



Dear BATS Exchange Member,

### **Hidden Liquidity Behavior Modification**

Effective Friday, February 19, 2010, to comply with BATS Exchange Rule 11.12 Priority of Orders, resting hidden orders (pegs or limit orders) which lock or cross the BATS Book will remain on the BATS Book yet will not be executable until they no longer lock or cross the BATS Book and can execute at or between the NBBO.

*\*Assume 100 share orders for the same symbol for all examples*

#### **Example #1**

##### **Today**

NBBO            BATS Book  
10.10X10.11    10.10X10.11 Displayed  
                         10.10 Hidden Post Only Offer (locking the displayed 10.10 Bid on the BATS Book)

Inbound 10.10 IOC Bid executes against 10.10 Hidden Post Only Offer.

#### **Effective Friday, February 19, 2010:**

NBBO            BATS Book  
10.10X10.11    10.10X10.11 Displayed  
                         10.10 Hidden Post Only Offer (locking the displayed 10.10 Bid on the BATS Book)

Inbound 10.10 IOC Bid will NOT execute against Hidden Post Only 10.10 Offer, but will cancel back with no fills. Hidden Post Only Offer is not allowed to execute (but remains hidden on the BATS Book) against the inbound 10.10 IOC Bid because the resting 10.10 Displayed Bid's priority would be violated by a later arriving IOC order.

#### **Example #2**

##### **Today:**

NBBO            BATS Book  
10.10X10.11    No Bid X 10.11 Offer Displayed  
                         10.10 Hidden (Not Post Only) Offer

Incoming Order Behavior

- 1) Inbound 10.10 Post Only Displayed Bid rests locking against 10.10 Hidden Post Only Offer.
- 2) Inbound 10.10 IOC Bid executes against 10.10 Hidden Post Only Offer.

#### **Effective Friday, February 19, 2010:**

NBBO            BATS Book  
10.10X10.11    No Bid X 10.11 Offer Displayed  
                         10.10 Hidden (Not Post Only) Offer

Incoming Order Behavior

- 1) Inbound 10.10 Post Only Displayed Bid rests locking against 10.10 Hidden Post Only Offer.
- 2) Inbound 10.10 IOC Bid will **NOT** execute against Hidden Post Only 10.10 Offer but will cancel back with no fills. Hidden Post Only Offer is not allowed to execute (but remains hidden on our book) against the inbound 10.10 IOC Bid because the resting 10.10 displayed bid's priority would be violated by a later arriving IOC order.

