

Dear BATS Customers and Members of the Trading Community,

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

- * New Pricing Model
- * Innovative Routing Menu
- * Market Share Reality Check

BATS Exchange Introduces New Pricing *Model*

April is shaping up to be another mad dash to update routing tables across the industry, as several other market centers are making yet another round of pricing changes. Over the last couple of years, the rate of market center price changes has been dramatic. Some market centers appear to have modified aspects of their fee schedule on a near monthly basis.

In case you haven't noticed, it's been 15 months since BATS last made a change to our access fees. We made a commitment in December 2007 to put out a base pricing model and to stick with it as long as it continued to meet the needs of our customers. During that time we only made one change, and that was a small adjustment to our rebate on Tape B securities. Our customers thanked us for keeping our prices consistent month after month.

While watching our competitors go down the scale, up the scale, and back down the scale, we have been carefully monitoring the daily volume statistics across the board. We have gained critical insights into what is and what isn't working around the industry.

For the most part, our pricing model works. But (and you knew there was a but coming), we can make it better!

BATS is rolling out a broad sweeping set of changes, effective April 1st, aimed at addressing market changes and meeting the current needs of our customers.

BATS is introducing a "single-book / dual-price model". The alternative approach, used by most of our competitors, is to create multiple order books – each with different pricing - layering added weight, confusion, and additional fragmentation on top of an already over fragmented equity market. NYSE operates 3 books, Nasdaq operates 2 books, and BATS operates a single book. Other exchanges include NSX, CHX, ISE, and CBSX. If you include the ECNs (EdgeX, EdgeA, Tradebook, LavaFlow, and Track) the total comes up to 15 displayed liquidity destinations. You can also add anywhere from 10 to 60 dark pool destinations, depending on whose report you believe. How many liquidity destinations does the industry really need? In the overall scheme of things, the consolidation / expansion cycle has swung too far to the expansion side again by most accounts.

We considered applying for another exchange license too, in order to "Keep up with the Joneses". If NYSE and Nasdaq have multiple books, maybe BATS needs more books too. We aren't ruling out this possibility down the road, but we are going to try a different approach before asking the industry to connect to yet another book. We believe that having a single

exchange book, with multiple pricing models, may yield a better solution for the industry overall. We would like your opinion on this subject, so please let us know what you think.

The dual pricing model is actually quite simple.

For stocks that trade below \$5, BATS will provide a rebate to liquidity removers of 0.0001 per share to access our book. Liquidity providers can post orders for free. That's a 0.0001 per share inverted price model for all stocks that trade below \$5! Best of all ... no volume tiers are required.

For stocks that trade at \$5 or above, BATS maintains our competitive remove fee of 0.0025 per share, while giving liquidity providers a 0.0023 rebate. For Tape B stocks, BATS will continue to offer an ultra competitive inverted rebate of 0.0028. As always, the remove fees and the rebates are made available to all BATS users ... without the confusion and frustration of volume tiers that our competitors use.

There are a couple of reasons why we think different pricing makes sense for different priced securities. First, the NYSE/Floor recently abandoned their low access fee approach and left an opening for other markets to step in and fill the gap. Over the last several months, the NYSE/Floor raised their access fee from 0.000275 per share to 0.0008, and then again to 0.0018 last month, leaving behind a big opening for other markets to offer a low access fee solution.

More importantly, however, we recognize that one-size pricing doesn't provide a complete solution, and our standard access fee and rebate schedule may not be optimal for lower priced stocks. Many of the European equity markets charge access fees using a basis point model against the total notional size of the trade. This methodology creates a smooth and optimal curve for matching the level of access fee/rebate against the amount of capital deployed in the transaction. While a basis point pricing approach is a long way off for US markets (if ever), having break point pricing is one step towards a more optimal fee structure for both liquidity providers and removers.

