

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66335; File No. SR-EDGA-2012-03)

February 6, 2012

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on January 31, 2012, the EDGA Exchange, Inc. (the "Exchange" or the "EDGA") 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 Members³ of the Exchange pursuant to EDGA Rule 15.1(a) and (c). All of the changes described herein are applicable to EDGA 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A Member is any registered broker or dealer, or any person associated with a registered broker or dealer, that has been admitted to membership in the Exchange.

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

In SR-EDGA-2011-40,⁴ the Exchange amended several routing options contained in Rule 11.9(b)(3) to allow Users⁵ more discretion if shares remain unexecuted after routing. In particular, Rule 11.9(b)(3) was amended to provide that Users may elect that any remainder of an order be posted to the EDGX Exchange, Inc. ("EDGX") for any of the routing options listed in the rule, except those listed.⁶ As a result of this amendment, the Exchange proposes to make a corresponding amendment to Flag P of its fee schedule. The subject amendment provides a rebate of \$0.0027 per share for any order that after passing through EDGA and other destinations adds liquidity to EDGX (including during the Pre-Opening Session⁷ and Post-Closing Sessions)⁸ and yields Flag P. This would occur as a result of the Member's order using any of the routing strategies listed in Rule 11.9(b)(3) where the residual of the order posts to EDGX.⁹

⁴ See Securities Exchange Act Release No. 66231 (January 24, 2012), 77 FR 4605 (January 30, 2012).

⁵ As defined in Rule 1.5(cc)[sic].

⁶ Routing options listed in Rules 11.9(b)(3)(a) and (n)-(q) are not altered as a result of this amendment. The routing option in Rule 11.9(b)(3)(a) already posts to EDGX and no amendment to the rule was needed as no discretion is provided to the User. The routing options in Rules 11.9(b)(3)(n)-(q) do not have the option to post the remainder of an order to EDGX.

⁷ As defined in EDGA Rule 1.5(s).

⁸ As defined in EDGA Rule 1.5(r).

⁹ This includes all routing strategies in Rule 11.9(b)(3), except for (n)-(q), that do not have the option to post the remainder of an order to EDGX.

As a result of this change, the Exchange proposes to revise the description on the Flag P to broaden its applicability to several routing strategies, instead of just an EDGA-originated ROUC routing strategy. The Flag P is thus proposed to state “Adds liquidity on EDGX, including pre & post market.”

The Exchange proposes to implement this amendment to its fee schedule on February 1, 2012.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(4),¹¹ 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 believes that the rebate for Flag P of \$0.0027 per share is an equitable allocation of reasonable dues, fees, and other charges. First, the rebate is designed to incentivize Members to route through EDGA using any of the applicable strategies listed in Rule 11.9(b)(3), as discussed above, to reach multiple sources of liquidity on EDGA before routing to other destinations, and thereby potentially increases volume on EDGA to the extent an order using any of these routing strategies executes on EDGA. The routing strategy allows Members to reach multiple sources of liquidity by routing order flow through EDGA rather than going directly to various venues. The rebate provides Members with a flat rate of \$0.0027 per share rebate if the particular routing strategy posts to EDGX and is later executed. When the Exchange’s routing broker/dealer, Direct Edge ECN LLC d/b/a DE Route (“DE Route”) achieves certain tiers on

¹⁰ 15 U.S.C. 78f.

¹¹ 15 U.S.C. 78f(b)(4).

EDGX using any of the applicable routing strategies in Rule 11.9(b)(3) that post residual on EDGX, it is able to pass through a better rebate than if it had not achieved a tier.¹² For example, if the Member had routed to EDGX directly and the order had added liquidity to EDGX, the Member could receive rebates ranging from \$0.0023 - \$0.0034, depending on if a volume threshold were satisfied.¹³ The \$0.0027 per share rebate thus represents a rate in between these various tiered and non-tiered rebates provided for adding liquidity to EDGX. This allows EDGA Members to share in potential volume tier savings realized by DE Route when it achieves certain tiers.

