

To BATS Customers and Members of the Trading Community,

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

- \* BATS expands its brand
- \* Deep Liquidity – more than meets the eye
- \* Comments on the NYSE/Floor market overhaul
- \* BATS rolls out Multicast PITCH
- \* BATS Europe – leading the way

### ***BATS Global Markets – A “brand” expansion***

The BATS brand has become synonymous with innovation, technology leadership, great service, bleeding edge performance, high capacity, and aggressive pricing. Based on our growing aspirations to take our mission of Making Markets Better global, we have expanded our name. BATS Holdings, Inc. is now “BATS Global Markets, Inc.”.

In North America, as we look back on our successful transition from an ECN to a registered exchange in November 2008, we see a new world of opportunities for growth in front of us. As an exchange, we can now consider trading other asset classes in addition to cash equities. We can also look at entering the primary listings business, bringing our track record of service and innovation with us. It’s been awhile since the status quo has been challenged, and BATS may be just the company to bring new out-of-the-box thinking to the market.

Around the same time we were converting into an Exchange in the U.S., we also launched BATS Europe, a pan-European MTF based out of our newly established operations center in London. In the short amount of time since we have been live, our team of 25 London associates have extended the company’s reach to 11 different European countries.

It’s somewhat ironic, but even more symbolic, that this week marks the 3<sup>rd</sup> anniversary of BATS going live for the first time. In that period of time we have grown to be not only the 3<sup>rd</sup> largest market in the US, but we are also 3<sup>rd</sup> in the world. Following behind BATS in 4<sup>th</sup> through 8<sup>th</sup> places (ranking cash equity markets by notional value traded) are Tokyo, Shanghai, London, NYSE/Euronext, and Deutsche Borse respectively. You will probably notice many of these other exchanges have been around for dozens, if not hundreds, of years.

The new name, “BATS Global Markets”, better represents our current reach and our expanded aspirations to be an important part of the ever changing securities industry on a global scale.

### ***Deep Liquidity – more than meets the eye***

We haven’t been shy about publishing our market share statistics. In fact, our US and European market share summary web pages have become an industry standard. We are fascinated with tracking where volume is executed each day, by market center, by tape, by symbol, by price, and so on. If you haven’t seen these dynamic displays, make sure to check out the following:

[United States] [http://www.batstrading.com/market\\_volume.php](http://www.batstrading.com/market_volume.php)  
[Europe] [http://www.batstrading.co.uk/market\\_data/market\\_share/index](http://www.batstrading.co.uk/market_data/market_share/index)

As a US exchange, now that we are a direct participant in the industry tape plans, we are better able to track what percentage of the available resting liquidity at the NBBO we have on the BATS book. This metric tells an even more compelling story about BATS, in that we command a larger than expected percentage of the inside quotations than previously understood.

These new insights point to enormous growth potential for BATS. For example, in December BATS was approximately 8.6% of the executed volume in NYSE listed securities alone ... yet our quotations in those stocks commanded an astounding 15% market share. This means that credible quotations, lasting for at least a full second as measured by the tape consortium, are sitting on the BATS book as valuable untapped liquidity, well in excess of our executed market share.

While our overall matched market share continues to grow each month, this new evidence points to the fact that we have an even larger share of posted liquidity at the inside. If you haven't reviewed your smart order router configuration recently, try bumping up BATS in the priority list. There's a good chance you will see increased fill rates above and beyond what you would have expected based on our executed market share alone.

### **Comments on the NYSE/Floor market overhaul**

There has been a lot of buzz regarding the recent overhaul of the NYSE/Floor market structure. I am personally excited to see them conduct a market structure experiment that goes beyond a simple pricing model change. There are aspects of the new model, however, that we don't agree with. These issues, which I'll cover below, may provide reasons to move your order flow to BATS.

The parity approach to dividing up executions across different classes of participants raises a possible fairness issue when compared to other markets that employ a pure price/time priority mechanism. Certain classes of members (DMMs and Floor Brokers) are allowed to participate in transactions at the same time or even ahead of other members who were in the order book before them. For example, if your order is resting near the top of NYSE's book waiting for an execution, a DMM can decide to post his order at any time. Because of the DMM's parity benefit, you will receive a smaller portion of the next execution, or depending on your place in the book, your order might be passed over completely.