To explain further, a high-rebate/high-access-fee model has the potential of penalizing both the adder and remover in low-priced high-volume securities. On one hand, the removers are paying a larger percentage in access fees compared to the total transaction costs, making it harder to trade profitably. This may cause them to lower the priority of markets that advertise high rebates and high access fees. On the other hand, liquidity providers are yielding time priority to other market centers with lower access fees (such as dark pools). Yielding time priority causes liquidity providers to miss executions and increases the risk of adverse selection when orders are finally executed.

By offering a rebate to removers, customer routers are likely to preference the BATS Exchange ahead of other destinations, creating a time priority advantage for adders on the BATS book. This time priority advantage can outweigh the "costs" of foregoing a rebate. At the same time, the case is clear for removers as they will get paid to remove.

Every order for stocks priced below \$5 should be sent to BATS Exchange before going to other destinations. Liquidity providers will post at BATS to get a first look at order flow while removers will obviously be attracted to our market based on receiving a rebate to access the liquidity ... making the market more efficient in these securities. This creates a win/win for both sides of the transaction and will make the BATS Exchange a premier market for price discovery.

Innovative Routing Menu

In addition to our new pricing model for access to the BATS book, we should also mention our routing strategy line-up. The BATS Dark Scan product has been gaining momentum, and our customers are taking advantage of the opportunity to pre-scan selected dark pools (from a fully disclosed list of dark pool destinations) for hidden liquidity execution opportunities. The economics are great for our customers too, with a 0.0005 access fee charged for all shares matched against a Dark Liquidity Partner (DLP). Dark Scan is optional, and it takes place before your order is matched against the BATS Exchange book.

In addition to Dark Scan, we also offer DART routing. For orders that are sent to the BATS book and then routed to away markets, customers can use the BATS DART strategy to scan a broader group of selected dark destinations before going to other displayed venues. For orders matched against DART destinations, BATS offers great economics once again ... 0.0020 per share.

Starting in April, we are also lowering our SMART routing charge from 0.0029 to 0.0026. This is an industry leading best execution routing strategy that will aggressively fill your order at all protected venues at the best prices available. The BATS SMART routing charge for orders filled at Nasdaq and Arca are as good as, or even better than, the best (top-tier) rates those venues offer.

Finally, we also lowered our BATS+ routing fees for BATS+Arca, BATS+Nasdaq, and BATS+NYSE/Floor. Using BATS+ to these destinations provides our customers with an access fee at those venues equal to the best (top-tier) rate they offer. For BATS+NYSE/Floor, however, we offer an even better solution **with a penny discount under the NYSE/Floor rate.** BATS+NYSE/Floor will charge 0.0017 per share for orders filled on the floor, while customers going directly to the floor on their own can only get 0.0018 as the standard NYSE rate.

With two optional dark routing strategies, world class SMART order routing capability, and aggressively priced BATS+ routing strategies, BATS stands apart from our competitors in offering great technology, more choices, and better economics to our customers. This excellent routing menu serves as the perfect complement to our world-class matching technology you've come to appreciate since our inception.

Market Share Reality Check

We congratulate DirectEdge, sincerely, on their continued growth in market share. It's clear they have picked up volume lately, and they are focused on growing their markets as much as we

are. I would like to make some important distinctions, however, between their claims and our own regarding market share.

BATS has long been the gold standard for accurate, honest, and up-to-date market share statistics for all US (and European) exchanges. You can feel confident that the numbers posted on our web site (http://www.batstrading.com/market_summary/) are apples-to-apples fair comparisons for all public exchanges. We don't include odd-lots in our numbers, nor are there odd-lots included in any other public exchange numbers. That's because the consolidated tape doesn't publish odd-lot executions.

We also look at the performance of each of the exchange order books independently. While it's true that DirectEdge ECN oversees the operations of three different books - they are in fact three different liquidity destinations. The three different markets that DirectEdge manages are no more linked together than are Arca and Nasdaq, so advertising the combined market share of the three markets they operate makes very little sense to traders.

