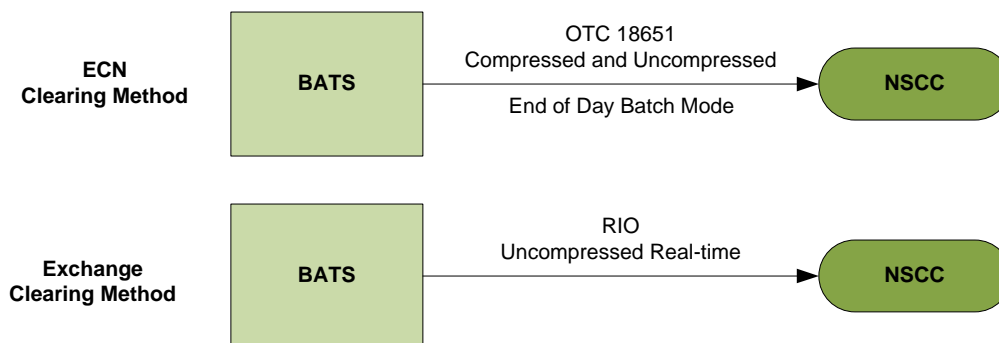


Clearing Transition

Background

As an ECN, BATS submits records to the NSCC using the ‘OTC - 18651’ format and the NSCC returns those clearing records to the subscriber’s clearing firm in the ‘OTC - 02023138’ format. Both compressed and uncompressed clearing are supported and records are submitted at the end of the day in a batch mode.

As an Exchange, BATS will submit clearing records to the NSCC real-time using the MQ Message RIO 250 Character Trade Input format. Clearing firms for Exchange members will receive their records in 2 formats of the same report, the ‘RIO – 02143125’ MRO Format and the ‘RIO – 02140124’ Print Image Format.



Benefits

In continuing the charge to “Make Markets Better”, BATS has decided to move to solely supporting real-time clearing as an Exchange. Some of the benefits that will be realized by firms through this move will be:

1. The ability to ensure that a firm’s back office obtains clearing records in as timely a manner as possible. Real-time processing allows for faster receipt of data than the batch processing method which leads to less after hours processing and the ability to promptly remediate issues.
2. The reduction in system processing requirements during a compressed window. As clearing records are transmitted throughout the day, processing workloads can be spread throughout the day minimizing strain on system resources.

Challenges

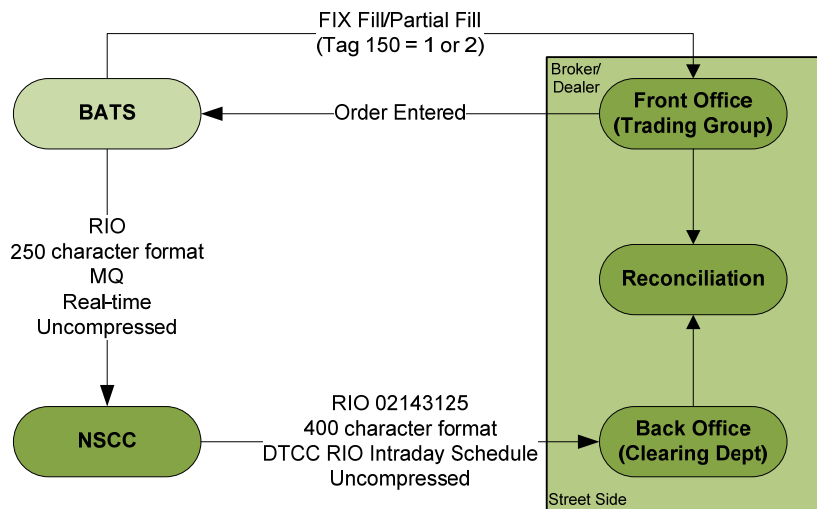
BATS understands that there are challenges to this transition and has attempted to make the process as easy as possible. Reconciliation and cost are the two biggest challenges member firms are likely to face during this transition.

Reconciliation

Typically, the front office of a BD will reconcile their transactions with the back office. As a result, it is important that the front office has the capability to determine where transactions are taking place.

To aid in the reconciliation process between the front and back office during the BATS symbol transition to an exchange, BATS is adding a feature for firms to optionally receive FIX tag 58 on execution reports for full and/or partial fills. Firms must submit a request to the BATS Trade Desk to have this functionality enabled on their FIX ports. Once enabled, FIX tag 58 will return “ECN” or “EXCH” on the execution for fills depending on whether the symbol was executed on the BATS ECN or the BATS Exchange.

The back office will be able to differentiate between ECN vs. Exchange executions based on the reporting formats received from the NSCC. During the ECN to Exchange transition period the OTC formatted reports will only contain ECN specific transactions while the RIO formatted reports will contain all of the Exchange executions.





White Paper

Cost

Most firms are aware that the uncompressed clearing costs are typically higher than compressed clearing. However, effective July 1, 2008, the NSCC dramatically reduced the per record portion of their clearing charges. As a result, subscribers currently using compression will realize a much smaller incremental cost due to the elimination of compression. While BATS is unable to speak to any specific clearing fee arrangements a firm has with their clearing firm, by calling the BATS Trade Desk we can help examine estimated annual cost impact (based on NSCC fees) of a shift from compressed to uncompressed clearing. We will need to know the average number of trades daily, compression ratio, and average trade size to estimate the difference. We can help determine these values based on existing flow if you are unable to do so yourself.

Additional References

For more information regarding the 'RIO – 02143125' format, refer to:

http://www.dtcc.com/products/documentation/cs/nscc_formats/400-byte_format_Intra_Day.pdf

For more information regarding the DTCC's RIO output schedule (which details periods during the day when a member can expect to receive their RIO reports from the NSCC), refer to:

<http://www.dtcc.com/downloads/products/cs/Multicycle%20Schedule.pdf>

For any questions regarding clearing or the BATS ECN to Exchange process, please contact the BATS Trade Desk (816.285.9901, tradedesk@batstrading.com).