

7. Count and volume arriving of limit sell orders priced at or above NBBO mid-point plus \$0.05
8. Count and volume arriving of limit buy orders priced at or below NBBO mid-point minus \$0.05
9. Count and volume of (3–8) for cancels
10. Include: ticker, date, time at start, time of Limit State, all data item fields in 1, last sale prior to 15-second period (null if no trades today), range during 15-second period, last trade during 15-second period

**III. On May 28, 2015, Participants provided to the SEC a supplemental joint assessment relating to the impact of the Plan and calibration of the Percentage Parameters as follows:**

- A. Assess the statistical and economic impact on liquidity of approaching Price Bands.
- B. Assess the statistical and economic impact of the Price Bands on erroneous trades.
- C. Assess the statistical and economic impact of the appropriateness of the Percentage Parameters used for the Price Bands.
- D. Assess whether the Limit State is the appropriate length to allow for liquidity replenishment when a Limit State is reached because of a temporary liquidity gap.
- E. Evaluate concerns from the options markets regarding the statistical and economic impact of Limit States on liquidity and market quality in the options markets. (Participants that operate options exchange should also prepare such assessment reports.)
- F. Assess whether the process for entering a Limit State should be adjusted and whether Straddle States are problematic.
- G. Assess whether the process for exiting a Limit State should be adjusted.
- H. Assess whether the Trading Pauses are too long or short and whether the reopening procedures should be adjusted.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–77222; File No. SR–BATS–2016–17]

### Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, To Amend Its Rules Regarding the Auction Process for Securities Subject to an Initial Public Offering

February 24, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> notice is hereby given that on February 10, 2016, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission

(“SEC” or “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. On February 22, 2016, the Exchange filed Amendment No. 1 to the proposal.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 1, from interested persons.

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

The Exchange filed a proposal to amend Exchange Rule 11.23 entitled “Auctions” to: (i) Modify the definition of the term “Eligible Auction Order” under paragraph (a)(8) to refine the types of orders that may participate in an auction for a BATS listed corporate security<sup>4</sup> in an initial public offering (“IPO”) on the Exchange (“IPO Auction”) and make a related change to Exchange Rule 11.1, Hours of Trading and Trading Days; (ii) extend the Quote-Only Period<sup>5</sup> under paragraph (d)(1)(A); (iii) state that the Quote-Only Period may be extended in the event of an Exchange technical or systems issue under proposed paragraph (d)(2)(B)(iv); and (iv) make technical changes to paragraphs (b)(1)(A), (c)(1)(A), and (d)(2).

The text of the proposed rule change is available at the Exchange’s Web site at [www.batstrading.com](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 11.23 entitled “Auctions” to: (i) Modify the definition of the term “Eligible Auction Order” under paragraph (a)(8) to refine the types of orders that may participate in an IPO Auction and make a related change to Exchange Rule 11.1, Hours of Trading and Trading Days; (ii) extend the Quote-Only Period under paragraph (d)(1)(A); (iii) state that the Quote-Only Period may be extended in the event of an Exchange technical or systems issue under proposed paragraph (d)(2)(B)(iv); and (iv) make technical changes to paragraphs (b)(1)(A), (c)(1)(A), and (d)(2).

##### Eligible Auction Orders

The Exchange proposes to refine the types of orders that may participate in an IPO Auction for a BATS listed corporate security by amending the definition of Eligible Auction Orders under Exchange Rule 11.23(a)(8) to either reject, convert, or ignore certain types of orders, as set forth below. As proposed, Limit Orders<sup>6</sup> and BATS Market Orders,<sup>7</sup> the two main types of orders offered by the Exchange, would be allowed to participate in an IPO Auction for a BATS listed corporate security. The Exchange does not propose to amend the types of Eligible Auction Orders that may participate in an auction for a newly listed Exchange Traded Product.<sup>8</sup> The Exchange believes refining the types of orders processed in an IPO Auction and/or placed onto the BATS Book<sup>9</sup> following such IPO Auction would simplify and reduce the complexity of the IPO Auction for BATS listed corporate securities. The Exchange believes doing so would aid in ensuring a robust but streamlined IPO Auction process for a newly listed corporate securities.

