

BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing this Partial Amendment No. 2 to SR-BATS-2014-067 (the “Original Filing”), which was originally submitted on December 4, 2014 and amended by Amendment No. 1 on December 17, 2014 (the “Filing” or the “Proposal”), which amended and replaced the Original Filing in its entirety. Pursuant to the Proposal, the Exchange proposed to replace current Rule 20.6 (“Current Rule”), entitled “Obvious Error,” with new Rule 20.6 (“Proposed Rule”), entitled “Nullification and Adjustment of Options Transactions including Obvious Errors.” Rule 20.6 relates to the adjustment and nullification of transactions that occur on the Exchange’s equity options platform (“BATS Options”). This Amendment No. 2 proposes to make amendments to five specific areas of the Filing, as described below. In addition to these specific areas, the Exchange requests that the Proposal, as amended, be approved on an accelerated basis, as described below.

Description of Proposed Amendments

First, the Exchange proposes to amend the definition of “Size Adjustment Modifier” as defined in paragraph (a)(4) of the Proposed Rule to refer to individual “transactions” rather than individual “orders”. The Exchange notes that most provisions of the proposed rule relate to transactions rather than orders. Further, the chart contained in the Proposed Rule immediately below the text that the Exchange proposes to amend refers to “executions”, which is more consistent with the term “transactions” than the term “orders”.

Second, the Exchange proposes to amend the description of Theoretical Price when a single order is received by the Exchange and executed at multiple price levels. As proposed, the Exchange would use the last NBB and NBO prior to the Exchange's receipt of the order for the execution at the initial price level; the Exchange would, however, determine Theoretical Price for executions at all other price levels. To ensure additional certainty and consistency as to the determination of Theoretical Price when a single order executes at multiple price levels, the Exchange proposes to instead use the last NBB and last NBO just prior to the Exchange's receipt of the order for executions at all price levels.

Third, the Exchange proposes to amend the criterion set forth in sub-paragraph (e)(1) of the Proposed Rule to more clearly set forth the formula by which a Significant Market Event is measured based on four criteria, contained in sub-paragraphs (A) through (D). As described in the current proposed rule text, a Significant Market Event has occurred if either criterion (A) is met or if the sum of criteria (A) through (D), each measured as a percentage, is greater than or equal to 150% and 75% or more of at least one category is reached. As described in the Filing, the first prong of this formula is meant to reference an event that meets or exceeds criterion (A). In order to more accurately describe this formula in the proposed rule text the Exchange proposes to add to sub-paragraph (e)(1) a reference to an event that meets "or exceed[s]" criterion (A), rather than referring to an event that meets such criterion. Consistent with the percentage formula described in the Filing, the Exchange also proposes to remove language in sub-paragraphs (e)(1)(A) through (D) of the Proposed Rule that implies that a proposed

criterion must be exceeded (i.e., references to “over,” “more than” and “greater than or equal to”).

Fourth, the Exchange proposes to amend the Filing with respect to the suspension of certain provisions of the Proposed Rule in connection with the Regulation NMS Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan” or the “Plan”). The Exchange proposes to make clear that it will provide an assessment of the operation of this portion of the Rule by May 29, 2015, and that such assessment will be made publicly available. Also, the pilot program is intended to run concurrent with the pilot period of the Plan, which has been extended to October 23, 2015.¹ The Exchange proposes to reflect this new date in the proposed rule text.

Fifth, the Exchange proposes to amend the Filing to ~~state that the Exchange will announce in an information circular distributed to Members designate May 8, 2015, as~~ the effective date of the proposed changes, replacing the Current Rule in its entirety with the Proposed Rule, ~~and that, t~~The Current Rule will remain in force until such date. The Exchange believes it is necessary to delay and control the implementation of the Proposed Rule because other options exchanges are in the process of filing similar proposals and all options exchanges desire to adopt the new, harmonized rule on the same date. ~~The Exchange anticipates that the effective date will be approximately 30 to 45 days after approval of the Proposal.~~

Proposed Amendments

¹ See Securities Exchange Act Release No. 74110 (January 21, 2015), 80 FR 4321 (January 27, 2015).

In order to accomplish these changes, the Exchange is proposing to make the following changes to the pending 19b-4, Exhibit 1, and Exhibit 5:

(1) *Size Adjustment Modifier Changes.*

The Exchange proposes to replace the last full paragraph on the bottom of page 9 of 146 and the last full paragraph on the bottom of page 73 of 146 of the Filing with the following:

Fourth, the Exchange proposes to adopt a new term, a “Size Adjustment Modifier,” which would apply to individual transactions and would modify the applicable adjustment for orders under certain circumstances, as discussed in further detail below. As proposed, the Size Adjustment Modifier will be applied to individual transactions as follows:

Similarly, the Exchange proposes to modify the Exhibit 5 on page 133 of 146 of the Filing to replace paragraph (a)(4) of the Proposed Rule, in its entirety, with the following:

(4) *Size Adjustment Modifier.* For purposes of this Rule, the Size Adjustment Modifier will be applied to individual transactions as follows:

<u>Number of Contracts per Execution</u>	<u>Adjustment – TP Plus/Minus</u>
<u>1-50</u>	<u>N/A</u>
<u>51-250</u>	<u>2 times adjustment amount</u>
<u>251-1000</u>	<u>2.5 times adjustment amount</u>
<u>1001 or more</u>	<u>3 times adjustment amount</u>

(2) *Theoretical Price - Executions at Multiple Price Levels.*

The Exchange proposes to replace the paragraph that begins on the bottom of page 11 of 146 and on the bottom of page 75 of 146 of the Filing with the following:

The Exchange also proposes to specify in the Proposed Rule that when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to the Exchange's receipt of the order.

