January 6, 2015

Open Letter to U.S. Securities Industry Participants

Re: Market Structure Reform Discussion

Dear industry participant,

BATS believes there is consensus among market participants for several market structure initiatives that will maintain the healthy market quality gains investors have realized over the past decade, while achieving further optimizations to our equity market in the years to come. We are seeking feedback and support from a wide array of market participants, and we offer this set of suggestions as a starting point for constructive discussion.

We define success as identification of strong industry consensus that results in an open and constructive dialog between the industry and the SEC around potential market structure reforms that will improve the already healthy and vibrant U.S. equity market for all investors while providing appropriate competitive dynamics among markets and market participants.

As discussed in greater detail below, the following reflects the list of items that we support:

BATS is for:

- An greater than 80% fee reduction in the access fee cap for the most liquid securities, and a tiered approach to access fees for less liquid securities, benefitting issuers and investors.
- Greater standardized transparency into broker order routing and ATS order handling.
- The implementation of a threshold of 1% market share before a market is considered protected under Regulation NMS or is eligible to participate in the national market system plans, a standard which would reduce fragmentation and market complexity.
- The elimination of the current one-size fits all approach to equity market structure that doesn't serve the needs of illiquid securities.
- The avoidance of additional market complexity such as the complexity caused by federally mandated routing practices (e.g., Trade-At) or anti-competitive pricing restrictions (e.g., Ban on Maker Taker).

TEL. 913.815.7000 | FAX. 913.815.7119 | 8050 MARSHALL DR., SUITE 120 | LENEXA, KS 66214 | BATSTRADING.COM

Background

The U.S. stock market is widely seen as the most liquid, transparent, efficient and competitive financial market on Earth. Sadly, our market's efficiency is rarely celebrated these days. A source of the market's strength is a willingness to continually re-evaluate current practices with a view to making our market even better. Many structural characteristics of this market that are now taken for granted – from an open yet centralized clearing house to our nation-wide consolidated market data network – originally stemmed from a belief that "good enough" really wasn't good enough. We can always do better and we should always strive for improvement.

In recent years, this desire to improve has manifested itself through greater automation of the trading process and enhanced diversity among execution venues. A regulatory regime that valued vibrant competition, and an open embrace of technology by all market participants, has clearly combined to preserve the US' global leadership in financial markets. Costs for both institutional and retail investors in the US stock market are amongst the lowest in the world, and our market is able to cope with volume and message traffic thought to be astronomical only a few decades ago. The efficient operation of this market throughout the recent financial crisis should serve as a reminder of the systemic risks that have been reduced as a result.

Yet we can do better. As a market we are at a natural and understandable inflection point about the next steps towards improving our markets. Our market is a complex ecosystem of dozens of competing exchanges, ATSs, and other broker-dealer execution systems offering an array of pricing and services. Some have expressed concern with the amount of trading volume done away from the displayed exchanges, and others have complained about the incentives received by their brokers for routing orders to one destination over another. It has become clear that it is time to make some improvements.

A Compromise is the Wrong Approach

Against this backdrop, some market professionals have seized the opportunity to advocate for dramatic regulatory change in the form of a trade-at prohibition, which would force order flow to the exchanges, in exchange for a decrease in access fees and a ban on exchange rebates for most market participants. This package has been referred to as a "grand compromise" between market professionals who may have conflicting views about either a trade-at prohibition or a reduction in access fees/ban on rebates.

BATS believes that a "grand compromise" between industry professionals would ultimately be harmful to end investors. While exchanges, including BATS, would stand to benefit from increased volume directed to them, and brokers would benefit from a reduction in exchange fees, investors will likely pay more both in the form of potentially wider spreads as well as fewer and inferior execution choices resulting from restrictions on competition.

BATS Believes there is a better way forward

Importantly, our market as well as institutional and retail investors deserve better than a "compromise" on fundamental principles of market structure. At BATS, we believe that regulatory reform of our markets should achieve one or more of the following:

- Reduce costs while preserving the benefits our current market structure delivers to investors in the form of narrow spreads and low commissions,
- Recognize that the current one-size fits all approach that embodies our current market structure may work to the detriment of investors in some segments of our market,
- Empower investors with information to better enable them to evaluate their brokers' handling of their orders, and/or
- Remove inherent subsidies that add unnecessary cost and systemic risk to the marketplace.

In this vein, BATS is advocating for a few simple, discrete regulatory changes that will enhance what is already a healthy market.

