



Market Order Collar Issue

In evaluating our existing policies and procedures, BATS discovered an issue in December 2009 that was causing our System, under rare circumstances, to operate in a manner that was inconsistent with BATS Rule 11.9(a), which defines a BATS Market Order. Within Rule 11.9(a) BATS refers to a “collar” that prevents a market order from executing at a price that is more than \$0.50 or 5% worse than the NBBO at the time the order initially reaches the Exchange, whichever is greater. BATS implemented this collar in January 2009 primarily to prevent unexpected execution prices in illiquid securities.

Under a unique set of circumstances that involves a market order routing from the Exchange and returning unexecuted, a change in the NBBO, and an unmarketable order resting on our market that was cancelled while the market order was being routed, the bug would cause the System to recalculate the collar, which could result in a market order executing at a price that was greater than \$0.50 or 5% worse than the NBBO at the time the order was initially received by the Exchange.

Upon identification of the issue, BATS repaired the bug and ran a report to identify any impact on our members. Additionally, we found that since we implemented the collar in January, only six orders from five members had received at least a partial execution on a market order at a price that was more than \$0.50 or 5% worse than the NBBO at the time the order initially reached the Exchange. The last such instance was in July 2009.