Similarly, the Exchange proposes to modify the Exhibit 5 starting on page 133 of 146 to replace paragraph (b) of the Proposed Rule, in its entirety, with the following:

(b) *Theoretical Price.* Upon receipt of a request for review and prior to any review of a transaction execution price, the "Theoretical Price" for the option must be determined. For purposes of this Rule, if the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of the exceptions in subparagraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to the Exchange's receipt of the order.

(3) *Significant Market Event Changes.*

The Exchange proposes to modify the Exhibit 5 starting on page 137 of 146 to replace paragraph (e) of the Proposed Rule, in its entirety, with the following:

(e) *Significant Market Events.*

(1) *Definition.* For purposes of this Rule, a Significant Market Event will be deemed to have occurred when: criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

(A) Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst-Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:

(i) \$0.30 (i.e., the largest Transaction Adjustment value listed in sub-paragraph (e)(3)(A) below); times

(ii) the contract multiplier for each traded contract; times

(iii) the number of contracts for each trade; times

(iv) the appropriate Size Adjustment Modifier for each trade, if any, as defined in sub-paragraph (e)(3)(A) below.

(B) Transactions involving 500,000 options contracts are potentially erroneous;

(C) Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;

(D) 10,000 transactions are potentially erroneous.

(4) *Limit Up-Limit Down Plan Changes.*

The Exchange proposes to replace the first full paragraph on page 48 of 146 and on page 112 of 146 of the Filing with the following:

In addition, by May 29, 2015, the Exchange shall provide to the Commission and the public assessments relating to the impact of the operation of the Obvious Error rules during Limit and Straddle States as follows: (1) Evaluate the statistical and economic impact of Limit and Straddle States on liquidity and market quality in the options markets; and (2) Assess whether the lack of Obvious Error rules in effect during the Straddle and Limit States are problematic. The timing of this submission would coordinate with Participants' proposed time frame to submit to the Commission assessments as required under Appendix B of

the Plan. The Exchange notes that the pilot program is intended to run concurrent with the pilot period of the Plan, which has been extended to October 23, 2015.

The Exchange proposes to reflect this date in the Proposed Rule.

The Exchange also proposes to modify the Exhibit 5 starting on the bottom of page 141 of 146 to replace Interpretation and Policy .01 to the Proposed Rule, in its entirety, with the following:

.01 Limit Up-Limit Down State. During a pilot period set to end on October 23, 2015, an execution will not be subject to review as an Obvious Error or Catastrophic Error pursuant to paragraph (c) or (d) of this Rule if it occurred while the underlying security was in a "Limit State" or "Straddle State," as defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the "Limit Up-Limit Down Plan"). Nothing in this provision shall prevent such execution from being reviewed on an Official's own motion pursuant to sub-paragraph (c)(3) of this Rule, or a bust or adjust pursuant to paragraphs (e) through (j) of this Rule.

(5) *Changes Related to Effectiveness of the Rule.*

The Exchange proposes to add a new section at the end of the Purpose section of the Filing, on page 48 of 146 and on page 112 of 146 of the Filing that would read as follows:

Implementation Date

In order to ensure that other options exchanges are able to adopt rules consistent with this proposal and to coordinate the effectiveness of such harmonized rules, the Exchange proposes to delay the effectiveness of this proposal ~~following Commission approval. The Exchange will announce in an information circular distributed to Members the effective date of the proposed changes, replacing the Current Rule in its entirety with the Proposed Rule, and the~~

~~Current Rule will remain in force until such date. The Exchange anticipates that the effective date will be approximately 30 to 45 days after approval of the Proposal to May 8, 2015.~~

Request for Accelerated Approval

The Exchange requests that the Commission approve this proposed rule change on an accelerated basis pursuant to Section 19(b)(2) of the Act. The Exchange believes that there is good cause for the Commission to accelerate effectiveness because it would provide market participants with additional clarity by correcting potentially confusing portions to the filing, namely, those changes proposed in this Amendment No. 2 other than the proposal to amend the description of Theoretical Price when a single order is received by the Exchange and executed at multiple price levels. With respect to the determination of Theoretical Price when a single order is executed at multiple price levels, the Exchange believes that this proposal is consistent with the protection of investors because the revised provision provides additional certainty and eliminates discretion of the Exchange to determine Theoretical Price in certain circumstances. The Exchange further believes that the proposed rule change would not impose a burden on competition for the reasons set forth in the Filing. The Exchange believes that accelerated effectiveness of the Filing, as amended, will permit other Exchanges to complete the process of filing similar proposals and to adopt the new, harmonized rule on the proposed date of May 8, 2015. Accordingly, accelerated effectiveness is consistent with the protection of investors and the public interest because it would facilitate the implementation of the harmonized rule on all options exchanges on a timely basis. As a

result, the Exchange believes good reasons exists for the Commission to accelerate effectiveness of the proposed rule change.