

with other LMMs to improve the market in all series of options classes to which the LMM is appointed; (2) to make markets that will be honored for the number of contracts entered into the Trading System in all series of options classes within the LMM's appointment; (3) to update market quotations in response to changed market conditions in all series of options classes within the LMM's appointment; and (4) to quote with a difference not to exceed \$5 (or such other quote width difference established by BX Regulation) between the bid and offer regardless of the price of the bid.

Under the proposal, an LMM would be entitled to a participation guarantee, as described more fully in Section II.D above, if the LMM's bid/offer is at the Exchange's disseminated price and all Public Customer orders have been fully executed.

The Commission believes that the proposed rules regarding LMMs are consistent with the Act and raise no novel issues. The Commission notes that the proposed rules regarding LMMs are substantially similar to the rules of other exchanges.<sup>36</sup> The Commission also believes that the Exchange's proposed priority and allocation rules are consistent with the Act. The Commission has previously approved participation guarantees for LMMs, provided such LMM meets specified, higher quoting obligations.<sup>37</sup> The Commission believes that these guarantees strike a reasonable balance between rewarding certain participants for making markets and providing other market participants an incentive to quote aggressively.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-BX-2014-035), is hereby approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>38</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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<sup>36</sup> See e.g., NASDAQ OMX PHLX Rules 501, 505, 506 and 511 and NYSE Arca Rules 6.37A and 6.37B.

<sup>37</sup> See e.g., Rule 8.87 of the Chicago Board Options Exchange, Incorporated.

<sup>38</sup> 17 CFR 200.30-3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72881; File No. SR-BYX-2014-016]

### Self-Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 11.9(f) of BATS Y-Exchange, Inc.

August 20, 2014.

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 August 11, 2014, BATS Y-Exchange, Inc. (the "Exchange" or "BYX") 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 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 the Substance of the Proposed Rule Change

The Exchange filed a proposal to amend Rule 11.9(f) to adopt a new Match Trade Prevention Modifier ("MTP") called Cancel Smallest. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>3</sup> The Exchange requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.<sup>4</sup> If such waiver is granted by the Commission, the Exchange shall implement this rule proposal on or about August 22, 2014.

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.

#### 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

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

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

<sup>3</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>4</sup> *Id.*

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

Earlier this year, the Exchange and its affiliate BATS Exchange, Inc. ("BZX") received approval to affect a merger (the "Merger") of the Exchange's parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX Exchange, Inc. ("EDGX") and EDGA Exchange, Inc. ("EDGA"), and together with BZX, BYX and EDGX, the "BGM Affiliated Exchanges").<sup>5</sup> In the context of the Merger, the BGM Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the proposal set forth below is intended to add certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for users of the BGM Affiliated Exchanges.

Like EDGA and EDGX,<sup>6</sup> the Exchange currently offers various MTP modifiers under BYX Rule 11.9(f) which are designed to prevent two orders with the same Unique Identifier (as defined below) from executing against each other. The MTP modifiers can be set at the market participant identifier ("MPID"), the Exchange Member identifier or the Exchange Sponsored Participant identifier level (any such identifier, a "Unique Identifier").<sup>7</sup> To align its MTP functionality with EDGA and EDGX, the Exchange now proposes add a new MTP modifier called Cancel Smallest ("MCS") under BYX Rule 11.9(f). An incoming order marked with the proposed MCS modifier will not execute against opposite side resting interest marked with any MTP modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User.<sup>8</sup> If the

<sup>5</sup> See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

<sup>6</sup> See EDGA Rule 11.9(f); EDGX Rule 11.9(f).

<sup>7</sup> Any Exchange Member that has an MPID issued by FINRA is identified in the Exchange's internal systems by that MPID. Each Exchange Member that does not already have an MPID and each Sponsored Participant is issued an identifier that is specific to the Exchange and allows the Exchange to determine the User for each order and trade.

<sup>8</sup> The term "User" is defined under Exchange Rule 11.5(cc) as "any Member or Sponsored

orders are not equivalent in size, the smaller of the two orders will be cancelled back to the originating User and the larger order will remain on the Book. The Exchange notes that the proposed rule text is substantively identical to the rules of EDGA and EDGX.<sup>9</sup>

The Exchange believes its MTP functionality allows certain firms to better internalize their agency order flow, which in turn may decrease costs to customers of such firms. The Exchange notes that MTP modifiers do not alleviate, or otherwise exempt, broker-dealers from their best execution obligations. As such, broker-dealers using MTP modifiers are obligated to internally cross agency orders at the same price, or a better price than they would have received had the orders been executed on the Exchange. Additionally, MTP modifiers assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act ("ERISA") that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. Finally, the Exchange notes that offering the MTP modifiers may streamline certain regulatory functions by reducing false positive results that may occur on Exchange generated wash trading surveillance reports when orders are executed under the same Unique Identifier. For these reasons, the Exchange believes the MTP modifiers offer users enhanced order processing functionality that may prevent potentially undesirable executions without negatively impacting broker-dealer best execution obligations.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")<sup>10</sup> and further the objectives of Section 6(b)(5) of the Act<sup>11</sup> because 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, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. Specifically, the proposed MCS functionality would allow firms to better manage order flow

Participant who is authorized to obtain access to the System pursuant to Rule 11.3."

