

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67840; File No. SR-EDGX-2012-41)

September 12, 2012

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the EDGX Exchange, Inc. Fee Schedule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 5, 2012 the EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its fees and rebates applicable to Members<sup>3</sup> of the Exchange pursuant to EDGX Rule 15.1(a) and (c). All of the changes described herein are applicable to EDGX Members. The text of the proposed rule change is available on the Exchange's Internet website at <http://www.directedge.com>, at the Exchange's principal office, and at the Public Reference Room of the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> As defined in Rule 1.5(n).

it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add Flag RP to the Exchange’s fee schedule for Non-Displayed Orders that add liquidity using the Route Peg Order type.<sup>4</sup> The Exchange proposes to offer a rebate of \$0.0015 per share for orders that yield Flag RP. The volume associated with Flag RP will also count towards the volume tiers for orders that add liquidity. Accordingly, the Exchange proposes making conforming changes to the text of Footnotes 12 and 13 to include Flag RP as part of the “added flags.”

As defined in Exchange Rule 11.5(c)(17), a Route Peg Order is a non-displayed limit order that posts to the EDGX Book, and thereafter is eligible for execution at the National Best Bid (“NBB”) for buy orders and National Best Offer for sell orders (“NBO”, and together with the NBB, the “NBBO”) against the original size of the routable orders that are equal to or less than the original size of the Route Peg Orders. Route Peg Orders are passive, resting orders on the EDGX Book and do not take liquidity. Route Peg Orders may be entered, cancelled, and cancelled/replaced prior to and during Regular Trading Hours.<sup>5</sup> Route Peg Orders are eligible for execution in a given security during Regular Trading Hours, except that, even after the commencement of Regular Trading Hours, Route Peg Orders are not eligible for execution (1) in the opening cross, and (2) until such time that regular session orders in that security can be

---

<sup>4</sup> See Securities and Exchange Act Release No. 67727 (August 24, 2012), (SR-EDGX-2012-25).

<sup>5</sup> As defined in Rule 1.5(y).

posted to the EDGX Book. A Route Peg Order does not execute at a price that is inferior to a Protected Quotation, and is not permitted to execute if the NBBO is locked or crossed. Any and all remaining, unexecuted Route Peg Orders are cancelled at the conclusion of Regular Trading Hours.

The Exchange proposes to implement these amendments to its fee schedule on September 7, 2012.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>7</sup> in particular, as it is designed to provide for the equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities.

The Exchange proposes to add Flag RP to the Exchange's fee schedule for Non-Displayed Orders that add liquidity using the Route Peg Order type. The Exchange believes that offering a rebate of \$0.0015 per share for orders that yield Flag RP represents an equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities because a rebate of \$0.0015 per share is equal to the prevailing rebate of \$0.0015 that the Exchange offers for Flag HA, which is a non-displayed order type that adds liquidity but less than the default rebate of \$0.0023 per share for adding displayed liquidity on EDGX. By offering a proposed rebate of \$0.0015 per share for Flag RP, the Exchange believes it will encourage use of the new order type, while maintaining consistency with the Exchange's overall pricing philosophy of encouraging displayed liquidity. In addition, the Exchange is setting the rebate at such level in order to incentivize liquidity by encouraging Members to use Route Peg

---

<sup>6</sup> 15 U.S.C. 78f.

<sup>7</sup> 15 U.S.C. 78f(b)(4).

Orders (Flag RP) since these orders provide Members that enter them and other Members an additional way to offer/access liquidity at the NBBO, respectively. In addition, since Flag RP has lowest priority according to Rule 11.8(a)(2), it would otherwise be rebated more than Flag HA, which has a higher priority. However, the Exchange is offering the same rebate as Flag HA because of the Route Peg Order type's unique features which provides Members the ability to control interaction with certain types of contra-side liquidity (i.e., routable orders of equal or lesser size). This contributes to additional depth of book at the NBBO.