An example may help make the distinction clear. Say a harbor cruise company operates three separate 20 foot boats. They might claim to have the same capacity as another company who operates a single 60 foot custom yacht. But from a customer's perspective, there is a very real difference, and 3 times 20ft doesn't necessarily equal 60ft. Try taking a wedding party of 100 friends and family on 3 separate 20 foot boats. Split across different boats, it wouldn't be much of a party. The same wedding party on a single 60ft yacht can all comfortably mingle, watch the sunset from the deck, and enjoy the evening together. Similar to the single and larger 60ft yacht, BATS Exchange customers enjoy the deeper liquidity that resides in our single electronic order book.

When sending orders to the BATS Exchange, our customers get the full benefit of interacting with 11% - 12% of the industry's liquidity in a single pass. From a trader's perspective, interacting directly with a single and comparatively larger source of liquidity provides a better trading experience (faster executions and larger fills) than passing an order around to multiple smaller venues. That's why 10% at one market isn't the same thing as a combined 10% across several smaller markets.

In publishing market share statistics, we are also clear about what is matched, versus using ambiguous descriptors such as handled or touched. I would encourage DirectEdge to publish their historical volume statistics on their web site with a full break down of how much was matched vs routed, separately for each of the three books they operate. This will allow industry analysts to compare their numbers to other market centers on an apples-to-apples basis.

Attached to this email is a PDF showing the BATS US historical volume and market share statistics going back to July 2006, along with a graph of the overall industry volume during that same time frame. We are excited to see the continued monthly growth in market share at BATS and are happy to be gaining ground against NYSE and Nasdaq. We finished February with 11.39% matched market share, and our trend line continues to point towards further growth prospects.

Thank you

We are grateful to our Exchange members and European participants for their continued support. Thanks to each of our customers, BATS has continued its amazing growth month after month. Based on great feedback from our customers, we have been able to continuously improve our world class technology to be even better, faster, and more innovative than before. As we continue earning market share, we are also keeping our sights focused on the unique BATS advantage – making continuous performance improvements, adding innovative new order types and routing strategies, and utilizing optimum and competitive pricing models that benefit our users ... and that's Making Markets Better.

As always, your comments and feedback are welcome.