<sup>9</sup> See EDGA Rule 11.9(f)(5); EDGX Rule 11.9(f)(5).

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

and prevent undesirable executions against themselves, and the proposed change described herein enhances the choices available to such firms in how they do so. The proposed rule change also is designed to support the principles of Section 11A(a)(1)<sup>12</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets.

The proposed rule change is generally intended to add certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for the BGM Affiliated Exchanges. A consistent technology offering, in turn, will simplify the technology implementation, changes and maintenance by Users of the Exchange that are also participants on BZX, EDGA and/or EDGX. The proposed rule change would also provide Users with access to functionality that may result in the efficient execution of such orders and will provide additional flexibility as well as increased functionality to the Exchange's System and its Users.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the BGM Affiliated Exchanges. Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges. In addition, the Exchange believes the proposed rule change will benefit Exchange participants in that it is one of several changes necessary to achieve a consistent technology offering by the BGM Affiliated Exchanges.

### *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) of the Act<sup>13</sup> and Rule 19b-4(f)(6) thereunder.<sup>14</sup> Because the

foregoing 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 is filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>16</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>17</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing, noting that a waiver of the operative delay will allow the Exchange to align its MTP functionality across the BGM Affiliated Exchanges in a timely manner, thereby simplifying the technology implementation, changes and maintenance by Users of the Exchange that are also participants on other BGM Affiliated Exchanges. The Exchange also states that waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to continue to strive towards a complete technology integration of the BGM Affiliated Exchanges, with gradual roll-outs of new functionality to ensure stability of the System. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.<sup>18</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. If the

<sup>15</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.

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

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

<sup>18</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>12</sup> 15 U.S.C. 78k-1(a)(1).

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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 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-BYX-2014-016 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.

All submissions should refer to File Number SR-BYX-2014-016. 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 at 100 F Street NE., Washington, DC 20549-1090 on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BYX-2014-016, and should be submitted on or before September 16, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-72880; File No. SR-BYX-2014-015]

### Self-Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 11.13 of BATS Y-Exchange, Inc.

August 20, 2014.

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 August 11, 2014, BATS Y-Exchange, Inc. (the "Exchange" or "BYX") 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 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 the Substance of the Proposed Rule Change

The Exchange filed a proposal to amend Rule 11.13 to add an additional routing strategy.

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.

#### 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.

<sup>19</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.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 1. Purpose

Earlier this year, the Exchange and its affiliate BATS Exchange, Inc. ("BZX") received approval to effect a merger (the "Merger") of the Exchange's parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX Exchange, Inc. ("EDGX") and EDGA Exchange, Inc. ("EDGA"), and together with BZX, BYX and EDGX, the "BGM Affiliated Exchanges").<sup>3</sup> In the context of the Merger, the BGM Affiliated Exchanges are working to align certain system functionality, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the proposal set forth below is intended to add certain system functionality currently offered by EDGA and EDGX in order to provide a consistent technology offering for users of the BGM Affiliated Exchanges.

The specific proposal set forth in more detail below would amend Rule 11.13, which describes the Exchange's routing processes, to add the SWP routing strategies, specifically SWPA and SWPB. The Exchange notes that the proposed rule text is based on the rules of EDGA and EDGX and is different only to the extent necessary to conform to the Exchange's current rules.<sup>4</sup> The SWP routing strategies are substantively identical to those offered by EDGA and EDGX with the exception that EDGA and EDGX also offer a third routing strategy, SWPC, that the Exchange is not proposing to offer at this time.

The Exchange also notes that the SWPA routing strategy is substantively identical to the Exchange's current Parallel T routing strategy.<sup>5</sup> However, in order to allow a gradual migration from Parallel T to the proposed SWP routing strategies the Exchange is not proposing to eliminate Parallel T upon effectiveness of this proposal. Instead, the Exchange proposes to continue to accept orders designated for Parallel T routing and will eventually retire such routing strategy and remove reference to the routing strategy from Exchange rules once all affected Users have been migrated away from Parallel T to the SWP routing strategies. Further, adding the SWP routing strategies as proposed

<sup>3</sup> See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

<sup>4</sup> See EDGA Rules 11.9(b)(1)(B)(iii), 11.9(b)(2)(o), and 11.9(b)(2)(p); EDGX Rule 11.9(b)(1)(B)(iii), 11.9(b)(2)(o), and 11.9(b)(2)(p).

<sup>5</sup> The Exchange does not currently offer an equivalent to the SWPB routing strategy.