

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68554; File No. SR-EDGX-2012-48)

December 31, 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 December 26, 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 [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 concerning the purpose of, and basis for, the proposed rule change and discussed any comments

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

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

<sup>3</sup> As defined in Exchange 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 lower the default<sup>4</sup> rebate at the top of its fee schedule for adding liquidity in securities at or above \$1.00 on EDGX from a rebate of \$0.0023 per share to a rebate of \$0.0021 per share. This change will also be reflected in the following added liquidity flags: Flags B, V, Y, 3, and 4. The Exchange notes that Members will still qualify for all tiered rebates, as discussed in Footnotes 1, 2, or 13 on the Exchange's fee schedule.<sup>5</sup>

The Exchange proposes to increase the default rate for removing liquidity from EDGX in securities priced below \$1 from 0.10% of the dollar value of the transaction to 0.30% of the dollar value of the transaction.<sup>6</sup> As a result of the increase in rate, all flags that remove liquidity from the EDGX Book in securities priced less than \$1.00 would be assessed a fee of 0.30% of the dollar value of the transaction. These include Flags N, W, 6, BB, MT, PI, PR, and ZR.<sup>7</sup>

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<sup>4</sup> "Default" refers to the standard rebated provided to Members for orders that add liquidity to the Exchange absent Members qualifying for additional volume tiered pricing. The Exchange notes that Members may qualify for a higher rebate than the default rebate if they satisfy the volume tier requirements outlined in Footnotes 1, 2, or 13.

<sup>5</sup> References herein to "Footnotes" refer only to footnotes on the Exchange's fee schedule and not to footnotes within the current filing.

<sup>6</sup> This fee is consistent with the limitations of Regulation NMS, SEC Rule 610(c), for securities with a price of less than \$1.00.

<sup>7</sup> The Exchange notes that the rates in the table of flags on its fee schedule all apply to orders in securities priced \$1 and over and therefore, no amendment is necessary to the rates displayed on this table at this time.

For customer internalization, which occurs when two orders presented to the Exchange from the same Member (i.e., MPID) are presented separately and not in a paired manner, but nonetheless inadvertently match with one another,<sup>8</sup> the Exchange currently charges \$0.00035 per share per side of an execution (for adding liquidity and for removing liquidity) for Flags EA, ER, and 5. This charge occurs in lieu of the standard or tiered rebate/removal rates. Therefore, Members currently incur a total transaction cost of \$0.0007 per share for both sides of an execution for customer internalization.

In SR-EDGX-2011-13,<sup>9</sup> the Exchange represented that it “will work promptly to ensure that the internalization fee is no more favorable than each prevailing maker/taker spread.” In order to ensure that the internalization fee is no more favorable than the proposed maker/taker spread of \$0.0009 for the standard add rate (proposed rebate of \$0.0021) and standard removal rate (\$0.0030 charge per share), the Exchange is proposing to charge \$0.00045 per side for customer internalization (flags EA, ER and 5). However, if a Member posts 10,000,000 shares or more of average daily volume (“ADV”) to EDGX, then the Member would get the current rate of \$0.0001 per share per side for customer internalization.<sup>10</sup> If this occurs, then the Member’s rate for inadvertently matching with itself decreases to \$0.0001 per share per side, as reflected in

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<sup>8</sup> Members are advised to consult Rule 12.2 respecting fictitious trading.

<sup>9</sup> See Securities Exchange Release No. 64452 (May 10, 2011), 76 FR 28110, 28111 (May 13, 2011) (SR-EDGX-2011-13).

<sup>10</sup> EDGX has a variety of tiered rebates ranging from \$0.0028 - \$0.0035 per share, which makes its maker/taker spreads range from \$0.0002 (standard removal rate - Super Tier or 0.65% TCV step-up tier rebate), 0 (standard removal rate – Step-Up Take tier or Investor Tier), -\$0.0001 (standard removal rate – Ultra Tier rebate), -\$0.0002 (standard removal rate - Mega Tier rebate of \$0.0032), -\$0.0003 (standard removal rate – Market Depth Tier rebate of \$0.0033 per share), and -\$0.0005 (standard removal rate – Mega Tier rebate of \$0.0035 per share). As a result of the customer internalization charge, Members who internalized would be charged \$0.0001 per share per side of an execution (total of \$0.0002 per share) instead of capturing the maker/taker spreads resulting from achieving the tiered rebates.

