

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67726; File No. SR-EDGA-2012-28)

August 24, 2012

Self-Regulatory Organizations; EDGA Exchange, Inc.; Order Approving a Proposed Rule Change to Amend EDGA Rules to Add the Route Peg Order

I. Introduction

On June 26, 2012, EDGA Exchange, Inc. (“Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend Exchange Rule 11.5 to provide an additional order type, the Route Peg Order. In addition, the Exchange proposed to amend Exchange Rule 11.8 to describe the priority of the Route Peg Order relative to other orders on the EDGA Book. The proposed rule change was published for comment in the Federal Register on July 5, 2012.<sup>3</sup> The Commission received no comment letters on the proposed rule change. On August 16, 2012, the Commission extended to October 3, 2012, the time period in which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.<sup>4</sup> This order approves the proposed rule change.

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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> See Securities Exchange Act Release No. 67291 (June 28, 2012), 77 FR 39785 (“Notice”).

<sup>4</sup> See Securities Exchange Act Release No. 67677 (August 16, 2012), 77 FR 50740 (August 22, 2012).

## II. Description of the Proposed Rule Change

The Exchange proposed to add a new order type, the Route Peg Order.<sup>5</sup> A Route Peg Order would be a non-displayed limit order eligible for execution at the national best bid (the “NBB”) for Route Peg Orders to buy, and at the national best offer (the “NBO”)<sup>6</sup> for Route Peg Orders to sell, against routeable orders that are equal to or less than the size of the Route Peg Order. The Route Peg Order would be a passive, resting order that could only provide liquidity. The Route Peg Order would not be permitted to take liquidity. Incoming orders that are designated as eligible for routing would be able to interact with Route Peg Orders. The incoming order would first be matched according to the price/time priority rules established by Exchange Rule 11.8(a)(2)(A)-(C). If any portion of the incoming order remained unexecuted only then would such order be eligible to execute against Route Peg Orders.<sup>7</sup> The Route Peg Order is intended to provide liquidity in the event that a marketable order would otherwise route to another destination. In addition, a Route Peg Order would only trade with orders that are equal to or smaller in quantity than the original order quantity of the Route Peg Order.<sup>8</sup> If a Route Peg Order were partially executed, it would be assigned a new time priority and new

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<sup>5</sup> The Exchange proposed to amend Exchange Rule 11.5(c) to add a new subparagraph (14) describing the Route Peg Order. See Notice, supra note 3 at 39785.

<sup>6</sup> Together, the NBO and NBB are referred to as the “NBBO.”

<sup>7</sup> The Exchange proposed to codify the priority of the Route Peg Order in proposed new paragraph (a)(2)(D) of Exchange Rule 11.8. See Notice, supra note 3 at 39785 n. 5.

<sup>8</sup> If a Route Peg Order were partially executed, it would be able to execute against orders that were larger than the remaining balance of the Route Peg Order, but those orders would still need to be equal to or smaller than the original order quantity of the Route Peg Order. The Exchange stated that it elected to design the system in this manner to avoid the possibility of a single block-sized order potentially clearing all of the liquidity posted on the Exchange attributable to Route Peg Orders. Id. at 39786.

timestamp after each partial execution until either the remaining size is exhausted or the Route Peg Order is cancelled by the Member.<sup>9</sup>

Route Peg Orders would be able to be entered, cancelled and cancelled/replaced prior to and during Regular Trading Hours.<sup>10</sup> Route Peg Orders would be eligible for execution in a given security during Regular Trading Hours, except that, even after the commencement of Regular Trading Hours, Route Peg Orders would not be eligible for execution (1) in the opening cross, and (2) until such time that regular session orders in that security could be posted to the EDGA Book.<sup>11</sup> A Route Peg Order would not execute at a price that is inferior to a Protected Quotation,<sup>12</sup> and would not be permitted to execute if the NBBO were locked or crossed. Any and all remaining, unexecuted Route Peg Orders would be cancelled at the conclusion of Regular Trading Hours.

### III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national

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<sup>9</sup> The Exchange proposed to codify this principle in new subparagraph (a)(7) of Exchange Rule 11.8. The Exchange also proposes to add an exception for the Route Peg Order in Exchange Rule 11.8(a)(5), which otherwise would require that a partially executed order retain priority at the same limit price. The Exchange asserted that assigning a new timestamp after each partial execution would allow for a rotating priority of execution for Users (as defined in Exchange Rule 1.5(ee)) who place Route Peg Orders. *Id.* at 39786 n. 6.

<sup>10</sup> As defined in Exchange Rule 1.5(y).

<sup>11</sup> For example, for stocks listed on the New York Stock Exchange LLC (the "NYSE"), regular session orders can be posted to the EDGA Book upon the dissemination by the responsible Securities Information Processor ("SIP") of an opening print in that stock on the NYSE. Conversely, for stocks listed on the NASDAQ Stock Market LLC, regular session orders can be posted to the EDGA Book upon the dissemination of the NBBO by the responsible SIP in that stock.

<sup>12</sup> As defined in Exchange Rule 1.5(v).

securities exchange.<sup>13</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>14</sup> which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange notes that the Route Peg Order is designed to incentivize Users<sup>15</sup> to place greater liquidity at the NBBO, thereby promoting more favorable executions for the benefit of public customers. According to the Exchange, the Route Peg Order would result in more favourable and efficient executions by: (1) offering liquidity providers a means to use the Exchange to post larger limit orders that are only executable at the NBBO and that do not disclose their trading interest to other market participants in advance of execution; (2) offering market participants seeking to access liquidity a greater expectation of market depth at the NBBO than may currently be the case; and (3) offering more predictable executions at the NBBO for Users by reducing the risk that incremental latency associated with routing an order to an away destination may result in an inferior execution.

Further, the Exchange believes that these benefits of the Route Peg Order would be realized only if they interact with orders that are eligible for routing, as they are characteristic of public customers who desire to execute at the best price. In contrast, notes the Exchange, professional traders typically expect to post to the book, execute immediately against the

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<sup>13</sup> In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> As defined in Exchange Rule 1.5(ee).

Exchange's best bid or offer, or ferret out hidden liquidity at or inside the NBBO and use non-routable orders to achieve these ends. The Exchange believes that Users would be reluctant to post liquidity through the Route Peg Order if such orders could interact with professional traders. Finally, the Exchange highlights that any User can place a routable order that is eligible for execution against a Route Peg Order.

Based on the Exchange's statements, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>16</sup> that the proposed rule change (SR-EDGA-2012-28) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>16</sup> 15 U.S.C. 78s(b)(2).

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