

Dear BATS Subscribers and Members of the Trading Community,

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

- \* The Grand Pricing Experiment
- \* BATS Smart Order Routing
- \* Exchange Status Update
- \* Coming Soon

### **The Grand Pricing Experiment**

First let me give you the punch line ... BATS isn't changing prices to access our market. There have been a lot of announcements lately regarding price changes at other markets, and each month the industry is getting a new price change notice from one place or another, causing those customers a lot of rework to their routing table configurations. I guess that's what happens when competition is alive.

Based on recent announcements, it appears that our competitors are raising liquidity rebates in an effort to "shift liquidity" from one market center to another. For many reasons however, I don't think these higher rebates are going to create any net "new liquidity" in the market place. One thing is sure to happen - the cost of accessing liquidity at these other markets will go up for trading firms.

Our low \$0.0025 per share access fee stands in stark contrast to Nasdaq's recently announced increase to \$0.0029 for their top clients (\$0.0030 for the rest of their customers). It makes even more sense now to put BATS at the top of your routing table for accessing liquidity in the market place.

Earlier this year, when NYSE/Arca raised their access fees for Tape A, BATS realized a sizeable influx of new order flow from subscribers who would have otherwise seen their trading costs go up had they not moved their flow to BATS. In fact, BATS' overall market share continues to grow, and we are appreciative to our subscribers for helping us grow to around 9% matched market share, up from 6.3% as we started the year. On a few occasions in April we peaked at more than 10% matched market share across the board.

Herein lies the question ... where is the "sweet spot" for pricing in today's automated markets, and what direction should it be headed? Our competitors are shifting their prices up the continuum, yet we believe that fees and rebates will, or should, shift down over time.

Who's right?

There's only one way to find out, and that's to let our customers decide. If you feel that our current price structure hits the theoretical sweet spot and provides the right level of incentive for those who post liquidity, while also representing the fair costs of accessing

liquidity, then keep sending your orders to BATS. BATS has been a leader with regards to aggressive non-tiered pricing as well as pricing innovation, and we feel strongly that our current price model fits our customers' needs. We would rather not follow our competitors as they venture up the price scale, but believe we are actually leading the industry (yet again) by staying right where we are. If you feel the same way, then vote with your volume and bring your business to BATS.

### **BATS Introduces New Smart Order Router w/ CYCLE Strategy**

Here's another reason to send your orders to BATS ... we just rolled out our own Smart Order Router. I mentioned this project was coming in a recent newsletter, and I'm excited to say our technology team delivered the functionality on schedule as promised. When it comes to getting your orders filled at away markets, the BATS Smart Order Router, using our exclusive CYCLE strategy, is extremely fast and provides a measurable improvement in order fill percentages. And of course, CYCLE is Reg NMS compliant.

We have been running our Smart Order Router in production for some time now, and have been comparing execution quality results with Nasdaq's SCAN routing option. On an every-other-order basis, we routed orders through BATS CYCLE and through Nasdaq SCAN. This every-other-order testing methodology creates the best "apples to apples" comparison we can imagine. The difference in speed of execution and fill rates weighed measurably in our favor. Obviously going through BATS to get to Nasdaq incurs a small network delay (approx 2-3ms), but the overall speed improvement for orders routed by BATS CYCLE was a remarkable 37ms versus Nasdaq SCAN at 57ms ... an average execution speed improvement of 20ms. With regards to fill rates, BATS managed to get 55% of shares filled on orders routed using CYCLE versus 53% of shares filled through Nasdaq SCAN. These metrics were collected using more than 1 million actual production orders, and we will continue to collect additional statistics for the remainder of the month.

There is an important and differentiating factor between the BATS CYCLE strategy and the Nasdaq SCAN strategy. When using CYCLE, if your order can't be completely filled at the NBBO, BATS will iteratively route to other markets at consecutive price points up to and including the limit price on the original order. This iterative approach ensures your orders are filled to the greatest extent possible at the best prices available at all markets. Compare this behavior to Nasdaq's SCAN strategy, where your order is only routed to other markets at the NBBO. Price points between the NBBO and your limit price are not accessed at other markets using the Nasdaq SCAN approach, leaving liquidity "on the table" that would have otherwise met the criteria of your original limit order. This is one of the reasons the BATS CYCLE routing strategy has realized an improved fill rate for our subscribers compared to the competition.

Starting May 1<sup>st</sup>, default routing at BATS will run exclusively through the BATS Smart Order Router using the CYCLE strategy, and over time we will continue to further enhance the technology, performance, and execution quality associated with our Smart Order Router. Additional smart order routing strategies will be announced soon. BATS

already has one of the deepest pools of displayed and hidden liquidity in the industry, and now you can count on us to reliably route any shares not filled on the BATS book to other markets which might have additional liquidity for your order.

We will be pricing our CYCLE routing strategy at \$0.0029 per share. Compare this to Nasdaq's routing rate of \$0.0029 (effective May 1<sup>st</sup>) and Arca's current rate of \$0.0030 to \$0.0035. In addition to the default CYCLE Smart Order Routing strategy, BATS also offers several special purpose routing and subscriber directed orders, and charges for these non-standard routing options will vary based on destination. Please contact your BATS account manager for more information regarding BATS routing technology.

For a complete summary of our pricing schedule, which reflects new routing options effective May 1<sup>st</sup>, refer to the following link:  
([http://www.batstrading.com/subscriber\\_resources/BATS\\_Fee\\_Schedule\\_20080501.pdf](http://www.batstrading.com/subscriber_resources/BATS_Fee_Schedule_20080501.pdf))

### **Exchange Status Update**

“Amen, brothers and sisters. It’s about time”.  
(submitted by Brian McPartlin, February 14<sup>th</sup>, 2008)

That about sums it up, don't you think? After a formal 45 day public comment period, which ended April 7<sup>th</sup>, the above quote was the only comment posted to the SEC's web site regarding our bid to be approved as a national securities exchange. I haven't personally met the author of the comment, but I would like to say thank you to Brian for his candor and support.

The SEC public comment period is typically used as an open forum for industry participants, competitors and users alike, to raise any concerns regarding proposed rule filings. Based on the sole comment received, it looks like we were successful in preparing a draft application free of obvious objections. While the lack of negative comments doesn't guarantee eventual approval, it does allow us to move into the next stage.

Over the coming weeks we will be working closely with the SEC commissioners and staff on final production requirements, completing our development work to connect with industry plans (CTA & UTP), finalizing our regulatory framework, providing our subscribers with “waive-in” applications to become exchange members, and appointing our Exchange Board of Directors. Anybody interested in being a part of the BATS Exchange Board of Directors, particularly representatives from current BATS subscribers, should contact me directly.

### **Coming Soon**

Look for updates in the near future regarding important insight into hidden liquidity on the BATS book, an announcement regarding our new Dark Liquidity Integration solution,

an overview of our venture into Europe, and an update on how the Grand Pricing Experiment is playing out.

**Thank You**

We would like to thank our subscribers for their continued support, which has allowed BATS to challenge and legitimately compete with the incumbent national exchanges. As always, your comments and feedback are welcome.

Sincerely,

Joe Ratterman  
President and CEO  
BATS Trading ... Making Markets Better