Proponents of the NYSE/Floor model will argue that the DMM has more responsibility than other participants, such as the obligation to provide liquidity a small percentage of the day. Proponents then make the point that, because of this extra obligation, the DMM should be entitled to additional benefits ... such as execution priority/parity over other members.

*How much* benefit is enough? Should the exchange be deciding *which participants* have advantages over others? Is it appropriate to limit the number of DMMs and SLPs? Is there sufficient transparency into the factors used by the exchange to select them?

Another issue in the new floor model is the means by which liquidity providers are being paid. Within this area there are two primary concerns.

First, and similar to the point made above, rebates are based on the different types of participants. The NYSE's method of providing better economics to their preferred customers isn't based on objective criteria, such as total volume traded by each member. Instead, it's based on individual appointments by an exchange selection committee. In other words, the exchange hand picks their preferred members (DMMs and SLPs) and then provides them the exclusive opportunity to receive enhanced economics.

The second concern with the new model's liquidity structure has to do with grossly inverted rebates. This is an approach taken from the BATS playbook, as we were the first to invert pricing to attract market share back in January 2007. We did it as a one month special, and we called it what it was ... **a crazy marketing campaign to buy market share**. And we might do something like it again here or in Europe. In NYSE's case, however, they have advertised their campaign as a "new market model" ... "aimed at restoring the unique advantage of a hybrid market" ... "where humans are involved to dampen volatility and oversee fair and orderly markets". Based on how much this model is costing to operate (losing as much as 22 cents per 100 shares), this looks more like **a crazy marketing campaign to buy market share**. Once the subsidy is removed, then we can see if the new market model will work on its own merits.

We encourage market participants to re-examine whether it makes sense to post orders on a market that favors certain participants over others. A market structure like this may lead to lower fill rates and inferior economics for all those who aren't part of the privileged class. The recent change to the NYSE/Floor market structure is another reason you should post your orders on BATS. We are the one market that continues to treat every participant fairly. No volume tiers and no special privileges for a select few. We are simply Making Markets Better.

## **BATS rolls out Multicast PITCH**

Based on strong customer demand, BATS has developed and released Multicast PITCH ... the latest in our competitive lineup of free market data feeds. In fact, we have released two versions: one that is optimized for wide-area connections and another that is optimized for customers connecting directly inside our data centers. The WAN version is shaped for 100Mbps connections, while the cross-connect version is shaped for 1Gig connections. Customers have their choice and can balance between lowering bandwidth costs and improving latency. Offering our members an intelligent choice of separately throttled feeds is another way that BATS sets itself apart from the competition.

As part of Multicast PITCH, we are also introducing a new replay service that allows members to rapidly catch up on any messages they may have missed due to network connection problems. The "Spin Server" lets users reconnect to the Multicast feed intraday and quickly build a snapshot of the state of the electronic order book without having to replay every message of the day.

System latency was vastly improved for multicast users as well. The time it takes to see an order reflected in the Multicast PITCH feed is nearly half of what it is for TCP/IP PITCH users. BATS was already on the leading edge of FIX and PITCH latency, and with Multicast PITCH we are now even faster.

### **BATS Europe – leading the way**

BATS Europe launched ahead of schedule in October 2008, and since that time we have made great strides in our mission of Making Markets Better in Europe. One example is our collaboration and leadership around a new common naming symbology, enabling traders to use the same reference names when trading securities on all participating MTFs.

Our plan in Europe is to continue moving quickly, connecting new participants and developing new functionality. We have already seen market share as high as 2.6% in the FTSE 100, and we regularly match over 1% of all the markets we are active in. While 1% to 3% may not seem like a major accomplishment, we are excited to have achieved this level of traction in less than 3 months! The BATS Europe team has their sites set on continued rapid growth throughout the year.

True to our history in the US, you can count on BATS Europe to be ultra aggressive and apply out-of-the-box approaches to accelerate market share growth. Our tactics may have been called crazy, but they work. Rest assured, BATS will be shaking things up in Europe in the near future.

The amazing growth BATS experienced over the last three years was made possible by our loyal customer base, and we would like to thank our Exchange members and European participants for their continued support. As always, your comments and feedback are welcome.

Sincerely,  
Joe Ratterman

Chairman, President and CEO  
BATS ... Making Markets Better