

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64393; File No. SR-EDGA-2011-14)

May 4, 2011

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”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 29, 2011, 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 Members<sup>3</sup> 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>.

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> 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to offer a reduced rate from \$0.0023 per share to \$0.0022 per share for Flag D executions (as noted in proposed footnote 14 of the fee schedule) provided that the Member routes an average daily volume (“ADV”) of more than 30,000,000 shares per day to NYSE using the RDOT or RDOX routing strategies, as defined in Rules 11.9(b)(3)(h) and (i).

The H flag represents non-displayed executions. The Exchange proposes to append the reference to footnote 2 on Flag H so that a reduced rate (of \$0.0010 per share) would be offered provided that the Member adds greater than 1,000,000 shares hidden on a daily basis (yielding Flag H), measured monthly or posts greater than 8,000,000 shares on a daily basis, measured monthly (yielding Flags B, V, Y, 3 or 4). Members not meeting either minimum will be charged \$0.0030 per share.

For customer internalization (i.e., same MPID),<sup>4</sup> currently there is no charge nor rebate. This was because when the Exchange launched in July 2010 the rebate for removing liquidity (\$0.0002 per share) was offset by the fee for adding liquidity (\$0.0002 per share). This situation yields Flag “E” on both sides of an execution. During the Pre-Opening and Post-Closing sessions, there are also no charges nor rebates, but this situation yields Flag “5” per side of an

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<sup>4</sup> This 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. Members are advised to consult Rule 12.2 respecting fictitious trading.

execution (adding liquidity/removing liquidity). The Exchange is now proposing to charge \$0.0001 per share per side of an execution (for adding liquidity and for removing liquidity) for Flags E and 5 instead of the standard or tiered rebate/removal rates. Therefore, Members would incur a total internalization cost of \$0.0002 per share for both sides of an execution for customer internalization.

Currently, orders routed to EDGX Mid-Point Match (“MPM”) using the IOCM routing strategy,<sup>5</sup> as defined in Rule 11.9(b)(3)(q)<sup>6</sup>, are assessed a fee of \$0.0010 per share and yield flag “MT.” The Exchange is proposing to increase this fee to \$0.0012 per share.

Finally, the Exchange is proposing to make a technical correction to the fee schedule to replace the term “order type” with “routing strategy” throughout the fee schedule in order to conform to language in Rule 11.9(b)(3). These amendments will appear in the text for Flags K, L, P, Q, T, Z, 2, 8, 9, BY, CL, MT, RT, RX, SW, and footnote 8.

EDGA Exchange proposes to implement these amendments to the Exchange fee schedule on May 1, 2011.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>7</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>8</sup> in particular, as

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<sup>5</sup> EDGX Rule 11.5(c)(7) defines a MPM order as an order with an instruction to execute it at the midpoint of the NBBO. A MPM order may be a Day Order, Fill-or-Kill Order, or IOC Order. The Exchange notes that members can send in a MPM order directly to EDGX without routing through the EDGA platform as an IOCM routing option.

<sup>6</sup> IOCM is a routing option under which an order checks the System for available shares and then is sent to EDGX as an immediate or cancel (IOC) MPM order.

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

<sup>8</sup> 15 U.S.C. 78f(b)(4).

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 proposed reduced rate of \$0.0022 per share for Flag D executions provided that the Member routes an average daily volume (“ADV”) of more than 30,000,000 shares per day to NYSE using the RDOT or RDOX routing strategies represents an equitable allocation of reasonable dues, fees, and other charges. When EDGA routes to NYSE and removes liquidity, NYSE charges EDGA \$0.0023 per share. If a member uses EDGA to route to NYSE, EDGA provides a \$0.0001 discount per share provided that the conditions of the volume threshold are met. The Exchange believes that this discounted rate would incentivize Members to first route through EDGA to reach NYSE and would thereby increase liquidity on EDGA. This type of rate is also similar to EDGA’s rate for removing liquidity from LavaFlow (Flag M). 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.<sup>9</sup> This type of rate is also similar to other rates that EDGA charges, such as “one-under” pricing for routing to Nasdaq using the INET order type and is consistent with the processing of similar routing strategies by EDGA’s competitors.<sup>10</sup>

The rate is also equitable in that it is designed to incentivize Members to use the RDOT or RDOX routing strategies to increase volume on EDGA. Such increased volume increases

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<sup>9</sup> See footnote 6 of the EDGA fee schedule.