*Types of Orders to be Accepted or Rejected.* The term Eligible Auction Order is currently defined under Exchange Rule 11.23(a)(8) as any Market-On-Open (“MOO”),<sup>10</sup> Limit-On-

<sup>3</sup> In Amendment No. 1, the Exchange proposes to correct a technical error regarding incorrect terminology used in a footnote and to clarify a sentence regarding an order with a time-in-force of RHO that would be converted to an order with a time-in-force of Day under the proposed rule change.

<sup>4</sup> A BATS listed corporate security is a security listed on the Exchange pursuant to Chapter 14 of the Exchange’s Rules that is not an Exchange Traded Product (“ETP”) listed on the Exchange pursuant to Exchange Rule 14.11. *See also infra* note 7.

<sup>5</sup> *See* Exchange Rule 11.23(a)(17).

<sup>6</sup> *See* Exchange Rule 11.9(a)(1).

<sup>7</sup> *See* Exchange Rule 11.9(a)(2).

<sup>8</sup> An Exchange Traded Product is a security that is listed on the Exchange pursuant to Rule 14.11.

<sup>9</sup> *See* Exchange Rule 1.5(e).

<sup>10</sup> *See* Exchange Rule 11.23(a)(16).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

Open ("LOO"),<sup>11</sup> Late-Limit-On-Open ("LLOO"),<sup>12</sup> Market-On-Close ("MOC"),<sup>13</sup> Limit-On-Close ("LOC"),<sup>14</sup> or Late-Limit-On-Close ("LLOC")<sup>15</sup> order that is entered in compliance with its respective cutoff for an Opening or Closing Auction,<sup>16</sup> any Regular Hours Only ("RHO")<sup>17</sup> order prior to the Opening Auction, any Limit or Market Order not designated to exclusively participate in the Closing Auction entered during the Quote-Only Period of an IPO Auction,<sup>18</sup> and any Limit or Market Order not designated to exclusively participate in the Opening or Closing Auction entered during the Quote-Only Period of a Halt Auction.<sup>19</sup> The Exchange proposes to amend the definition of Eligible Auction Orders to refine the types of orders that may participate in an IPO Auction for a BATS listed corporate security.

As is currently the case, Limit Orders and BATS Market Orders entered during the Quote-Only Period would be allowed to participate in an IPO Auction for a BATS listed corporate security provided they do not also include one or more of the modifiers described below that would result in rejection. Specifically, the Exchange proposes to exclude under proposed subparagraph (a)(8)(A) to Rule 11.23 the following types of orders from participation in an IPO Auction and to reject such orders: Stop Orders<sup>20</sup> and Stop Limit Orders;<sup>21</sup> Pegged Orders,<sup>22</sup> Mid-Point Peg Orders,<sup>23</sup> Market Maker Peg Orders<sup>24</sup> and Supplemental Peg Orders;<sup>25</sup> Minimum Quantity Orders<sup>26</sup> and Discretionary Orders;<sup>27</sup> MOC, LOC and LLOC orders; and orders with a time-in-force of Fill-or-Kill ("FOK")<sup>28</sup> and orders with a time-in-force of Good-'til-Day ("GTD") with an expiration time earlier than 4:00 p.m. Eastern Time.<sup>29</sup>

Such orders entered to participate in an IPO Auction would be rejected.

The Exchange believes it is reasonable to reject orders with the above characteristics from participating in the IPO Auction because doing so will aid in reducing systems complexity and risk associated both with completing the IPO Auction and with transferring any unexecuted portion of such orders to the BATS Book once the auction is complete. These orders are also not commonly utilized as compared to other types of orders and the rejection of such orders should not have a significant impact on Members. In addition, the Exchange believes these types of orders contain certain attributes that are not compatible with the process of an IPO Auction. For example, Stop Orders and Stop Limit Orders are not eligible for execution until their stop price is triggered by an execution, which is an attribute that is not compatible with the IPO Auction process, as that process will result in the first execution for an IPO Security. In addition, Pegged Orders, Mid-Point Peg Orders, Market Maker Peg Orders, and Supplemental Peg Orders are priced in relation to the National Best Bid or Offer ("NBBO"). An NBBO is not established until after the IPO Auction is complete and secondary trading begins. Therefore, the participation of these orders is also incompatible with the IPO Auction process.

