

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63572; File No. SR-EDGA-2010-18)

December 17, 2010

Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing of Amendment No. 2 to Proposed Rule Change to Amend EDGA Rules 11.9(b)(1)(C) and 11.5(c)(7) Regarding Step-Up Orders

On November 8, 2010, EDGA Exchange, Inc. (the “Exchange” or “EDGA”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change regarding Step-Up Orders. The proposed rule change was published for comment in the Federal Register on November 24, 2010.³ On November 23, 2010, the Exchange submitted Amendment No. 1 to the proposed rule change.⁴ On December 14, 2010, the Exchange submitted Amendment No. 2 to the proposed rule change, as described in Items I and II below, which items have been prepared by the Exchange.⁵ The Commission is publishing this notice of Amendment No. 2 to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend EDGA Rule 11.9(b)(1)(C) regarding the description of the Step-up order type. The Exchange also proposes to introduce Rule 11.5(c)(7) to allow Mid-

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 63335 (November 18, 2010), 75 FR 71783.

⁴ In Amendment No. 1, the Exchange corrected an error in the purpose section of the original filing purpose section changing the current duration of the Step-Up Display Period from 25 milliseconds to 10 milliseconds.

⁵ Amendment No. 2 replaces in its entirety the original filing and Amendment No. 1. In Amendment No. 2, the Exchange proposes to: (a) change the Step-Up Display Period (as defined below) from 25 milliseconds to 10 milliseconds, and (b) eliminate the discretion in the rule to vary the Step-Up Display Period without a rule filing.

Point Match orders entered in response to Step-up orders to be processed pursuant to Rule 11.9(b)(1)(C). The text of the proposed rule change is available on the Exchange's Internet website at <http://www.directedge.com>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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 Exchange included statements 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

This Amendment No. 2 replaces in its entirety the original filing, SR-EDGA-2010-18 (November 8, 2010) and partial Amendment No. 1 (November 23, 2010).

Exchange Rule 11.5(c)(11) defines a Step-up order as a "market or limit order with the instruction that the System display the order to Users at or within the NBBO price pursuant to Rule 11.9(b)(1)(C)." Exchange Rule 11.9(b)(1)(C), in turn, states that orders shall be displayed to Users⁶ (hereinafter referred to as "Members"),⁷ in a manner that is separately identifiable

⁶ Exchange Rule 11.9(b)(1) provides that (prior to display of an order to a User), an incoming order shall first attempt to be matched for execution against orders in the EDGA Book.

⁷ Exchange Rule 1.5(cc) defines a User as any "any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3."

from other Exchange orders, at or within the NBBO price for a period of time not to exceed five hundred milliseconds, as determined by the Exchange (the “Step-up Display Period).”

In this amendment, the Exchange proposes to change the Step-up Display Period, which is currently set at 25 milliseconds, to 10 milliseconds. The Exchange also proposes to eliminate the prior discretion in the rule to vary the Step-up Display Period without a rule filing.

The Exchange proposes to amend Rule 11.9(b)(1)(C) to add language to the rule text which will provide that at the conclusion of the Step-up Display Period, the Step-up order shall execute against responsive User orders priced at or within the NBBO, prevailing at the end of the Step-up Display Period on a price/time priority basis consistent with Rule 11.8(a)(1) and (2). Rules 11.8(a)(1) and (2), in turn, provide that orders of Users shall be ranked and maintained in the EDGA Book based on the following priority: (i) The highest-priced order to buy (or lowest-priced order to sell) shall have priority over all other orders to buy (or orders to sell); (ii) where orders to buy (or sell) are made at the same price, the order clearly established as the first entered into the System at such particular price shall have precedence at that price, up to the number of shares of stock specified in the order. Commencing on the six month anniversary of {Insert Commission approval date of this rule filing}, the orders eligible for executing against Step-up orders shall be expanded to include User orders priced better but not outside the NBBO at the end of the Step-up Display Period (such orders, “Eligible Book Orders”).

In effect, Step-up orders permit a Member to initiate a price auction of such orders by displaying order solicitation information to other Members simultaneously, provided such other Members have elected to receive such order information (each such Member, an “Electing Member.”) After the passage of the Step-up Display Period, the Step-up orders are executed against responses and, commencing on the six month anniversary of {Insert Commission

approval date of this rule filing}, Eligible Book Orders, on a price/time priority basis in accordance with Rule 11.8(a)(1) and (2). Responses are accumulated for the Step-up Display Period by the Exchange, rather than processed at arrival time. Eligible Book Orders will continue to be eligible for execution against the EDGA Book during the Step-up Display Period.

