

Bats Market Close FAQ



Bats Market Close Overview

As part of Bats' commitment to providing innovative, value-added services to our Members, Bats will introduce Bats Market Close (BMC), a closing match process for non-BZX-listed securities. BMC is a new, competitively-priced alternative to participating in the primary listing market's closing auctions. Members will be able to submit buy and sell Market-On-Close orders designated for participation in BMC and obtain the official closing price for any matched shares. Any remaining shares will be cancelled back to Members to allow routing to the primary listing market auctions if so desired. Bats intends to launch BMC on Bats BZX Exchange (BZX), pending approval from the Securities and Exchange Commission (SEC).

| Bats Market Close Functionality Summary | |
|---|--|
| Exchange to Offer BMC | Bats BZX Exchange |
| Accepted Order Types | Market-On-Close (MOC) |
| Supported Securities | All Non-BZX-Listed NMS Securities |
| Order Entry Time | 6:00 am ET – 3:35 pm ET* (BMC Cutoff Time) |
| Available Market Data | Bats Auction Feed will provide the total size of all buy and sell orders matched via BMC |
| Transaction Fee | Competitively priced compared to the primary listing market closing auction rates |

**The BMC Cutoff Time will be set to 3:35 pm ET for the initial rollout and could be adjusted by Bats in the future with advanced notice to Members.*

| Time Period | BMC Workflow |
|------------------------------|--|
| 6:00 am ET | <ul style="list-style-type: none">Members can enter New orders to participate in BMC.Members can submit Cancel/Replace or Cancel requests. |
| 3:35 pm ET (BMC Cutoff Time) | <ul style="list-style-type: none">All New orders, Cancel/Replace and Cancel Requests will be rejected.Buy and Sell BMC Market orders are matched based on time priority.Execution reports will be sent to Members to indicate number of shares matched. Final execution price will be provided through a restatement when the official closing price becomes available.Remaining unmatched shares will be cancelled back to Members.Total size of all buy and sell orders matched via BMC will be published through the Bats Auction Feed. |
| 4:00 pm – 8:00 pm ET | <ul style="list-style-type: none">As the official closing price is published by the primary listing market, execution reports for previously matched shares will be restated and sent to Members to reflect the official closing price as the execution price. Trade reports will be submitted to the SIP as well.Any update to the official closing price by the primary listing market will also trigger execution reports to be restated with the updated official closing price for affected trades. |



Frequently Asked Questions

1. What is the rationale behind BMC?

BMC is Bats' response to industry participants' significant and persistent interest in an alternative to the primary listing market closing auctions. While there are exchanges that offer closing auction functionality for non-listed securities, BMC is the first to deliver the official closing price for any matched share.

Over the past 5 years, volume executed in the primary listing market's closing auctions has increased over 70% from 200 million shares per day in 2012 to almost 350 million shares in 2016, which was close to 5% of the total executed volume in 2016.

With both costs and closing auction volume increasing, the industry has expressed a need for an alternative. BMC is a possible solution that will challenge the current model by introducing an alternative to the primary listing market closing auctions. Participants will have a choice to route their Market-On-Close (MOC) orders to BMC and obtain the official closing price if matched. MOC orders matched in BMC will lower the overall costs of participating at the close.

2. Instead of using the official closing price from the primary listing market, why doesn't Bats introduce its own price-forming auction process as an alternative to the primary listing market's auction?

There are exchanges today that offer price-forming auctions for non-listed securities. For example, Nasdaq has already attempted to compete with the NYSE in its primary listing auctions, with discouraging results, both in terms of activity levels and the auction prices themselves. An auction that competes with a primary listing market, while offering price formation, also can provide harmful price formation, both because it siphons limit order flow from the primary market that affects the auction price, and at the same time can produce bad auction prices on the non-primary market itself. In contrast, the BMC design matches the official closing price of the primary market, avoids siphoning limit orders from it by only accepting Market-on-Close orders, and thus provides transaction price relief to Members without distorting auction price formation.

Fragmentation that draws Limit orders away from a primary listing market is undesirable, and BMC is designed to avoid doing so.

3. A) Would BMC fragment the liquidity and inhibit price discovery at the primary listing market closing auction, and therefore interfere with a core responsibility of the primary listing market? B) Why does BMC only accept Market-On-Close orders?

BMC is designed to avoid fragmentation of liquidity at the primary listing market by only accepting Market-On-Close (MOC) orders. Limit orders are the basis from which price formation occurs. Market orders are recipients of that price formation, but do not contribute to the price level.



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Success of BMC may lead to a reduction in the number of MOC orders pooled together at the primary listing markets, but the number of matched market order shares will be published in advance of the primary market's cutoff time for MOC orders. In this way, Bats will provide a transparent tally to reflect the added auction depth from the MOC orders for which it is responsible.

While participants could opt to convert Limit-On-Close orders to Market-On-Close orders in an effort to participate in BMC and reduce their transaction costs, such a decision involves risk and would be unlikely to ever be deployed except in stable securities with little price risk.

4. There are already solutions offered by brokers to match MOC orders at the official closing price. Why does Bats want to offer this functionality as a national securities exchange?

Broker functionality to match MOC orders at the official closing price has been around for some time and has served as an alternative to the primary listing market's closing auction. Bats is responding to industry pressure to offer an on-exchange solution given disproportional growth in primary listing market closing auction volume. BMC has a unique value proposition as an on-exchange offering, specifically on anonymity and trade transparency.

5. What are the fees for BMC executions?

Bats intends to price BMC executions aggressively as a discount to the primary market auction fees. Our pricing will act as a strong incentive to encourage competition. We will announce the fees closer to our launch date.

6. What is BMC's contingency plan in case of unexpected circumstances?

| Scenario | BMC Behavior |
|--|---|
| Primary listing market is impaired and designates a backup exchange to conduct the closing auction for its listings | BMC would use the official closing price published by the backup exchange as the execution price for any matched share. |
| Primary listing market is impaired and invokes its Closing Contingency Procedure to determine the official closing price | BMC would use the official closing price published by the primary listing market for any matched share (same as regular behavior). |
| Listing market updates the official closing price after the initial publication | BMC would systematically monitor for changes until 8:00 pm ET. Any update would trigger execution reports to be restated with the updated official closing price for affected trades. |
| BZX becomes impaired and cannot recover within 5 minutes before the BMC Cutoff Time | All BMC MOC orders would be cancelled. Members can re-route their MOC orders to the primary listing market. |
| BZX becomes impaired after BMC Cutoff Time | BMC matched shares would be honored. As soon as the system is back up, Bats would resume processing SIP messages and send execution reports for any matched share with the appropriate official closing price as the execution price. |