The Exchange also proposes to reject Minimum Quantity Orders and Discretionary Orders entered to participate in an IPO Auction. In sum, Minimum Quantity Orders will only execute if a minimum number of shares can be obtained while a Discretionary Order includes both a displayed price and a non-displayed discretionary price. Orders entered to participate in an IPO Auction need to represent the full trading interest for the security subject to the IPO Auction because that auction relies on matching buy and sell orders based on their displayed price and full displayed size. Therefore, the Exchange believes it is reasonable to reject Discretionary Orders and Minimum Quantity Orders entered to participate in the IPO Auction as these types of orders contain variables (*i.e.*, minimum execution size or a non-displayed discretionary price) that are not compatible with the IPO Auction process.

The Exchange also believes it is reasonable to reject orders with a time-in-force of FOK, a time-in-force of GTD with an expiration time earlier than 4:00 p.m. Eastern Time, as well as MOC, LOC, and LLOC orders that are entered to participate in an IPO Auction. Orders

with a time-in-force of FOK require that they be executed in full or will be cancelled upon receipt by the Exchange. Orders with a time-in-force of FOK are therefore not compatible with the IPO Auction process as orders participating in the IPO Auction process may not be fully executed in the auction and seeking to honor the intent of the instruction would complicate the processing of the IPO Auction. The Exchange also believes it is reasonable to reject GTD Orders with an expiration time earlier than 4:00 p.m. Eastern Time entered to participate in an IPO Auction. Doing so would prevent the possibility of entry of GTD Orders with an expiration time either prior to, during or immediately following the IPO Auction, thereby reducing system complexity associated with processing such orders. Lastly, the Exchange also believes it is reasonable to reject MOC, LOC, and LLOC orders entered to participate in an IPO Auction because the terms of those orders require that they participate in the Exchange's closing auction process. The Exchange notes that such orders are already excluded from an IPO Auction based on the definition of Eligible Auction Order, however, the Exchange believes it is reasonable to include such orders in the list with other rejected types of orders to avoid potential confusion.

*Types of Orders to be Converted.* The Exchange also proposes to adopt subparagraph (a)(8)(B) to Rule 11.23, which would set forth the types of orders that would be converted by the Exchange for purposes of participating in the IPO Auction for a BATS listed corporate security. First, orders with a time-in-force of Immediate-or-Cancel ("IOC")<sup>30</sup> will be converted as follows: A Market Order with a time-in-force of IOC will be converted to a MOO and a Limit Order with a time-in-force of IOC will be converted to a LOO. Second, orders with a time-in-force of RHO will be converted to orders with a time-in-force of Day. Third, any orders eligible to be routed will be converted to a BATS Only Order.<sup>31</sup> Upon completion of the IPO Auction, any remainder not executed in the auction will be placed on the BATS Book, executed, cancelled or routed away in accordance with the converted terms of the order. Such orders would not revert back to the original type modifier the User included with the order.

As stated above, the types of orders entered to participate in the IPO Auction that the Exchange proposes to reject under proposed Rule

<sup>30</sup> See Exchange Rule 11.9(c)(4).

<sup>31</sup> See Exchange Rule 11.9(b)(1).

<sup>11</sup> See Exchange Rule 11.23(a)(14).

<sup>12</sup> See Exchange Rule 11.23(a)(12).

<sup>13</sup> See Exchange Rule 11.23(a)(15).

<sup>14</sup> See Exchange Rule 11.23(a)(13).

<sup>15</sup> See Exchange Rule 11.23(a)(11).

<sup>16</sup> The Opening and Closing Auction processes are described in Exchange Rules 11.23(b) and (c).

<sup>17</sup> See Exchange Rule 11.9(b)(7).

<sup>18</sup> See Exchange Rules 11.23(d)(1)(A).

<sup>19</sup> *Id.* The Exchange also proposes to amend Rule 11.1 to make clear that it will not accept BATS Market Orders that are not Eligible Auction Orders prior to 8:00 a.m. Eastern Time.

<sup>20</sup> See Exchange Rule 11.9(c)(17).

<sup>21</sup> See Exchange Rule 11.9(c)(18).

<sup>22</sup> See Exchange Rule 11.9(c)(8).

<sup>23</sup> See Exchange Rule 11.9(c)(9).

<sup>24</sup> See Exchange Rule 11.9(c)(16).

<sup>25</sup> See Exchange Rule 11.9(c)(19).

<sup>26</sup> See Exchange Rule 11.9(c)(5).

<sup>27</sup> See Exchange Rule 11.9(b)(10) [sic].

<sup>28</sup> See Exchange Rule 11.9(c)(6) [sic].

<sup>29</sup> See Exchange Rule 11.9(b)(4).