For example, assume the NBBO (national best bid/offer) is 10.10 x 10.12. If Member A enters a Step-up order to buy 500 shares of ABC security at the prevailing national best offer (\$10.12) and such Step-up order cannot execute against the EDGA Book then Electing Members will receive a solicitation to sell 500 shares of ABC security at \$10.12 or lower. If Electing Members X, Y, and Z transmit an order to sell 500 shares (or less) of ABC security at the prevailing national best offer or lower (i.e, \$10.12 or lower), within the Step-up Display Period, they would all participate in a price auction, which would be awarded at the end of the Step-up Display Period on a price/time priority basis based on the prevailing NBBO at the end of such time period. Therefore, if EDGA receives an order to sell 500 shares at \$10.11 from Electing Member X, then receives an order to sell 200 shares at \$10.10 from Electing Member Y and lastly receives an order to sell 200 shares at \$10.11 from Electing Member Z, Electing Member Y would have priority over Electing Members X and Z based on price priority, assuming that such orders were received within the Step-up Display Period. As a result, Electing Member Y's order would execute against Member A's Step-up order for 200 shares at \$10.10. The remaining 300 shares would be awarded to Electing Member X at \$10.11, since Electing Member X has time priority over Electing Member Z. Following the six month anniversary of {Insert Commission approval date of this rule filing}, if non-electing Member W had an order to sell 500 shares at \$10.11 that was entered before Electing Member X's order and it was not otherwise executed on the EDGX Book prior to the end of the Step-up Display Period, then the

remaining 300 shares in the above example would be executed against Member W's order, since Member W would have time priority over both Electing Members X and Z.

The Exchange believes that this proposed amendment provides more transparency regarding the timing associated with the price auction.

The Exchange also proposes to add a new order type as Rule 11.5(c)(7) to allow Mid-Point Match orders that are entered in response to Step-up orders to be eligible for execution pursuant to Rule 11.9(b)(1)(C), as described above. As proposed, the Mid-Point Match order would be "an order with an instruction to execute it at the midpoint of the NBBO." This order type differs from the Mid-Point Peg order in that it can only be used in response to a Step-up order type, whereas the Mid-Point Peg order can be entered as a limit order but cannot be used in response to a Step-up order. Further, the Mid-Point Peg order can execute at a price better than the midpoint of the NBBO, while the Mid-Point Match order will be time-stamped and priced at the end of the Step-up Display Period.

In response to the price auction described above, the Exchange will not accept orders priced in subpennies. The respondent User could enter a Mid-Point Match order, however, that would be eligible for execution at the midpoint of the prevailing NBBO at the end of the Step-up Display Period.

The Exchange believes the midpoint response described above will provide an additional pricing mechanism for the respondent User that is willing to offer price improvement, but is unwilling to cross the spread between the national best bid and offer to do so. By providing this option, the Exchange believes that a greater proportion of Step-up orders will receive price improvement. In addition, because the midpoint response will execute all trades at the midpoint of the NBBO, it will never execute a trade outside of the NBBO. If the national best bid for a

security underlying a Step-up order equals or “locks” the national best offer for such security, a Mid-Point Match order response will execute all trades at the locked price.

The Step-up order process will not generate an execution if the national best bid (offer) for the security underlying a Step-up order is priced better than or “crosses” the national best offer (bid) for such security. In the event of a “crossed” market or an absence of responsive User orders at or within the NBBO and, commencing on the six month anniversary of {Insert Commission approval date of this rule filing}, Eligible Book Orders at the end of the Step-up Display Period, the Step-up process shall terminate and the Step-up order shall be cancelled or routed in accordance with the User’s instructions.

Other technical amendments

The Exchange proposes to make conforming changes to the numbering of current rules 11.5(c)(7)-(14) to (c)(8) – (15) as a result of the insertion of the Mid-Point Match order type in Rule 11.5(c)(7), as described above. Similarly, the references to the newly numbered rules are also proposed to amended in Rule 11.5(c) and Rule 11.8(a)(2)(C).

2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Act,⁸ which requires the rules of an exchange 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. The proposed rule change also is designed to support the principles of Section 11A(a)(1)⁹ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange believes that the proposed rule meets these requirements in that it seeks to promote the efficient

⁸ 15 U.S.C. 78f(b)(5).

⁹ 15 U.S.C. 78k-1(a)(1).

execution of investor transactions, and thus investor confidence, over the long term by providing additional transparency relating to the execution of Step-up orders.

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.

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

Within 45 days of the date of publication of the notice of the proposed rule change in the Federal Register¹⁰ or within such longer period (i) as the Commission may designate up to 90 days of such date 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, as amended, or
- (B) institute proceedings to determine whether the proposed rule change, as amended, 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:

¹⁰ The Commission notes that the notice of the proposed rule change was first published in the Federal Register on November 24, 2010.

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-2010-18 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-2010-18. 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission,¹¹ 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 Web site viewing and printing in the Commission's Public Reference Room, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing, as amended, 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

¹¹ The text of the proposed rule change, as amended, is available on the Commission's website at <http://www.sec.gov/rules/sro.shtml>.

you wish to make available publicly. All submissions should refer to File Number SR-EDGA-2010-18 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.¹²

Florence E. Harmon
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).