Footnote 11, as the Member has met the least restrictive criteria to satisfy a tier. In each case (both tiered and standard rates), the charge for Members inadvertently matching with themselves is no more favorable than each maker/taker spread. The applicable rate for customer internalization thus allows the Exchange to discourage potential wash sales.

Similarly, as a result of the change in the default rate for removing liquidity in securities priced below \$1, the Exchange proposes to place the rate of 0.15% of the dollar value of the transaction per share per side for customer internalization in securities priced below \$1 in footnote 11, which is appended to Flags EA, ER, and 5.<sup>11</sup> As a result, customers who internalize would be charged 0.15% of the dollar value of the transaction instead of the applicable add or remove rate for securities priced below \$1.00. This proposed internalization fee is no more favorable than the proposed maker/taker spread.

The Exchange also provides, in part, in Footnote 11 that for flags EA/ER (internalization), if a Member internalizes more than 4% of their ADV on EDGX (added, removed, and routed liquidity) and the Member, at a minimum, meets the criteria for the Mega Tier rebate of \$0.0032 per share in Footnote 1, then the Member receives the applicable rebate in Footnote 1 for adding liquidity, or is charged the applicable removal rate in Footnote 1. The Exchange also proposes to eliminate this rebate. The Exchange notes that Members can still qualify for an internalization rate of \$0.0001 per share per side if they meet the other criteria outlined in Footnote 11 of the fee schedule.

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<sup>11</sup> This rate is derived from calculating the spread between adding and removing liquidity in securities below \$1 and assuming a security is priced at \$0.99 and dividing that result by two (2) to account for each side of the transaction.  $(0.30\% \times 1 \text{ share} \times \$0.99) - (\text{rebate of } \$0.00003 \text{ per share}) = \$0.00294/2 = \$0.00147 \text{ per share} / \$0.99 \times 100 = \text{approx. } 0.15\% \text{ of the dollar value of the transaction.}$

The Exchange also proposes to eliminate one method to achieve the Mega Tier rebate on its fee schedule. In Footnote 1, Members can qualify for the Mega Tier rebate and be provided a \$0.0032 rebate per share for liquidity added on EDGX in either of two ways: (i) if the Member on a daily basis, measured monthly, posts 0.75% of the Total Consolidated Volume (“TCV”) in ADV; or (ii) if the Member on a daily basis, measured monthly, posts 0.12% of the TCV in ADV more than their February 2011 ADV added to EDGX. TCV is defined as volume reported by all exchanges and trade reporting facilities to the consolidated transaction reporting plans for Tapes A, B and C securities for the month prior to the month in which the fees are calculated. The Exchange proposes to delete the method provided in clause (i) of qualifying for the Mega Tier. Members can still qualify for the Mega Tier rebate by meeting the criteria in clause (ii), as outlined above.

#### Retail Order Ports

In SR-EDGX-2012-47,<sup>12</sup> the Exchange provided that Members were be able to designate their orders as “Retail Orders” that add/remove liquidity using the FIX order entry protocol (FIX) but not the HP-API order entry protocol (HP-API) in order to qualify for the rates on Flags ZA and ZR. The Exchange defined a Retail Order in Footnote 4 to mean “(i) an agency order that originates from a natural person; (ii) is submitted to EDGX by a Member, provided that no change is made to the terms of the order; and (iii) the order does not originate from a trading algorithm or any other computerized methodology.” The Exchange also provided that Members must submit a signed written attestation, in a form prescribed by the Exchange, that they have implemented policies and procedures that are reasonably designed to ensure that every order designated by the Member as a Retail Order complies with the above requirements.

