed 03/13/2013 at 8:45 am; Publication Date: 03/14/2013]

²⁶ 17 CFR 200.30-3(a)(12).