<sup>10</sup> See footnote 7 of the EDGA fee schedule. See also BATS BZX fee schedule: 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).

potential revenue to the Exchange, and would allow the Exchange to spread its administrative and infrastructure costs over a greater number of shares, leading to lower per share costs. These lower per share costs would allow the Exchange to pass on the savings to Members in the form of reduced fees. The increased liquidity also benefits all investors by deepening EDGA's liquidity pool, supporting the quality of price discovery, promoting market transparency and improving investor protection. Volume-based discounts such as the reduced execution fee proposed here have been widely adopted in the cash equities markets and provide discounts that are reasonably related to the value to an exchange's market quality associated with higher levels of market activity, such as higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes. The Exchange believes that the proposed discounted rate is non-discriminatory in that it applies uniformly to all Members.

The Exchange believes that the proposed reduced rate for Flag H executions of \$0.0010 per share, as described in footnote 2, is an equitable allocation of reasonable dues, fees, and other charges. The reduced rate of \$0.0010<sup>11</sup> provided that a volume threshold is satisfied is designed to incentivize Members to use non-displayed orders to increase volume on EDGA.

Such increased volume increases potential revenue to the Exchange, and would allow the Exchange to spread its administrative and infrastructure costs over a greater number of shares, leading to lower per share costs. These lower per share costs would allow the Exchange to pass on the savings to Members in the form of reduced fees. The increased liquidity also benefits all investors by deepening EDGA's liquidity pool, supporting the quality of price discovery, promoting market transparency and improving investor protection. Volume-based discounts

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<sup>11</sup> If a member fails to reach such volume thresholds, the Member will pay \$0.0030 per share for Flag H executions.

such as the reduced execution fee proposed herein have been widely adopted in the cash equities markets and provide discounts that are reasonably related to the value to an exchange's market quality associated with higher levels of market activity, such as higher levels of liquidity provision and introduction of higher volumes of orders into the price and volume discovery processes. The Exchange believes that the proposed fee is non-discriminatory in that it applies uniformly to all Members.

The Exchange believes that the increased fee for customer internalization of \$0.0001 per share per side of an execution for both Flags E (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 introduce a nominal and reasonable fee for members who inadvertently match 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, the fee is equitable in that it is in line with the EDGA fee structure which currently has a maker/taker spread of \$0.0001 per share (the standard fee to add liquidity on EDGA is \$0.00025 per share, while the standard rebate to remove liquidity is \$0.00015 per share). EDGA also has a tiered rate for adding liquidity of \$0.00005, which would make this spread -\$0.0001 per share. As a result of the customer internalization charge, Members who internalized would be charged \$0.0001 per side of an execution (total of \$0.0002 per share) instead of capturing the maker/taker spread of -\$0.0001 per share.

As mentioned above, when the Exchange launched in July 2010, this spread was zero (0). This increased fee per side of an execution (\$0.0001 per side instead of free) thus brings the

internalization fee in line with the current maker/taker spreads.<sup>12</sup> The Exchange believes that the proposed fee is non-discriminatory in that it applies uniformly to all Members.

The Exchange believes that the proposed increased fee to \$0.0012 per share for the “MT” flag for routing to EDGX MPM using the IOCM routing strategy represents an equitable allocation of reasonable dues, fees, and other charges as such increased fee offsets the Exchange’s administrative and other operational costs. The fee increase represents a pass through by EDGA to its members of EDGX’s increased fee (from \$0.0010 to \$0.0012 per share) for removing liquidity from EDGX MPM, effective May 1, 2011. The \$0.0012 per share is competitive and superior to comparable exchange standard removal rates of \$0.0030 per share (Nasdaq), \$0.0030 per share (NYSE Arca), \$0.0023 per share (NYSE), and \$0.0028 per share (BATS BZX). The fee is also equitable as it is competitive with other fees assessed for routing strategies that access low cost destinations, such as ROUZ, as defined in Rule 11.9(b)(3)(c)(v) (yields Flag Z, \$0.0010 per share) and ROUD/ROUE, as defined in Rules 11.9(b)(3)(b) and 11.9(b)(3)(c)(i) (Flag T, \$0.0012 per share). The Exchange believes that the proposed fee is non-discriminatory in that it applies uniformly to all Members.

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 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

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<sup>12</sup> The Exchange will continue to ensure that the internalization fee is no more favorable than each prevailing maker/taker spread.

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>13</sup> and Rule 19b-4(f)(2)<sup>14</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-EDGA-2011-14 on the subject line.

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</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-EDGA-2011-14. 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,<sup>15</sup> 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

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<sup>15</sup> The text of the proposed rule change is available on Exchange's website at <http://www.directedge.com>, on the Commission's website at <http://www.sec.gov>, at EDGA, and at the Commission's Public Reference Room.

to File Number SR-EDGA-2011-14 and should be submitted on or before [insert date 21 days after publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

Elizabeth M. Murphy  
Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).