

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70548; File No. SR-BATS-2013-052)

September 27, 2013

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

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 September 20, 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 Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> 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 to amend Rule 20.3, entitled “Trading Halts,” to authorize the Exchange to nullify a transaction that occurs after a halt has been issued.

The text of the proposed rule change is available at the Exchange’s Web site at <http://www.batstrading.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

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 filing is to amend Rule 20.3, which is applicable to the Exchange’s equity options platform (“BATS Options”), to authorize the Exchange to nullify transactions that occur during a trading halt. Specifically, the Exchange proposes to adopt Interpretation and Policy .01, which will state that the Exchange may nullify any transaction that occurs: (a) during a trading halt in the affected option on the Exchange; or (b) with respect to equity options (including options overlying exchange traded funds (“ETFs”)), during a trading halt on the primary listing market for the underlying security. The Exchange believes the proposed rule change will allow the Exchange to avoid any unnecessary harm from allowing erroneous trades to stand if such trades occur after a trading halt has been issued, as explained below.

With respect to a trading halt in the affected option on the Exchange, if any trades occur notwithstanding such halt then the Exchange believes it appropriate to nullify such transactions. While the Exchange may halt options trading for various reasons, such a scenario almost certainly is due to extraordinary circumstances and is potentially the

result of market-wide coordination to halt options trading or trading generally.

Accordingly, the Exchange does not believe it is appropriate to allow trades to stand if such trades should not have occurred in the first place. Similarly, the Exchange believes that trades occurring during a trading halt on the primary listing market for a security that underlies an equity option should be nullified. Executions in options overlying a halted security do not have proper reference prices and could diverge significantly from the price at which such options will trade when the underlying security is re-opened. Thus, nullification of such trades will protect investors from potential harm. Further, the halt in the underlying security is often issued to prevent harm to investors and the Exchange believes that this same protection should be afforded to investors in the overlying option. The Exchange notes that primary listing markets for equity securities have various authority to halt trading in their listed securities, including for regulatory reasons or based upon certain notifications provided by an issuer. The Exchange also notes that the proposed rule change will align the Exchange's rules regarding nullification of trades during a trading halt with the rules of certain other options exchanges.<sup>5</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>6</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>7</sup> because it would

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<sup>5</sup> See MIAAX Rule 521(c)(4); see also NASDAQ OMX PHLX Rule 1092(c)(iv); NYSE Arca Options Rule 6.65, Commentary .04; NYSE MKT Rule 953NY, Commentary .04.

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The Exchange believes the proposed rule change fulfills these requirements because it will allow the Exchange to avoid harm to investors resulting from trades that execute during a trading halt. Specifically, the proposal will protect market participants from transactions occurring either during extraordinary circumstances with respect to options trading or at a time when there is no adequate source of information regarding the value of the underlying security. Nullifying transactions as proposed in connection with the proposed rule will help to protect investors from harm caused by trading losses during times of uncertainty or during systemic market events. Furthermore, the proposed change is based on the approved rules of certain other options exchanges.<sup>8</sup>

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act<sup>9</sup> in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. As previously noted, the proposed rule change will align the Exchange's rules regarding the nullification of trades that occur during a trading halt with the rules of certain other exchanges.<sup>10</sup> Therefore, the Exchange does not believe the proposed change will impose any burden on competition.

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<sup>8</sup> See supra note 5.

<sup>9</sup> 15 U.S.C. 78f(b)(8).

<sup>10</sup> See supra note 5.

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 proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>11</sup> and Rule 19b-4(f)(6) thereunder.<sup>12</sup>

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement will allow the Exchange to apply the proposed change to the Exchange's trading halt rule immediately, which will in turn protect market participants from transactions occurring either during extraordinary circumstances with respect to options trading or at a time when there is no adequate source of information regarding the value of the underlying security. The Exchange also stated that nullifying transactions as proposed in connection with the proposed rule will help to protect investors from harm caused by trading losses during times of uncertainty or during systemic market events. For these reasons, the Commission believes that waiving the 30-

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its 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.

day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative upon filing.<sup>13</sup>

At any time within 60 days of the filing of the 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 proposal 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](mailto:rule-comments@sec.gov). Please include File Number SR-BATS-2013-052 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-2013-052. This file number should be included on the subject line if e-mail is used. To help the Commission process

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<sup>13</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 the 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-2013-052 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.<sup>14</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).