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<sup>12</sup> See Securities Exchange Act Release No. 68310 (November 28, 2012), 77 FR 71860 (December 4, 2012) (SR-EDGX-2012-47).

Currently, Retail Orders may be submitted by Members on an order-by-order basis via FIX in order to qualify for the rates on Flags ZA (rebate of \$0.0032 per share) and ZR (fee of \$0.0030 per share). The Exchange proposes to amend the language in Footnote 4 on its fee schedule to allow Members to designate certain of their FIX ports at the Exchange as “Retail Order Ports” in order to qualify for the rates on Flags ZA and ZR. The attestation requirement, as described above and in SR-EDGX-2012-47,<sup>13</sup> will continue to apply to all Members who submit Retail Orders, whether on an order-by-order basis or via Retail Order Ports. Members are not required to designate orders as Retail Orders.

The Exchange proposes to implement these amendments to its fee schedule on January 1, 2013.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>14</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>15</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 believes that its proposal to lower the rebate from \$0.0023 per share to \$0.0021 per share is an equitable allocation of reasonable dues, fees and other charges as it will enable the Exchange to retain additional funds to offset increased administrative, regulatory, and other infrastructure costs associated with operating an exchange. The rate is reasonable in that it is comparable to rebates for adding liquidity offered by NYSE Arca, Inc. (rebates of 0.0021 per

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<sup>13</sup> Id.

<sup>14</sup> 15 U.S.C. 78f.

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

share for Tapes A/C securities, \$0.0022 per share for Tape B securities)<sup>16</sup> and on NASDAQ Stock Market LLC<sup>17</sup> (rebate of \$0.0020 per share). The Exchange believes that the proposed rebate is non-discriminatory in that it applies uniformly to all Members.

In addition, the Exchange believes that its proposal to increase the default removal rate in securities priced below \$1.00 from 0.10% of the dollar value of the transaction to 0.30% of the dollar value of the transaction is an equitable allocation of reasonable dues, fees and other charges as it will enable the Exchange to retain additional funds to offset increased administrative, regulatory, and other infrastructure costs associated with operating an exchange. The rate is reasonable in that it is comparable to fees for removing liquidity in securities priced below \$1.00 offered by New York Stock Exchange LLC<sup>18</sup> and NASDAQ Stock Market LLC<sup>19</sup> (each exchange assesses fees of 0.30% of the dollar value of the transaction).

The Exchange believes that the increased fee for customer internalization from \$0.00035 to \$0.00045 per share per side of an execution for Flags EA, ER (regular trading session) and 5 (pre and post market) represents an equitable allocation of reasonable dues, fees, and other charges as it is designed to discourage Members from inadvertently matching with one another, thereby discouraging potential wash sales. The increased fee also allows the Exchange to offset its administrative, clearing, and other operating costs incurred in executing such trades. Finally,

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<sup>16</sup> NYSE Arca, Inc., NYSE Arca Equities Trading Fees, <http://usequities.nyx.com/markets/nyse-arca-equities/trading-fees>.

<sup>17</sup> NASDAQ Stock Market LLC, Price List – Trading & Connectivity, <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

<sup>18</sup> New York Stock Exchange Price List 2012, [http://usequities.nyx.com/sites/usequities.nyx.com/files/nyse\\_price\\_list\\_11\\_09\\_12.pdf](http://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_price_list_11_09_12.pdf).

<sup>19</sup> NASDAQ Stock Market LLC, Price List – Trading & Connectivity, <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

the fee is equitable in that it is consistent<sup>20</sup> with the EDGX fee structure that has a proposed maker/taker spread of \$0.0009 per share (where the standard rebate to add liquidity on EDGX is proposed to be \$0.0021 per share and the standard fee to remove liquidity is \$0.0030 per share).

This increased fee per side of an execution on Flags EA, ER, and 5 (\$0.00045 per side instead of \$0.00035 per side per share), yields a total cost of \$0.0009, thus making the internalization fee consistent with the current maker/taker spreads.<sup>21</sup> The Exchange believes that the proposed rate is non-discriminatory in that it applies uniformly to all Members.

