

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69614; File No. SR-EDGX-2013-17)

May 21, 2013

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing of Proposed Rule Change Relating to the EDGX Exchange, Inc.'s Routing Broker Dealer, as Described in EDGX Rule 2.12(b)

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on May 16, 2013, EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission (the "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 make permanent the existing pilot program that permits the Exchange's inbound router, as described in Rule 2.12(b), to receive inbound routes of equities orders through Direct Edge ECN LLC d/b/a DE Route ("DE Route"), the Exchange's routing broker dealer, from EDGA Exchange, Inc. ("EDGA"). 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 [www.directedge.com](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

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

concerning the purpose of, and basis for, the proposed rule change and discussed any comments 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

Currently, DE Route is the approved outbound order routing facility of EDGA.<sup>4</sup> The Exchange has been authorized to receive inbound routes of equities orders by DE Route from EDGA. The Exchange’s authority to receive inbound routes of equities orders by DE Route from EDGA is currently subject to a pilot period of twelve months, ending June 30, 2013.<sup>5</sup> The Exchange hereby seeks permanent approval to permit the Exchange to accept inbound orders that DE Route routes in its capacity as a facility of EDGA. This is reflected in the proposed amendment to EDGX Rule 2.12(b).

Under the pilot, the Exchange is committed to the following obligations and conditions:

- The Exchange shall: (a) enter into a plan pursuant to Rule 17d-2 under the Exchange Act with a non-affiliated self-regulatory organization (“SRO”) to relieve the Exchange of regulatory responsibilities for DE Route with respect to rules that are common rules between the Exchange and the SRO, and (b) enter into a regulatory services contract (“Regulatory Contract”) with a non-affiliated SRO to perform regulatory responsibilities for DE Route for unique Exchange rules.

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<sup>4</sup> See Securities Exchange Act Release No. 61698 (March 12, 2010), 75 FR 13151 (March 18, 2010).

<sup>5</sup> See Securities Exchange Act Release No. 66644 (March 22, 2012), 77 FR 18877 (March 28, 2012) (SR-EDGX-2012-09).

- The regulatory services contract shall require the Exchange to provide the non-affiliated SRO with information, in an easily accessible manner, regarding all exception reports, alerts, complaints, trading errors, cancellations, investigations, and enforcement matters (collectively “Exceptions”) in which DE Route is identified as a participant that has potentially violated Exchange or SEC Rules, and shall require that the non-affiliated SRO provide a report, at least quarterly, to the Exchange quantifying all Exceptions in which DE Route is identified as a participant that has potentially violated Exchange or SEC rules.
- The Exchange, on behalf of Direct Edge Holdings LLC, shall establish and maintain procedures and internal controls reasonably designed to ensure that DE Route does not develop or implement changes to its system on the basis of non-public information obtained as a result of its affiliation with the Exchange until such information is available generally to similarly situated Members<sup>6</sup> in connection with the provision of inbound order routing to the Exchange.

The Exchange has complied with the above-listed conditions during the pilot. In meeting them, the Exchange has set up mechanisms that protect the independence of the Exchange’s regulatory responsibility with respect to DE Route, as well as demonstrate that DE Route cannot use any information that it may have because of its affiliation with the Exchange to its advantage. Since the Exchange has met all the above-listed obligations and conditions, it now seeks permanent approval of the Exchange and DE Route’s inbound routing relationship. Upon approval of the proposed rule change, the Exchange will continue to comply with the obligations and conditions as set forth in proposed EDGX Rule 2.12.

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<sup>6</sup> As defined in EDGX Rule 1.5(n).

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>7</sup> Specifically, the proposal is consistent with Section 6(b)(5) of the Act,<sup>8</sup> because it would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

Specifically, the proposed rule change will allow the Exchange to continue receiving inbound routes of equities orders from DE Route acting in its capacity as a facility of EDGA, in a manner consistent with prior approvals and established protections. The Exchange believes that meeting the commitments established during the pilot program demonstrates that the Exchange has mechanisms that protect the independence of the Exchange's regulatory responsibility with respect to DE Route, as well as demonstrates that DE Route cannot use any information that it may have because of its affiliation with the Exchange to its advantage.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change does not impose any burden on intermarket or intramarket competition as it would allow the Exchange to have a permanent inbound router consistent with its competitors.<sup>9</sup>

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

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> See Securities Exchange Act Release No. 65453 (September 30, 2011), 76 FR 62122 (October 6, 2011) (SR-NYSE-2011-45); Securities Exchange Act Release No. 64090 (March 17, 2011), 76 FR 16462 (March 23, 2011) (SR-BX-2011-007); Securities Exchange Act Release No. 66807 (April 13, 2012), 77 FR 23300 (April 18, 2012) (SR-BYX-2012-006); Securities Exchange Act Release No. 66808 (April 13, 2012), 77 FR

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 written comments from its Members or other interested parties.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will: (A) by order approve or disapprove such proposed rule change, or (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2013-17 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-2013-17. 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 will also 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-2013-17 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>10</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).