This type of rate is also similar to EDGA's rate for removing liquidity from LavaFlow (Flag U). The standard removal rate of \$0.0029 per share is reduced to \$0.0023 per share for orders routed to LavaFlow that achieve certain volume thresholds, as EDGA Members are able to share in potential volume tier savings realized by EDGA when routing to LavaFlow.¹⁴ This rebate is also comparable to other rebates offered by the Exchange that add liquidity, such as the ROOC¹⁵ routing strategy, which yields Flags 8 and 9.¹⁶ For Flags 8 and 9, the Exchange passes through the default rebate (i.e., non- tier) from the primary listing market (i.e., NYSE Arca, NYSE Amex) to Members because DE Route does not generally achieve a favorable tier rate. This rate is also consistent with the processing of similar routing strategies by EDGA's competitors where EDGA takes into account the rates that it is charged or rebated when routing

¹² See EDGX fee schedule, footnote 1.

¹³ Id.

¹⁴ See footnote 6 of the EDGA fee schedule.

¹⁵ See EDGA Exchange Rule 11.9(b)(3)(n).

¹⁶ See the EDGA Fee Schedule where Flag 8 offers a rebate of \$.0015 where a member routes an order to NYSE Amex using the ROOC routing strategy and adds liquidity, and Flag 9 offers a rebate of \$.0021 where a member routes an order to NYSE Arca using the ROOC routing strategy and adds liquidity.

to other low cost destinations.¹⁷ Finally, as another example, when EDGA routes to a primary exchange's opening cross, (Flag O), the Exchange passes through the tier savings that DE Route achieves on an away exchange to its Members.¹⁸ This tier savings takes the form of a cap of Members' fees at \$10,000 per month for using Flag O.

The Exchange believes that the rebate is consistent with how other Exchanges rebate Members for routing through an affiliated Exchange. For example, when a Member removes liquidity from Nasdaq BX, it is rebated \$0.0005 per share if it does not achieve any tiers, or \$0.0014 per share if it does achieve certain tiers.¹⁹ However, when the Member removes liquidity from Nasdaq BX by routing through Nasdaq OMX using any number of strategies such as SAVE/SOLV/CART, and removes liquidity from Nasdaq BX as a result, it is rewarded a higher rebate of \$0.0014 per share.²⁰

The Exchange believes that the rebate of \$0.0027 is also reasonable as it is consistent with how other exchanges pass through charges or rebates for orders routed to a different exchange that add or remove liquidity. For example, when Nasdaq routes to Nasdaq PSX, Nasdaq passes back Nasdaq PSX's standard charge of \$0.0027 per share. When NYSE Arca routes to NYSE, NYSE Arca passes back the standard NYSE rebate of \$0.0015 per share. These charges or rebates generally approximate what the originating exchange receives from the

¹⁷ See also BATS BZX fee schedule, describing Discounted Destination Specific Routing ("One Under") to NYSE, NYSE ARCA and NASDAQ. See Securities Exchange Act Release No. 62858, 75 FR 55838 (September 14, 2010) (SR-BATS-2010-023) (modifying the BATS fee schedule in order to amend the fees for its BATS + NYSE Arca destination specific routing option to continue to offer a "one under" pricing model).

¹⁸ See footnote 5 of the EDGA fee schedule.

¹⁹ See Nasdaq OMX BX Rule 7018.

²⁰ See Nasdaq OMX Rule 7018.

exchange that is routed to plus or minus a certain differential. EDGA's pricing is consistent with this premise.

The Exchange believes that the proposed rebate is non-discriminatory 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 Act²¹ and Rule 19b-4(f)(2)²² 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 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. Please include File Number SR-EDGA-2012-03 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-EDGA-2012-03. 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

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 19b-4(f)(2).

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-EDGA-2012-03 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.²³

Kevin M. O'Neill
Deputy Secretary

²³ 17 CFR 200.30-3(a)(12).