

Dear BATS Subscribers and Members of the Trading Community,

In this edition of our newsletter you will find ...

- * The BATS Growth Story
- * Trade Compression
- * Simple Pricing
- * New Opening Hours
- * New "Price Improvement" Order Type
- * Exchange Status Update

BATS Continues Impressive Growth in 2008

Thanks to support from our subscribers, the BATS market center has continued its impressive growth trend through the 1st quarter of 2008, and we aren't letting up anytime soon. Year over year, BATS volume has grown by an incredible 288%. We handled nearly 900 Million shares daily this month, trading over 1 Billion shares a day twice during the month ... something only BATS, NYSE, and Nasdaq can claim. Looking at those following in our footsteps, BATS is regularly 2.5 to 3 times bigger than the nearest competitor, and the gap is widening each day.

Even though our volumes and market share clearly put BATS in the big leagues, we have our sights set on continuing the growth trend and are working hard to earn 15% market share before the end of the year. Over the past 9 – 12 months, BATS is the only market center that has shown consistent and measurable growth in overall matched market share. Sure, everybody is experiencing record volume days lately, but BATS is the market center that continues to earn a larger and larger piece of the pie along the way. The BATS formula is working, and I want to express my sincere gratitude to our subscribers for making it happen.

Why are so many firms connecting to BATS? Subscribers appreciate the performance, economics, innovation, and customer support that BATS offers. So far this year 30+ new firms have joined the BATS community of subscribers, and our goal is to win the trust and confidence of yet another 200+ firms in 2008. With each new subscriber that signs up, the quality and depth of liquidity at the BATS market center gets that much better.

To Compress or Not to Compress, that is the question ...

There is a lot of debate in the industry right now regarding clearing and compression. As a quick primer, compression involves the submission of summary records for clearing, combining all the buy (or sell) tickets over the course of the day for a particular security into aggregate trade records. Compressed trade records then reflect the total volume for the day (on either the buy or sell side) at the volume weighted average price of any particular security. The net effect of a fully compressed clearing file is a substantial reduction in the number of records that have to be processed by each party involved.

An important clarification to make is that the issue isn't really about compression, it's about economics.

Anytime you change a pricing formula for a large and diverse set of participants, each constituent will quickly attempt to determine whether the price change is good or bad for themselves. That's what's going on right now, and some participants predict they may end up paying more for clearing and settlement in the coming months than they would have in the past. So, is compression good or bad? I would argue that it's both ... good from an economic perspective, bad from a risk perspective.

Compression is an important evolution in the U.S. markets that has driven efficiency into the system. It has allowed participants to trade more actively and has created a richer and deeper pool of displayed liquidity than

what would have otherwise happened. It has been a means of optimizing trading and trading related costs, and has been an enabler of market efficiency.

The prevailing argument to eliminate compression is the mitigation of risk. This is a good argument. Additional arguments include the fact that real-time submission is a better use of network infrastructure over the course of a trading session, that timely delivery of any information is better than delayed delivery, and it's really not that hard to move away from end-of-day compression to a real time submission infrastructure. From a pure technical perspective, real-time dissemination of trade reporting data is a better solution than batching compressed data on a periodic (i.e. end of day) basis.

If a move is made to simply eliminate compression, however, the danger remains that the redistribution of costs associated with clearing and settling the industry's trades will not be allocated *equitably* across the industry. If a disproportionate amount of the processing costs are inadvertently shifted to the industry's market making firms, we could see the level of displayed liquidity in the U.S. markets decrease over time.

One solution that would address the problem of converting from today's compressed reporting practices to a real-time submission environment is to allocate costs on a compressed basis, while submitting trade reports in real-time. In other words do both ... submit in real time but charge participants on a compressed basis.

There are other solutions being discussed as well, and while we don't know where things will eventually end up, we do know two things: 1) BATS will support the industry's initiatives fully and work towards making markets better, and 2) any solution that inadvertently reduces the amount of displayed liquidity is ultimately bad for the U.S. equity markets.

Simple Pricing Is the Way to Go

BATS continues to offer the most straightforward pricing models of the major markets, and we absolutely believe in offering the best prices to all of our subscribers. Both Nasdaq and NYSE use tiers to *exclude* a majority of their customers from getting their best rates.

It wouldn't surprise me to see even more complicated and hard to reach tiers being introduced by our competitors in the coming months. Since BATS offers aggressive and attractive prices to all of our subscribers, without using tiers, our competitors are feeling the pressure to offer similar rates. Because of their large and costly infrastructures, however, they can only afford to offer their best prices to a select few customers.

We appreciate every one of our subscribers, regardless of how many shares they trade on our market. If you aren't feeling appreciated at other market centers, "vote with your volume" and bring your business to BATS.

BATS Opens the Doors for Business 1 Hour Earlier

Based on feedback from our subscribers, BATS is expanding our pre-market session and opening one hour earlier than before. Starting April 1st, the BATS pre-market session will begin at 8:00am ET. We are listening to what our customers are saying, and this move is in direct response to customer requests. Over the next few months we will further expand both our pre and post market sessions to accommodate our subscribers' needs.

Innovation ... Price Improvement Only Order Type

BATS is leading the way again with the introduction of an exciting new "Price Improvement" order type. As you may already know, even the visible markets have some level of hidden liquidity intermixed on their traditional displayed order books, and BATS is no exception. An impressive 8%-9% of our reported volume each day matches up against hidden orders on the BATS book. In many cases, those hidden orders can provide meaningful price improvement. The new BATS Price Improvement order type, released earlier this week,

allows subscribers to fill against only those shares on the BATS book that provide price improvement over the NBBO. BATS is the only market that offers this functionality, and to learn more please contact your account manager today.

Another innovation underway and nearly complete at BATS is a new and unique dark liquidity integration strategy, due for production release in April. This new functionality not only provides access to several high quality 3rd party dark liquidity destinations, but also passes much of the available economic benefit directly back to our subscribers and introduces an important new level of transparency. Stay tuned for more details.

One Step Closer to Exchange Status

As March winds down, BATS moves one step closer in the process of becoming an exchange. Our application to be registered as a national securities exchange has been in the formal public comment period since mid February, and the initial 45 day comment period draws to a close next week. At the same time, BATS has been working behind the scenes to make the necessary industry connections (UTP, CTA, NSCC, etc.), building out our regulatory program, and responding to feedback regarding our proposed rules. We requested that the letter “Z” be reserved as the BATS identifier in the SIP’s, and we expect the notification regarding the BATS market identifier to go out to the public shortly. We still have more work to do before we receive approval and eventually begin operations as an exchange, but the BATS team is in overdrive to move through the next steps as quickly and smoothly as possible.

Thank You

We would like to thank our subscribers for their continued support, which has allowed BATS to challenge and legitimately compete with the incumbent national exchanges. As always, your comments and feedback are welcome.

Sincerely,

Joe Ratterman
President and CEO
BATS Trading ... Making Markets Better