11.23(a)(8)(A) are less commonly used and the rejection of such orders should not have a significant impact on Members. In contrast, the types of orders the Exchange proposes to convert into other types of orders are more commonly used by Members. Also, the types of orders that the Exchange proposes to convert to do not materially deviate from the type of order that was originally entered. The Exchange believes it is reasonable to convert rather than reject the above types of orders because it would accommodate those Members that have automated their systems to send orders to the Exchange without significantly altering the operation of the order from what the Member originally instructed. Such Members may also not be able to re-submit a rejected order with the correct modifier in time to participate in the IPO Auction. Therefore, the Exchange is concerned that rejecting, rather than converting those types of orders as proposed, would inappropriately burden those Members and deter their participation in an IPO Auction.

First, the Exchange believes it is reasonable to convert Market Orders with a time-in-force of IOC to MOOs and Limit Orders with a time-in-force of IOC to LOOs and notes that each of these orders would operate in substantially similar ways. Each of the above orders would be eligible for execution in the IPO Auction and any remainder would be cancelled once the IPO Auction is complete. Second, the Exchange also believes that converting the time-in-force of RHO to the time-in-force of Day is also reasonable based on the similarity between these times-in-force. For instance, both orders with a time-in-force of RHO and orders with a time-in-force of Day are ineligible for execution until the start of Regular Trading Hours<sup>32</sup> at 9:30 a.m.<sup>33</sup> and are cancelled at 4:00 p.m. Eastern Time.<sup>34</sup> By converting the order, however, the Exchange is able to reduce the number of types of orders that will be handled in an IPO Auction and/or placed on the BATS Book following such IPO Auction. Lastly, the Exchange also believes it is reasonable to convert routable orders to BATS Only Orders because there would be no other markets to route orders to from the time of the IPO Auction until secondary

trading commences. Any remainder of a routable order that is converted to a BATS Only Order would be posted to the BATS Book upon completion of an IPO Auction. At that time, the Member could cancel the order and resubmit a routable order if such Member wished to do so.

*Modifiers to be Ignored.* The Exchange also proposes to adopt subparagraph (a)(8)(C) to Rule 11.23, which would set forth the modifiers on an order that has been entered to participate in an IPO Auction that would be ignored for purposes of completing the IPO Auction. Such modifiers would be permanently ignored with respect to an order, including after placement on the BATS Book, unless otherwise specified in the proposed Rule. First, as proposed, Match Trade Prevention (“MTP”) modifiers<sup>35</sup> will not be applied until the IPO Auction is complete but will be applied in the event any unexecuted portion is placed on the BATS Book. Pursuant to Rule 11.9(f), any incoming order designated with an MTP modifier will normally be prevented from executing against a resting opposite side order also designated with an MTP modifier and originating from the same User. However, during an IPO Auction the MTP Modifier would be ignored and such orders may be matched against each other. Upon completion of the IPO Auction, an MTP modifier will be recognized and any remainder not executed in the auction will be placed on the BATS Book and executed or cancelled in accordance with the original MTP modifier appended to the order. The Exchange believes it is reasonable to ignore an MTP modifier during the IPO Auction as preventing such a Member’s orders from executing against each other during an IPO Auction would add unnecessary complexity. Most Members that utilize MTP modifiers have configured their connectivity to the Exchange to add the MTP Modifier to all of their orders. If the Exchange were to reject orders with a MTP modifier it would impose an inappropriate burden on Members who utilize such modifiers, thereby impairing their ability to participate in the IPO Auction. The Exchange notes that any remainder not executed in the IPO Auction will be executed or cancelled in accordance with the original MTP modifier.

Second, an instruction to treat an order as an Attributable Order will be ignored, meaning that any such order’s execution will be displayed

anonymously.<sup>36</sup> The Exchange believes it is reasonable to ignore such instructions as orders entered into an IPO Auction as not displayed individually but instead as aggregated interest in the Exchange’s data feeds.

