

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67839; File No. SR-EDGA-2012-41)

September 12, 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 September 5, 2012 the EDGA Exchange, Inc. (the "Exchange" or "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 As defined in 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 add Flag RP to the Exchange's fee schedule for Non-Displayed Orders that add liquidity using the Route Peg Order type.⁴ The Exchange proposes to assess a charge of \$0.0005 per share for orders that yield Flag RP. The volume associated with Flag RP will also count towards the volume tiers for non-displayed orders that add liquidity.

As defined in Exchange Rule 11.5(c)(14), a Route Peg Order is a non-displayed limit order that posts to the EDGA Book, and thereafter is eligible for execution at the National Best Bid ("NBB") for buy orders and National Best Offer ("NBO", and together with the NBB, the "NBBO") for sell orders against the original size of the routable orders that are equal to or less than the original size of the Route Peg Orders. Route Peg Orders are passive, resting orders on the EDGA Book and do not take liquidity. Route Peg Orders may be entered, cancelled, and cancelled/replaced prior to and during Regular Trading Hours.⁵ Route Peg Orders are eligible for execution in a given security during Regular Trading Hours, except that, even after the commencement of Regular Trading Hours, Route Peg Orders are not eligible for execution (1) in the opening cross, and (2) until such time that regular session orders in that security can be posted to the EDGA Book. A Route Peg Order does not execute at a price that is inferior to a Protected Quotation, and is not permitted to execute if the NBBO is locked or crossed. Any and

⁴ See Securities and Exchange Act Release No. 67726 (August 24, 2012) (SR-EDGA-2012-28).

⁵ As defined in Rule 1.5(y).

all remaining, unexecuted Route Peg Orders are cancelled at the conclusion of Regular Trading Hours.

The Exchange also proposes to amend the text of Footnote 2 of the fee schedule to list Flag RP as one of the non-displayed order types where the volume associated with Flag RP will count toward the volume threshold in Footnote 2.

The Exchange proposes to implement these amendments to its fee schedule on September 7, 2012.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,⁶ in general, and furthers the objectives of Section 6(b)(4),⁷ 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 proposes to add Flag RP to the Exchange's fee schedule for Non-Displayed Orders that add liquidity using the Route Peg Order type. The Exchange believes that assessing a charge of \$0.0005 per share for orders that yield Flag RP represents an equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities because a rate of \$0.0005 per share is equal or less than the prevailing rates for other forms of non-displayed order types that add liquidity, (e.g., the Exchange assesses a charge of \$0.0005 per share for Flag DM and \$0.0010 per share for Flag HA). Within the non-displayed category of liquidity, Flag RP is similar to Flag DM in that both have lower order book priority in Rule 11.8(a)(2) compared to Flag HA (Non-Displayed Orders). Lower order book priority

⁶ 15 U.S.C. 78f.

⁷ 15 U.S.C. 78f(b)(4).

correlates to a lower chance of execution on EDGA, which justifies a lower price. Therefore, the Exchange is offering comparable pricing to Flag DM.

Furthermore, the Route Peg Order type gives the Member a valuable ability to control the interaction with certain types of contra-side liquidity (i.e., routable orders of equal or lesser size). The Mid-Point Discretionary Order (“MDO”) (Flag DM) has a displayed component⁸ and non-displayed component. The Exchange assesses a lower fee for the non-displayed component when compared to the standard displayed charge of \$0.0006 as an acknowledgement of the fact that the MDO also brings in valuable displayed liquidity. The Route Peg Order, on the other hand, has no displayed component, but has the lowest priority in the order book. Even though the priority is lower, the Exchange assigns the same charge to the Route Peg Order type as to Flag DM because of its unique features, as described above.

Similarly, the Exchange is assigning a lower charge for Flag RP when compared to the standard displayed charge of \$0.0006 because of its lower priority ranking in Rule 11.8(a)(2). The Exchange recently implemented a taker/maker model⁹ to make the Exchange more attractive to liquidity takers for their routing decisions because liquidity takers would be receiving a rebate. For liquidity providers, it is an attractive place to post liquidity since liquidity takers are rebated to remove liquidity. Therefore, EDGA is ranked as one of the first markets in the intermarket queue on system routing tables because of its attractive removal rebate compared to other markets. As a result, liquidity providers are willing to pay a fee to compete to interact with these liquidity takers, resulting in a deeper order book. As such, order book priority is an

⁸ See Securities Exchange Act Release No. 67226 (June 20, 2012), 77 FR 38113 (June 26, 2012) (SR-EDGA-2012-22) (The MDO has two discrete components – a displayed portion that is pegged to the national best bid or national best offer, and a non-displayed portion which gives discretion to execute to the mid-point of the national best bid/offer (“NBBO”), subject to certain limits).

⁹ See SR-EDGA-2012-39 (August 30, 2012).

important determinant of their interaction. The Exchange has set the fees for various orders types (Flags DM, RP, and HA) that reflect that order book priority. Therefore, orders that have a higher priority in the order book (displayed orders) will generally be charged more than orders of lower priority (e.g., Flag DM and RP) because they are more likely interact with a liquidity taker and obtain a quicker execution.

By assessing a proposed rate of \$0.0005 per share for Flag RP, the Exchange believes it will encourage use of the new order type. In addition, the Exchange is setting the fee at such level in order to incentivize liquidity by encouraging Members to use Route Peg Orders (Flag RP) since these orders provide Members that enter them and other Members an additional way to offer/access liquidity at the NBBO, respectively. This contributes to additional depth of book at the NBBO. Furthermore, as stated in SR-EDGA-2012-28, the Exchange believes that by encouraging the use of the Route Peg Order, Members seeking to access liquidity at the NBBO would be more motivated to direct their orders to EDGA because they would have a heightened expectation of the availability of liquidity at the NBBO. The increased liquidity also benefits all investors by deepening EDGA's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, and improving investor protection. In addition, a User¹⁰ whose order executed against a Route Peg Order would be able to obtain an execution at the NBB or NBO while minimizing the risk that incremental latency associated with routing the order to an away destination may result in an inferior execution.

The Exchange's proposal to amend the text of Footnote 2¹¹ of the fee schedule to list Flag RP as one of the non-displayed order types where the volume associated with Flag RP will count

¹⁰ As defined in Rule 1.5(ee).

¹¹ Footnote 2 currently provides that rates for Flags HA and HR are contingent upon Members adding or removing greater than 1,000,000 shares non-displayed (hidden) on a

toward the volume threshold in Footnote 2 is reasonable and equitable as the volume tiers in Footnote 2 include “non-displayed” liquidity flags and Flag RP is a non-displayed liquidity flag. Therefore, the Exchange believes it is appropriate to include Flag RP in Footnote 2 in order to provide additional transparency to Members.

Lastly, the Exchange also believes that the proposed amendment is non-discriminatory because 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.

daily basis, measured monthly (yield Flags HA, HR, DM and DT) or Member posting greater than 8,000,000 shares on a daily basis, measured monthly. Members not meeting either minimum will be charged \$0.0030 per share for Flags HA and HR.

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 Act¹² and Rule 19b-4(f)(2)¹³ 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-2012-41 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-2012-41. 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

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 19b-4(f)(2).

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-2012-41 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).