<u>Access Fees</u>

BATS believes that the Access Fee cap established under Regulation NMS in 2005 requires a substantial reduction and restructuring. The Regulation NMS Access Fee cap has remained unchanged for far too long and has never been reevaluated for potential market distortions given the substantially altered broker models and reductions in commissions since the implementation of Regulation NMS. BATS believes that the market deserves a fee reduction of close to 80% for certain liquid securities.

BATS believes that exchange liquidity rebates, which are transparent, rule-based, and open to all, provide a meaningful incentive for liquidity providers to display narrow spreads by mitigating the potential impact of being adversely selected. That said, BATS does not believe that highly liquid securities require as great a rebate as less liquid securities and, therefore, BATS would advocate for an access fee reduction for the most liquid securities to $0.0005 (5 cents per 100 shares) from the current $0.0030 (30 cents per 100 shares). Access fee caps, and their corresponding liquidity rebate, would be tiered upward from $0.0005 for moderately liquid and illiquid securities based on a security's characteristics. BATS believes that a more tiered and dynamic approach to access fees would preserve the benefits the current market structure has delivered, while offering enhanced opportunities to improve the trading experience for illiquid securities. In addition, the substantial reduction in access fees, and their corresponding rebates, would help remove conflicts or a perception of conflicts with respect to those highly liquid securities that no longer require liquidity incentives.

A reduction in access fees for the most liquid securities will also reduce incentives to route away from the exchanges. For those concerned about the volume of trading occurring away from the exchanges, this reduction in the incentive to route away from exchanges, in combination with the transparency initiatives discussed below, provide a more elegant solution to bringing volume back to the exchanges than an overly complex and prescriptive trade-at prohibition.

Order Handling Transparency

BATS believes that regulation should strive to better inform investors and empower them with respect to their brokers' order handling decisions. In this regard, BATS believes all ATSs should be required to provide customers with their rules of operation, which would include full descriptions of all available order types, descriptions of matching engine behavior in all scenarios, transparent participant eligibility guidelines, disclosure of all forms of participant pricing tiers, all forms of data feed products and order-routing logic and eligible routing venues. With this information, institutional investors can better determine if a venue and/or order routing product meets their trading needs, and compare disparate broker offerings.

Moreover, disclosure of execution quality should be enhanced. Today, Rules 605 and 606 of Regulation NMS require market centers and brokers to disclose certain standardized information about execution quality, in the case of market centers, and routing venues and potential sources of conflicts in the case of brokers. Investors, however, cannot in any meaningful way tie this information together to ascertain the execution quality their broker is achieving on their behalf. As such, BATS supports a review of Rules 605 and 606 of Regulation NMS and appropriate amendments to those rules that would require additional disclosure of achieved execution quality on a broker by broker basis.

Small Trading Centers

Competition and automation have combined to dramatically improve the market's trading infrastructure. The low commissions, diversity of products and ability to handle large order and trading volumes are a direct result of these forces. Regulation ATS and Regulation NMS provided a framework for this competition to thrive, and maintaining a system whereby new entrants can prove their value to the market is essential. At the same time, we need to reconsider where it may artificially subsidize competition or encourage complexity that does not address a market need.

In particular, all exchanges and displayed Alternative Trading Systems (ATSs) are given a significant competitive advantage regardless of their size by virtue of the "trade through rule" under Regulation NMS, which effectively requires all market participants to do business with all execution venues that display orders to the market. While this was necessary in an era where legacy exchanges routinely ignored their competitors, current practices have reduced the need for regulatory protections of smaller venues. While recent events provide evidence that market forces ultimately can correct for venues that add only marginal value, the existing concentration of exchanges amongst scale providers – including BATS – means that in some cases the marginal operating cost for a "new" exchange is near zero. The cost and complexity of connectivity to a small venue for market participants, however, can be substantial.

Accordingly, BATS believes that Regulation NMS should be revised so that, until an exchange or other currently-protected market center achieves greater than 1% share of consolidated average daily trading volume ("ADV") in any rolling three-month period:

- They should no longer be protected under the trade-through rule; and
- They should not share in/receive any NMS plan market data revenue

The combination of these two provisions would: (a) potentially reduce client costs in connecting to small exchanges and ATSs, giving them the flexibility to route around them should they so choose, while still protecting displayed limit orders on all venues of meaningful size; and (b) take away market data revenue that may be the basis for the continued operation of marginal venues.