Third, an ISO instruction or a Post Only instruction included with a Limit Order will also be ignored during the IPO Auction. The Exchange believes it is reasonable to ignore an ISO instruction as such instructions are incompatible with an IPO Auction. For instance, an ISO instruction informs the Exchange that the sender simultaneously routed one or more additional limit orders, as necessary, to execute against the full displayed size of any protected bid or offer with a price that is superior to the limit price of the limit order identified as an ISO. The Exchange is the sole market for a security subject to an IPO Auction up until the time secondary trading commences and the ISO designation is therefore incompatible with the IPO Auction. Similarly, BATS Post Only Order is an order that instructs the Exchange not to remove liquidity from the BATS Book, provided that BATS Post Only Orders do remove liquidity under certain circumstances outlined in Rule 11.9(c)(6). In an IPO Auction, orders are matched and there is no true “adder” or “remover” of liquidity. Accordingly, a Post Only instruction is incompatible with the IPO Auction. In contrast to orders under proposed Rule 11.23(a)(8)(A) discussed above, which the Exchange proposes to reject, the Exchange believes that it is reasonable to ignore an ISO instruction or a Post Only instruction on an order rather than to reject such orders because such orders are sufficiently common and may require additional programming by Members in order to avoid sending such instructions solely for an IPO Auction.

Lastly, the Maximum Remove Percentage of a Partial Post Only at Limit Order<sup>37</sup> as well as the replenishment range of a Reserve Order with a Random Replenishment instruction will be ignored during the IPO Auction.<sup>38</sup> The Exchange also

<sup>36</sup> See also Nasdaq Stock Market LLC (“Nasdaq”) Rule 4753(b)(4) (stating that orders executed as part of the Nasdaq Halt Cross shall be trade reported anonymously).

<sup>37</sup> See Exchange Rule 11.9(c)(7). In sum, the Maximum Remove Percentage enables a User to enter a Partial Post Only at Limit Order instructing the Exchange to also remove liquidity from the BATS Book at the order’s limit price up to a designated percentage of the remaining size of the order after any execution pursuant to paragraph (A) of Rule 11.9(c)(7). See Exchange Rule 11.9(c)(7)(B).

<sup>38</sup> Random Replenishment is an instruction that a User may attach to an order with Reserve Quantity

Continued

<sup>32</sup> See Exchange Rule 1.5(w).

<sup>33</sup> An IPO Auction will only occur after 9:30 a.m. Eastern Time.

<sup>34</sup> The Exchange notes that any portion of a market order with a time-in-force of RHO will be cancelled immediately following any auction in which it is not executed. See Exchange Rule 11.9(c)(7). The Exchange does not accept market orders with a time-in-force of Day.

<sup>35</sup> See Exchange Rule 11.9(f).

believes it is reasonable to ignore these order instructions for the same reason it proposes to reject Discretionary Orders and Minimum Quantity Order under proposed Rule 11.23(a)(8)(A) discussed above. Orders entered to participate in an IPO Auction need to represent the full trading interest for the security subject to the IPO Auction because that auction relies on matching buy and sell orders based on their displayed prices and full displayed size. Therefore, the Exchange believes it is reasonable to ignore the Maximum Remove Percentage of a Partial Post Only at Limit Order and the replenishment range of a Reserve Order with a Random Replenishment instruction entered to participate in the IPO Auction as these types of order instructions contain variables (*i.e.*, maximum remove requirements or non-displayed size) that are not compatible with the IPO Auction process. In contrast to Discretionary Orders and Minimum Quantity Orders under proposed Rule 11.23(a)(8)(A) discussed above, which the Exchange proposes to reject, the Exchange believes that it is reasonable to ignore the Maximum Remove Percentage of a Partial Post Only at Limit Order and the replenishment range of a Reserve Order with a Random Replenishment instruction rather than to reject such orders because such orders can still be handled consistent with the overall intent of the order.

With the exception of MTP modifiers discussed above, all modifiers listed under proposed Rule 11.23(a)(8)(C) will not be further considered with respect to an order upon completion of the IPO Auction. Any remainder not executed in the auction will be placed on the BATS Book, executed, cancelled or routed away in accordance with the modified terms of the order.