Sincerely,
Joe Ratterman

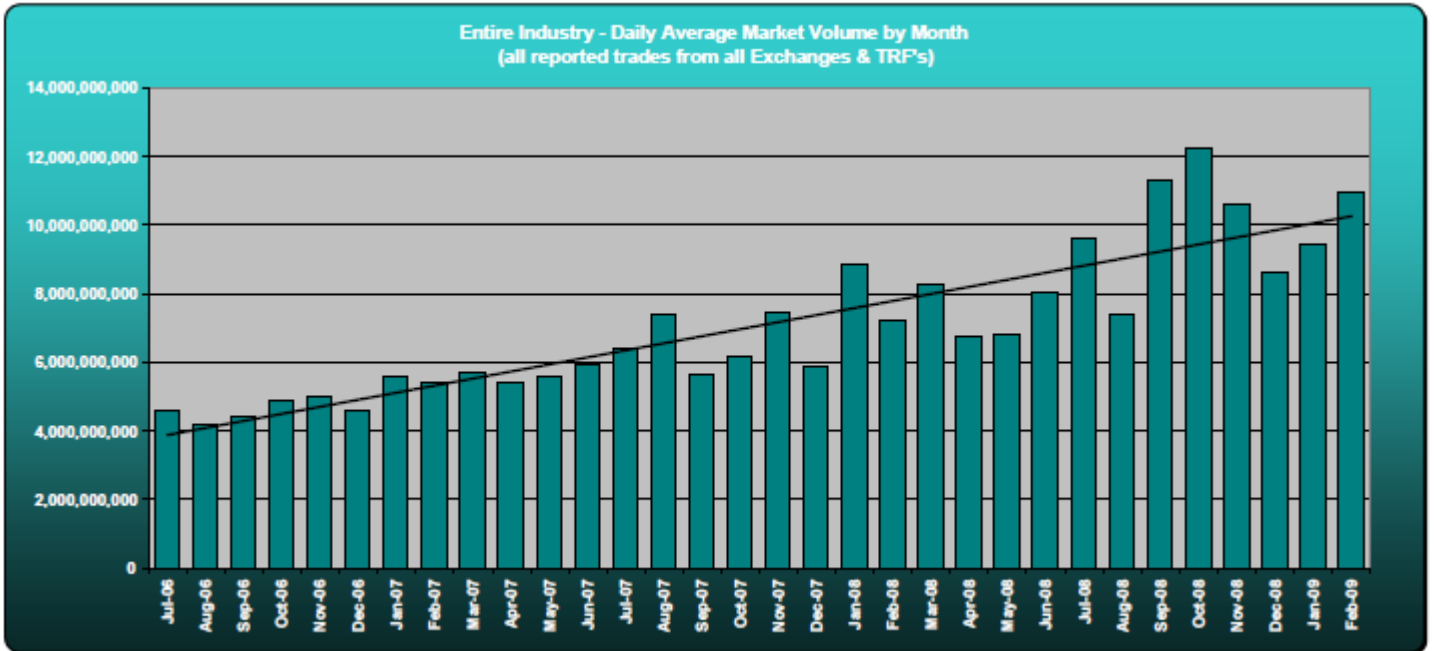
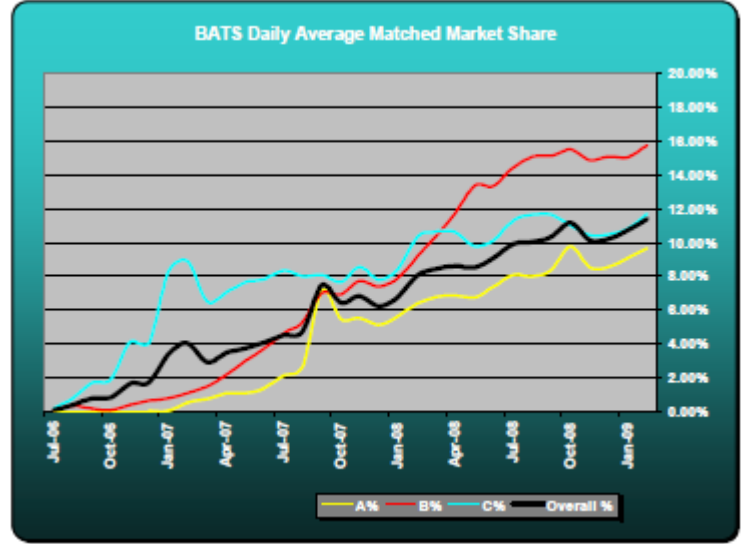
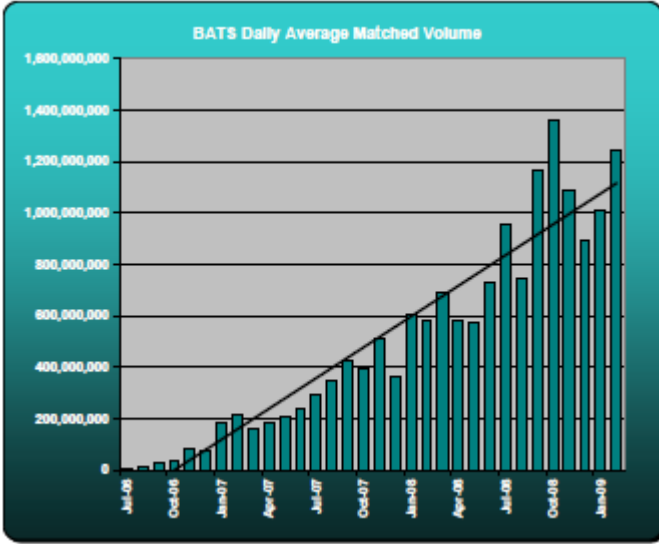
Chairman, President and CEO
BATS ... Making Markets Better

◆ Summary

BATS US historical volume and market share statistics going back to July 2006, along with a graph of the overall industry volume during that same time frame.

Market Share Analysis
BATS US Historical Volume & Market Share

◆ Graphs



◆ Contacts

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