The Exchange's fee for customer internalization for securities priced below \$1.00 of 0.15% of the dollar value of the transaction, as represented in footnote 11 appended to flags EA, ER, and 5, represents an equitable allocation of reasonable dues, fees, and other charges as it is designed to discourage Members from inadvertently matching with one another, thereby discouraging potential wash sales. The fee also allows the Exchange to offset its administrative, clearing, and other operating costs incurred in executing such trades. Finally, the fee is equitable in that it is consistent<sup>22</sup> with the EDGX fee structure that has a proposed maker/taker spread of 0.15% of dollar value of the transaction per share per side, where the standard rebate to add liquidity on EDGX in securities priced below \$1.00 is a rebate of \$0.00003 per share and the proposed standard fee to remove liquidity is 0.30% of the dollar value of the transaction. The Exchange believes that the proposed rate is non-discriminatory in that it applies uniformly to all Members.

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<sup>20</sup> In each case, the internalization fee is no more favorable to the Member than each prevailing maker/taker spread.

<sup>21</sup> The Exchange will continue to ensure that the internalization fee is no more favorable than each prevailing maker/taker spread.

<sup>22</sup> In each case, the internalization fee is no more favorable to the Member than each prevailing maker/taker spread.



The deletion of the clause (i) in Footnote 1 as a method to qualify for the Mega Tier rebate of \$0.0032 is equitable and reasonable as the rebate did not have the intended effect of incentivizing Members to add liquidity to EDGX by posting 0.75% of the TCV in ADV to EDGX. The Exchange also notes that with the deletion of this method of qualifying for the Mega Tier rebate of \$0.0032, Members will continue to be subject to the other fees and tiers listed on the Exchange's fee schedule and can continue to achieve the rebate of \$0.0032 per share through alternative criteria (posting 0.12% of the TCV in ADV more than the Member's February 2011 ADV added to EDGX). The Exchange also notes that the tier's elimination will have a minimal impact on its Members as only one Member qualified for such rebate in the past three months. Lastly, the Exchange also believes that the proposed amendment is non-discriminatory because it applies uniformly to all Members.

Similarly, the proposed elimination of Footnote 11's rebate is equitable and reasonable in that Members also were not incentivized to add, remove, and route liquidity to EDGX. As a result of the internalization rebate, Members who internalized and met the criteria to satisfy the Mega Tier and the volume threshold of 4% of their ADV on EDGX would be rebated \$0.00032 per share per side of an execution (the applicable rebate in Footnote 1 for adding liquidity) and be charged \$0.0030 per share per side of an execution (the applicable removal rate in Footnote 1, in this case). As a result of the elimination of this tier in Footnote 11, Members will continue to be subject to the other fees and tiers listed on the Exchange's fee schedule. The Exchange also notes that the tier's elimination will have a minimal impact on its Members as only one Member qualified for such rebate in the past three months. Lastly, the Exchange also believes that the proposed amendment is non-discriminatory because it applies uniformly to all Members.

Finally, the Exchange's proposal to expand the ability to use Retail Orders to those Members who prefer to designate certain of their FIX ports on the Exchange as "Retail Order Ports" represents an additional, voluntary choice that the Exchange provides to its Members in order to utilize Retail Orders. The additional option thus allows Members an alternative method through which Retail Orders can be designated, while ensuring that Members are required to have written policies and procedures designed to assure that they will only designate orders as Retail Orders if all requirements of a Retail Order are met.

The Exchange believes that the proposed rule change is equitable and not unfairly discriminatory because it provides a second method for Retail Order designation and allows each Member to choose the designation method most convenient to it, recognizing that individual firms have different internal system configurations. By providing alternative avenues for Members to designate orders as Retail Orders, the Exchange believes that Members will choose the designation method that is most operationally efficient, potentially reducing transaction costs. The proposal is also non-discriminatory in that it applies uniformly to all Members equally.