#### Extension of Quote-Only Period

The Exchange proposes to extend the Quote-Only Period for an IPO Auction under Exchange Rule 11.23(d)(1)(A). The Quote-Only Period is the designated period of time prior to a Halt Auction, a Volatility Closing Auction, or an IPO Auction during which Users may

where replenishment quantities for the order are randomly determined by the System within a replenishment range established by the User. In particular, the User entering an order into the System subject to the Random Replenishment instruction must select a replenishment value and a Max Floor. The initial Display Quantity will be the Max Floor. The Display Quantity of an order when replenished will be determined by the System randomly selecting a round lot number of shares within a replenishment range that is between: (i) the Max Floor minus the replenishment value; and (ii) the Max Floor plus the replenishment value. See Exchange Rule 11.9(c)(1)(A).

submit orders to the Exchange for participation in the auction.<sup>39</sup> With regard to an IPO Auction, the Quote-Only Period currently begins fifteen (15) minutes plus a short random period prior to such Auction.<sup>40</sup> The Exchange proposes to amend Rule 11.23(d)(1)(A) to extend the Quote-Only Period for an ETP such that it commences at 8:00 a.m., which is the beginning of the Exchange's Pre-Opening Session. With regard to an ETP, the Exchange does not believe that there is reason to restrict quoting in such products to a specified amount of time prior to the auction and that additional time is warranted. In particular, the Exchange believes that allowing a longer Quote-Only Period will encourage the entry of orders prior to an IPO Auction for a newly issued ETP, which typically have low participation rates especially when compared to IPO Auctions for corporate securities. Further, while an IPO Auction for a corporate security is typically conducted at least 30 minutes after the commencement of Regular Trading Hours, an IPO Auction for a newly issued ETP is typically conducted at the beginning of Regular Trading Hours (*i.e.*, 9:30 Eastern Time), and thus may not afford much time for participants to enter orders prior to such auction. For these reasons, the Exchange believes that a longer Quote-Only Period for ETPs is warranted.

The Exchange proposes to extend the Quote-Only Period for a BATS listed corporate security to begin at a time announced in advance by the Exchange that shall be between fifteen (15) and thirty (30) minutes plus a short random period prior to such IPO Auction. The Exchange believes that extending the Quote-Only period as proposed is reasonable as it would provide market participants more time to enter orders to participate in the IPO Auction. Extension of the Quote-Only Period would also enable the underwriters more time to evaluate the scope of demand for, and supply of, the security subject to the IPO Auction ("IPO Security"), in a manner that will allow it to make more informed decisions about the appropriate time to initiate the opening of the IPO Security through the IPO Auction. The Exchange would determine the length of time of the Quote-Only Period for a BATS listed corporate security (*i.e.*, what time between fifteen (15) and thirty (30) minutes) in consultation with the issuer of the IPO security and would announce the length of time for the Quote-Only

Period in advance of the commencement of such period.<sup>41</sup>

(a) [sic] Currently, the Exchange may extend the Quote-Only Period under Rule 11.23(d)(2)(B) for an IPO Auction beyond the above timeframes where: (i) There are unmatched Market Orders on the Auction Book; (ii) the underwriter requests an extension; or (iii) where the Indicative Price moves the greater of 10% or fifty (50) cents in the fifteen (15) seconds prior to the auction. The Exchange proposes to amend Rule 11.23(d)(2)(B) to enable it to also extend the Quote-Only Period in the event of a technical or systems issue at the Exchange that may impair the ability of Users to participate in the IPO Auction or of the Exchange to complete the IPO Auction. The Exchange believes it is reasonable to be able to extend the Quote-Only Period in the event of a technical or systems issue at the Exchange as such an issue may prevent market participants from entering orders during the Quote-Only Period, resulting in less liquidity which may prevent the underwriters from adequately accessing the trading interest of the IPO Security. In such case, the Exchange believes it is reasonable to extend the Quote-Only Period in the event of a technical or systems issue to provide market participants the adequate time to enter orders to participate in the IPO auction. The Exchange also proposes to adopt paragraph (C) to codify its intention to notify market participants regarding extensions to the Quote-Only Period. As proposed, the Exchange will notify market participants in the event of any extension to the Quote-Only Period pursuant to paragraph (B), including details regarding the circumstances and length of the extension.<sup>42</sup> In connection with this change, the Exchange proposes to designate current paragraph (C) of Rule 11.23(d)(2) as paragraph (D).

#### Technical Changes

The Exchange also proposes to make the following technical changes to Rule 11.23:

- Amend paragraphs (b)(1)(A) and (c)(1)(A) to replace the phrase "starting at 8:00 a.m., the beginning of the Pre-

<sup>41</sup> The scope of market participants notified regarding the anticipated commencement the Quote-Only Period (or extension of Quote-Only Period, as described below) would include but would not be limited to Members of the Exchange. Such notice would also include those market participants, individuals or entities that have subscribed to the Exchange's notification system. The Exchange intends to send notifications regarding the Quote-Only Period via email, as it does with most public notifications today. The Exchange notes that it does, in certain circumstances, post information on its public Web site in addition to email dissemination.