Next Steps

We ask that you consider these areas of potential market structure reform discussed above. Let us know what you think, and whether you would be willing to support these proposals. Attached is a draft petition from BATS to the SEC summarizing these points and calling for specific rule-making to address them.

Sincerely,

Joe Ratterman	Chris Concannon
Chief Executive	President

TEL. 913.815.7000 | FAX. 913.815.7119 | 8050 MARSHALL DR., SUITE 120 | LENEXA, KS 66214 | BATSTRADING.COM

[DATE]

Mr. Brent Fields
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549

Re: Petition for Rule Making

Dear Mr. Fields,

BATS Global Markets, Inc. ("BATS") hereby petitions the Securities and Exchange Commission ("SEC"), pursuant to SEC Rule of practice 192(a), to adopt the below described amendments to Rules 600(b)(57) (definition of a protected bid or offer), 605 and 606 (disclosure of order execution and order routing information), and 610(c) (the access fee cap) of Regulation NMS, as well as to exercise its authority under Rule 608(a)(2) to amend the consolidated tape plans.

The U.S. stock market is widely seen as the most liquid, transparent, efficient and competitive financial market on Earth. A source of this strength is a willingness to continually re-evaluate current practices with a view to making our market even better. In recent years, this desire to improve has manifested itself through greater automation of the trading process and enhanced diversity among execution venues. A regulatory regime that valued vibrant competition and an open embrace of technology by all market participants have clearly combined to preserve the U.S.' global leadership in financial markets. Costs for both institutional and retail investors in the U.S. stock market are amongst the lowest in the world, and our market is able to cope with volume and message traffic thought to be astronomical only a few decades ago. The efficient operation of this market throughout the recent financial crisis should serve as a reminder of the systemic risks that have been reduced as a result.

TEL. 913.815.7000 | FAX. 913.815.7119 | 8050 MARSHALL DR., SUITE 120 | LENEXA, KS 66214 | BATSTRADING.COM

Yet we can do better. As a market we are at a natural and understandable inflection point about the next steps to take in improving our markets. Our market is a complex ecosystem of dozens of competing exchanges, ATSs, and other broker-dealer execution systems offering an array of pricing and services. Some have expressed concern with the amount of trading volume done away from the displayed exchanges, and others have complained about the incentives received by their brokers for routing orders to one destination over another. BATS believes the following three market structure reform measures would enhance the quality of our equity market to the benefit of long term investors:

- **Access Fees**. Tiered access fees starting at $0.0005 (5 cents per hundred shares) for the most liquid securities. This proposal recognizes that exchange liquidity rebates that are enabled by access fees (which are transparent, rule-based, and open to all) provide a meaningful incentive for liquidity providers to display quotes and narrow spreads. But, highly liquid securities don't require as great a rebate as less liquid securities.

- **Order Handling Transparency.** Investors deserved to be informed and empowered with respect to their brokers' order handling decisions. In this regard, all ATSs should be required to provide customers with their rules of operation, and Rules 605 and 606 of Regulation NMS should be amended as appropriate to require additional disclosure of achieved execution quality on a broker by broker basis.

- **Small Trading Centers**. Competition and automation have combined to dramatically improve the market's trading infrastructure. The low commissions, diversity of products and ability to handle large order and trading volumes are a direct result of these forces. At the same time, we need to reconsider where it may artificially subsidize competition or encourage complexity that does not address a market need. In particular, all exchanges and displayed ATSs are given a significant competitive advantage regardless of their size by virtue of the "trade through rule" under Regulation NMS, which effectively requires all market participants to do business with all execution venues that display orders to the market. While this was necessary in an era where legacy exchanges routinely ignored their competitors, current practices have reduced the need for regulatory protections of smaller venues. Regulation NMS should be revised so that, until an exchange or other currently-protected market center achieves greater than 1% share of CADV in any rolling three-month period, they should (i) no longer be protected under the trade-through rule, and (ii) not share in/receive any NMS plan market data revenue.

* * *

We believe there is a consensus within the industry for the implementation of the above suggestions, and we look forward to working with the SEC in addressing these core market structure issues.

Sincerely,

Joe Ratterman
CEO

Cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar
The Honorable Daniel M. Gallagher
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar
Mr. Stephen Luparello, Director, Division of Trading and Markets
Mr. Gary Goldsholle, Deputy Director, Division of Trading and Markets
Mr. David Shillman, Associate Director, Division of Trading and Markets
Mr. Daniel Gray, Senior Special Counsel, Division of Trading and Markets