The Exchange also expects that this alternative way to designate orders as Retail Orders would incentivize more Members to utilize Retail Orders. The Exchange also notes that NYSE Arca currently supports Retail Order Ports.<sup>23</sup> In this regard, the Exchange believes that maintaining or increasing the proportion of Retail Orders in exchange-listed securities that are executed on a registered national securities exchange (rather than relying on certain available off-exchange execution methods) would contribute to investors' confidence in the fairness of their transactions and would benefit all investors by deepening the Exchange's liquidity pool, supporting the quality of price discovery, promoting market transparency and improving investor

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<sup>23</sup> See Exchange Act Release No. 67540 (July 30, 2012), 77 FR 46539 (August 3, 2012) (SR-NYSEArca-2012-77).

protection. Moreover, the proposed use of Retail Orders, which are available for all Members that utilize FIX, is equitable and not unfairly discriminatory because FIX is available for all Members on an equal and non-discriminatory basis, as all Members can sign up for new logical ports using FIX or HP-API at a cost of \$500/month (the first five DIRECT logical ports being provided free). The Exchange also notes that all Members that it expects will send Retail Orders either on an order-by-order basis or via designated Retail Order Ports currently maintain logical ports that utilize FIX. The Exchange also notes that the Members that only utilize HP-API are generally those that are more concerned with latency, as they trade for their own accounts where their order flow typically would not qualify as retail order flow. Finally, all order entry protocols on the Exchange do not necessarily support all Exchange functions and are designed differently in order to support the Member base most likely to utilize them.

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 rebates 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

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Proposing to allow Members to designate Retail Order Ports increases competition with exchanges such as NYSE Arca that

currently allow such practice<sup>24</sup> and does not impose any burden on intramarket competition as all Members have an additional way to designate Retail Orders.

The Exchange believes that its proposals to lower the rebate from \$0.0023 per share to \$0.0021 per share will also assist in increasing competition in that its proposed rebate is comparable to rebates for adding liquidity offered by NYSE Arca, Inc. (rebates of \$0.0021 per share for adding liquidity in Tapes A/C securities and \$0.0022 per share for adding liquidity in Tape B securities)<sup>25</sup> and on NASDAQ Stock Market LLC<sup>26</sup> (rebate of \$0.0020 per share). Similarly, the Exchange believes that its increase in its default removal rate in securities priced less than \$1.00 from 0.10% of the dollar value of the transaction to 0.30% of the dollar value of the transaction will also assist in increasing competition as its proposed fee is comparable to fees on NYSE and NASDAQ for removing liquidity in securities priced below \$1.00. The Exchange believes that both proposals will have no burden on intramarket competition as the rates apply uniformly to all Members that place orders in securities priced at or above \$1.00 or below \$1.00.

The Exchange believes that its proposal to eliminate one method to achieve the Mega Tier on its fee schedule and eliminate its rebate for internalization in Footnote 11 will have no burden on intermarket or intramarket competition as Members are able to qualify for other tiered rebates and discounts at the Exchange or move their order flow to competing exchanges. Finally, the Exchange believes that its internalization rates for all securities (priced \$1.00 and above and below \$1.00) will also not burden intermarket or intramarket competition as the

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<sup>24</sup> Id.

<sup>25</sup> NYSE Arca, Inc., NYSE Arca Equities Trading Fees, <http://usequities.nyx.com/markets/nyse-arca-equities/trading-fees>.

<sup>26</sup> NASDAQ Stock Market LLC, Price List – Trading & Connectivity, <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

proposed rates in both cases are no more favorable than Members achieving the maker/taker spreads between the default add and remove rates on EDGX.

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)(A) of the Act<sup>27</sup> and Rule 19b-4(f)(2)<sup>28</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 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-2012-48 on the subject line.

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<sup>27</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>28</sup> 17 CFR 19b-4(f)(2).

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-2012-48. 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-2012-48 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>29</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>29</sup> 17 CFR 200.30-3(a)(12).