<sup>42</sup> *Id.*

<sup>39</sup> See Exchange Rule 11.23(a)(17).

<sup>40</sup> See Exchange Rule 11.23(d)(1)(A).

Opening Session” with “as set forth in Rule 11.1”. Paragraph (b)(1)(A) sets forth when a User may enter or cancel orders that are to participate in the opening auction. Paragraph (c)(1)(A) sets forth when a User may enter or cancel orders that are to participate in the closing auction. Rule 11.1 governs when orders may be entered into the System and when they may be eligible for execution. The Exchange believes cross-referencing Rule 11.1 within paragraphs (b)(1)(A) and (c)(1)(A) would assist in avoiding investor confusion as Rule 11.1 provides additional detail on when and orders may be entered into the System

- Amend paragraph (d)(2)(A) to replace with term “quotation only period” with the defined term “Quote-Only Period”.

Neither of the above proposed changes would amend the meaning or operation of paragraphs (b)(1)(A), (c)(1)(A), or (d)(2)(A) of Rule 11.23. The Exchange simply proposes these changes to make the rules easier to understand and avoid potential investor confusion.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>43</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>44</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes amending the definition of Eligible Auction Orders to reject, convert, or ignore certain types of orders in connection with the IPO Auction process for a BATS listed corporate security would promote just and equitable principles of trade by simplifying and reducing the complexity of the auction process as well as the process of transferring unexecuted interest to the BATS Book following the auction process. The Exchange also believes the proposed limitations remove impediments to and perfect the mechanism of a free and open market and a national market system by appropriately limiting the types of orders that may participate to those types of orders that are consistent with the purpose of an IPO Auction.

The Exchange believes extending the Quote-Only period would promote just and equitable principles of trade, and to

remove impediments to and perfect the mechanism of a free and open market and a national market system by providing market participants with additional time to enter orders to participate in the IPO Auction. The Exchange believes that allowing a longer Quote-Only Period for ETPs will encourage the entry of orders prior to an IPO Auction for a newly issued ETP. Extension of the Quote-Only Period for a corporate security would similarly provide market participants with additional time to enter orders to participate in the IPO Auction and would also enable the underwriters more time to evaluate the scope of demand for, and supply of, the IPO Security, in a manner that will allow it to make more informed decisions about the appropriate time to initiate the opening of the IPO Security through the IPO Auction.

The Exchange believes that extending the Quote-Only Period in the event of a technical or systems issue at the Exchange also remove impediments to and perfect the mechanism of a free and open market and a national market system. A technical or systems issue may prevent market participants from entering orders during the Quote-Only Period or prevent the Exchange from successfully completing the IPO Auction. In such case, the Exchange believes it is reasonable to extend the Quote-Only Period to provide market participants with additional time to enter orders and access the market for the IPO Security after the technical or systems issue is remedied.

Lastly, the Exchange believes that the technical changes to paragraphs (b)(1)(A), (c)(1)(A), or (d)(2)(A) of Rule 11.23 are consistent with Section 6(b)(5) of the Act<sup>45</sup> because they are intended to make the rules easier to understand and avoid potential investor confusion, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and, in general, protecting investors and the public interest.

### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange believes its proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal would increase competition by reducing the complexity of its IPO Auction process for BATS listed corporate securities through reducing the number of allowable types of orders. In addition,

the Exchange believes that the proposed extensions of the Quote-Only Period would also increase competition by providing additional time for market participants to enter orders to participate in the IPO Auction, potentially resulting in improved liquidity and price discovery. Lastly, the Exchange believes that the technical changes to paragraphs (b)(1)(A), (c)(1)(A), or (d)(2)(A) of Rule 11.23 would not impose any burden on completion as they are not intended to amend the meaning or operation of these rules.

### *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 unsolicited written comments from Members or other interested parties.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

(A) By Order Approve or Disapprove Such Proposed Rule Change, or

(B) Institute Proceedings To Determine Whether the Proposed Rule Change Should Be 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, as modified by Amendment No. 1, 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2016-17 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.

<sup>43</sup> 15 U.S.C. 78f.

<sup>44</sup> 15 U.S.C. 78f(b)(5).

