



BATS Exchange Regulation SHO Amendment FAQ

Last Updated – November 5, 2010 (latest updates have been **highlighted**)

What is changing with Regulation SHO?

The Securities and Exchange Commission (SEC) adopted amendments to Regulation SHO effective May 10, 2010. **The compliance date has been defined to be February 28, 2011 per an [extension](#) granted by the SEC.** Amendments include a short sale-related circuit breaker that when triggered will impose a restriction on prices at which securities may be sold short as well as allowing for broker-dealers to mark certain qualifying orders “short exempt”. For more details, refer to [Amendments to Regulation SHO \(Release 34-61595\)](#).

When will BATS be prepared to support amendments to Regulation SHO?

BATS will support these amendments to Regulation SHO in the BATS Certification environment through the defined compliance date. **They will be supported in production on February 28, 2011.**

How does this impact BATS order entry processing?

Once BATS has received an indicator from the SIPs that a short sale circuit breaker has been triggered for a security, BATS will immediately begin to either **reject or price slide** orders with FIX Tag 54=“5” (Sell Short) that fail the short sale price test.

The action taken may be determined by the member and is configurable at port or order levels. Orders will continue to be processed in this manner until the SIP submits appropriate messaging indicating the security has come out of the short sale circuit breaker.

How will this impact IOCs on BATS?

During a short sale circuit breaker, when BATS receives a short sale with FIX Tag 59=“3” (IOC), the order will be executed down to the permissible threshold. Once the permissible threshold has been reached, the remainder of the order will be canceled back.

How will this impact ISOs on BATS?

During a short sale circuit breaker, when BATS receives a short sale with FIX Tag 18=“f” (ISO), the order will be executed down to the permissible threshold. If marked as IOC (FIX Tag 59=“3”), the remainder will be canceled back once the permissible threshold has been reached. If the order has not been marked as an IOC, the order will either **reject or price slide**.

How does price sliding work with respect to short sale orders for securities under a short sale circuit breaker?

After a circuit breaker has been tripped, a short sale order that is less than or equal to the prohibited bid price will price slide and post at one tick above the prohibited bid price when it hits the permissible short sale threshold. Prior to posting, any hidden liquidity between the prohibited bid price and one tick above the prohibited bid price (e.g. Midpoint Peg orders) may be removed. Next, the order will be ranked and worked at its displayed price and will not be readjusted as the bid moves.

How does a hidden short sale order that is booked behave when a short sale circuit breaker goes into effect and the hidden order locks or crosses the prohibited bid price?

Behavior in this scenario is dependent on the price sliding setting for the port the order was submitted on. If price sliding is enabled on the port (the default), the order will price slide and post at one tick above the prohibited bid price. It will continue to be re-priced up as the bid goes up. If price sliding is disabled on the port, the order will be cancelled back to the user.

With respect to reject vs. price slide behavior, which is the default?

Price sliding is the default for non-IOC short sale orders that reach the permissible threshold during a short sale circuit breaker.

How does one specify reject vs. price sliding action?

The same flags and defaults used to control display price sliding functionality are used to control short sale circuit breaker actions. The default behavior can be set at the port level and overridden on the order via FIX Tag 9479 (DisplayIndicator). By default, price sliding is enabled at the port level. The following tag values for FIX Tag 9479 will control the behavior on an order-by-order basis:

- 9479=V: Enforce port level settings (default).
- 9479=S: Override port level settings on the order to enforce price sliding behavior.
- 9479=R: Override port level settings on the order to enforce reject actions.

To configure at the port level, contact the BATS Trade Desk (tradedesk@batstrading.com – 913.815.7001).

How will BATS support marking of qualified orders as “short exempt”?

BATS will once again begin accepting orders where FIX Tag 54=“6” (Sell Short Exempt). Note that it remains the responsibility of the Broker/Dealer to determine when use of this tag is acceptable for submitting short exempt orders to the BATS market. BATS will not automatically reject or slide orders tagged as “short exempt” when a short sale circuit breaker is not in effect.

Will BATS provide notification to Members regarding short sale circuit breakers?

BATS will provide administrative messages via its proprietary market data protocols (TOP, TCP PITCH/FAST PITCH, and Multicast PITCH). For more details, refer to the appropriate market data protocol specification at <http://www.batstrading.com/support/>.

When in a circuit breaker, will FIX ACKs for securities in a short sale circuit breaker reflect the status of security?

No, but it is worth noting that if price sliding is enabled the working price (FIX Tag 9690) of a booked short sale order that was marketable will be re-priced to be less aggressive than the limit price initially defined. This action will be indicative that the security is under a short sale circuit breaker restriction.

During which trading hours will the short sale circuit breaker apply on BATS?

Assuming the SIP has sent out the necessary messaging indicating a short sale circuit breaker is in effect for a security, BATS will honor the restriction during all trading hours, including pre/post market and regular trading hours.

How can I expect my Sell Short and Sell Short Exempt orders to act when a circuit breaker is in or not in effect and how does behavior differ for routable versus un-routable orders?

Refer to the [Short Sale Circuit Breaker Order Handling Scenarios](http://www.batstrading.com/support/) reference sheet found at <http://www.batstrading.com/support/>.

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