Furthermore, as stated in SR-EDGX-2012-25, the Exchange believes that by encouraging the use of the Route Peg Order, Members seeking to access liquidity at the NBBO would be more motivated to direct their orders to EDGX because they would have a heightened expectation of the availability of liquidity at the NBBO. The increased liquidity also benefits all investors by deepening EDGX's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, and improving investor protection. In addition, a User<sup>8</sup> whose order executed against a Route Peg Order would be able to obtain an execution at the NBB or NBO while minimizing the risk that incremental latency associated with routing the order to an away destination may result in an inferior execution.

The Exchange believes that offering a proposed rebate of \$0.0015 per share for orders that yield Flag RP is reasonable because the pricing is similar to analogous order types offered by other exchanges. On NASDAQ, customers earn a rebate of \$0.0015 per share executed for MPIDs adding less than 1 million shares of Supplemental Orders and customers earn a rebate of \$0.0018 per share executed for MPIDs adding greater than 1 million shares of Supplemental

---

<sup>8</sup> As defined in Rule 1.5(ee).

Orders.<sup>9</sup> Similarly, NYSE Arca offers the Tracking Order type where its customers earn credits ranging from \$0.001 to \$0.0015 per share based on achieving applicable tiers.<sup>10</sup> Lastly, the Exchange believes that the proposed amendment is non-discriminatory because it applies uniformly to all Members.

The Exchange's proposal to amend the text of Footnotes 12 and 13 of the fee schedule to list Flag RP as one of the "added flags" where the volume associated with Flag RP will count toward the volume thresholds in Footnotes 12 and 13 is reasonable and equitable as the volume tiers in Footnotes 12 and 13 include "added" liquidity flags and Flag RP is an added liquidity flag. The Exchange notes that the liquidity ratio will now capture the RP "add flag" as one of several add flags in the calculation of the "add liquidity" ratio.<sup>11</sup> The Exchange believes this amendment to Footnotes 12 and 13 supports the Exchange's efforts to achieve consistent application and specificity among the flags on the fee schedule and provide transparency for its Members.

---

<sup>9</sup> See Securities Exchange Act Release No. 66540 (March 8, 2012), 77 FR 15167 (March 14, 2012) (SR-NASDAQ-2012-031). The Route Peg Order is functionally similar to NASDAQ's Supplemental Order type, as the Supplemental Order is a non-displayed order that posts to the book, that is accessed only after other liquidity on the NASDAQ book, and that executes only at the NBBO. See also NASDAQ's Price List – Trading & Connectivity, at <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

<sup>10</sup> See Securities Exchange Act Release No. 60944 (November 5, 2009), 74 FR 58668 (November 13, 2009) (SR-NYSEArca-2009-99). The Route Peg Order is functionally similar to NYSE Arca's Tracking Order type, which is a non-displayed order that will only execute at the NBBO and incoming orders are matched against all other orders on the book before executing against NYSE Arca's Tracking Orders. See also NYSE Arca Equities Order Types, at [https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse\\_arca\\_marketplace\\_fees\\_8\\_01\\_12.pdf](https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_arca_marketplace_fees_8_01_12.pdf).

<sup>11</sup> The "add liquidity" ratio is the ratio of the "added" flags/ ("added" flags + "removal" flags) x 100. If the resulting ratio is equal to or greater than 10%, the MPID qualifies for the lower removal rate of \$0.0029 per share instead of \$0.0030 per share.

The Exchange believes that the above proposal is nondiscriminatory in that it applies uniformly to all Members.

The Exchange also notes that it operates in a highly-competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive. The proposed rule change reflects a competitive pricing structure designed to incent market participants to direct their order flow to the Exchange. The Exchange believes that the proposed rates are equitable and non-discriminatory in that they apply uniformly to all Members. The Exchange believes the fees and credits remain competitive with those charged by other venues and therefore continue to be reasonable and equitably allocated to Members.

B. Self-Regulatory Organization's Statement on Burden on Competition

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3) of the Act<sup>12</sup> and Rule 19b-4(f)(2)<sup>13</sup> thereunder. At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to

---

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 19b-4(f)(2).

the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-EDGX-2012-41 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-EDGX-2012-41. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the

principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-EDGX-2012-41 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>14</sup> 17 CFR 200.30-3(a)(12).