<sup>45</sup> *Id.*

All submissions should refer to File Number SR-BATS-2016-17. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 offices 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-2016-17, and should be submitted on or before March 21, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>46</sup>

**Robert W. Errett,**

*Deputy Secretary.*

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77214; File No. SR-BATS-2016-14]

### Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing of a Proposed Rule Change To Adopt an Early Trading Session and Three New Time-in-Force Instructions

February 23, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 12, 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, II and III below, which Items have been prepared by the Exchange. 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 to amend its rules to: (i) Create a new trading session to be known as the Early Trading Session, which will run from 7:00 a.m. to 8:00 a.m. Eastern Time; and (ii) adopt three new Time-in-Force ("TIF") instructions.

The text of the proposed rule change is available at the Exchange's Web site at [www.batstrading.com](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 its rules to: (i) Create a new trading session to be known as the Early Trading Session, which will run from 7:00 a.m. to 8:00 a.m. Eastern Time; and (ii) adopt three new TIF instructions.

###### Early Trading Session

The Exchange trading day is currently divided into three sessions of which a User<sup>3</sup> may select their order(s) be eligible for execution: (i) The Pre-Opening Session which starts at 8:00 a.m. and ends at 9:30 a.m. Eastern Time; (ii) Regular Trading Hours which runs

from 9:30 a.m. to 4:00 p.m. Eastern Time; and (iii) the After Hours Session, which runs from 4:00 p.m. to 5:00 p.m. Eastern Time. The Exchange proposes to amend its rules to create a new trading session to be known as the Early Trading Session, which will run from 7:00 a.m. to 8:00 a.m. Eastern Time.<sup>4</sup> Exchange Rule 1.5 would be amended to add a new definition for the term "Early Trading Session" under new paragraph (ee). "Early Trading Session" would be defined as "the time between 7:00 a.m. and 8:00 a.m. Eastern Time."<sup>5</sup>

The Exchange also proposes to amend Rule 11.1(a) to account for the Early Trading Session starting at 7:00 a.m. Eastern Time. Other than the proposal to adopt an Early Trading Session starting at 7:00 a.m. Eastern Time, the Exchange does not propose to amend the substance or operation of Rule 11.1(a).

Users currently designate when their orders are eligible for execution by selecting the desired TIF instruction under Exchange Rule 11.9(b). Orders entered between 6:00 a.m. and 8:00 a.m. Eastern Time are not eligible for execution until the start of the Pre-Opening Session, or Regular Trading Hours,<sup>6</sup> depending on the TIF selected by the User. Users may enter orders in advance of the trading session they intend the order to be eligible for. For example, Users may enter orders starting at 6:00 a.m. Eastern Time with a TIF of Regular Hours Only, which designates that the order only be eligible for execution during Regular Trading Hours.<sup>7</sup> As stated above, Users may enter orders as early as 6:00 a.m. Eastern Time, but those orders would not be eligible for execution until the start of the Pre-Opening Session at 8:00 a.m.

<sup>4</sup> The Exchange notes that NYSE Arca, Inc. ("NYSE Arca") operates an Opening Session that starts at 4:00 a.m. Eastern Time (1:00 a.m. Pacific Time) and ends at 9:30 a.m. Eastern Time (6:30 a.m. Pacific Time). See NYSE Arca Rule 7.34(a)(1). The Nasdaq Stock Market LLC ("Nasdaq") operates a pre-market session that also opens at 4:00 a.m. and ends at 9:30 a.m. Eastern Time. See Nasdaq Rule 4701(g). See also Securities Exchange Act Release No. 69151 (March 15, 2013), 78 FR 17464 (March 21, 2013) (SR-Nasdaq-2013-033) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Extend the Pre-Market Hours of the Exchange to 4:00 a.m. EST).

<sup>5</sup> An Exchange having bifurcated after hours trading sessions is not novel. For example, the Chicago Stock Exchange, Inc. ("CHX") maintains two after hours trading sessions. See CHX Article 20, Rule 1(b). See also Securities Exchange Act Release No. 60605 (September 1, 2009), 74 FR 46277 (September 8, 2009) (SR-CHX-2009-13) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Adding Additional Trading Sessions).

<sup>6</sup> "Regular Trading Hours" is defined as "the time between 9:30 a.m. and 4:00 p.m. Eastern Time." See Exchange Rule 1.5(w).

<sup>7</sup> See Exchange Rule 11.9(b)(7).

<sup>46</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> "User" is defined as "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3." See Exchange Rule 1.5(cc).