

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69066; File No. SR-EDGA-2013-10)

March 7, 2013

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 March 1, 2013, 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 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 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 currently offers Members a rebate of \$0.0014 per share for Members' orders that route to Nasdaq OMX BX, Inc. ("BX") and remove liquidity, yielding Flag C, in securities priced at or above \$1.00. The Exchange proposes to decrease the rebate from \$0.0014 per share to \$0.0010 per share in response to BX's fee filing that was effective February 1, 2013.⁴ Direct Edge ECN LLC (d/b/a DE Route) ("DE Route"), the Exchange's affiliated routing broker-dealer, qualifies for BX's volume tiered rebate of \$0.0010 per share by adding an average of 25,000 shares but less than 1 million shares per day.⁵ DE Route passes through the rebate to the Exchange and the Exchange, in turn, passes through the rebate to its Members. The Exchange notes that its proposal does not modify the current rate of 0.10% of the dollar value of the transaction that it charges Members for Flag C in securities priced below \$1.00 that route to BX and remove liquidity.

The Exchange proposes to add a step-up tier to Footnote 4 of its fee schedule. A Member, at a Market Participant Identifier ("MPID") level, will qualify for the "Single MPID Step-up Add Tier" by posting more than .10% of the Total Consolidated Volume ("TCV"), on a daily basis, measured monthly, on EDGA more than that MPID's December 2012 added TCV

⁴ See Securities Exchange Act Release No. 68909 (February 12, 2013), 78 FR 11935 (February 20, 2013) (SR-BX-2013-011).

⁵ The Exchange notes that to the extent DE Route does or does not achieve any volume tiered rebate on BX, its rate for Flag C will not change.

(the “December Baseline”). The volume generated from non-displayed flags that add liquidity will count towards the Single MPID Step-up Add Tier. If the MPID meets this criterion, then the Exchange will assess that MPID a reduced charge of \$0.0005 per share for Flags B, V, Y, 3 and 4 instead of its default rate of \$0.0006 per share.⁶ The Exchange notes that where a MPID’s December Baseline is zero, the Exchange will apply a default baseline of 10 million shares. The Exchange believes that the Single MPID Step-up Add Tier will encourage market participants to grow their volume over an established baseline in order to achieve the volume tiered pricing. The Exchange notes that Footnote 4 is already appended to Flags B, V, Y, 3, and 4.

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

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,⁷ in general, and furthers the objectives of Section 6(b)(4),⁸ 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.

⁶ Where “default” refers to the standard rate that the Exchange charges its Members for orders that add, remove, or route liquidity from the Exchange absent Members qualifying for additional volume tiered pricing. The Exchange maintains default rates for securities at or above \$1.00 and securities priced below \$1.00 for orders that add, remove, and route liquidity. The Exchange notes that a Member may qualify for a higher rebate if the Member satisfies the volume tier requirements outlined in Footnotes 1, 2, 4, 6, 16 and 17 of the fee schedule for securities priced at or above \$1.00. The Exchange notes that the volume from securities priced below \$1.00 contributes toward volume tiered requirements for securities priced at or above \$1.00 as outlined in Footnotes 1, 2, 4, 6, 16 and 17 of the fee schedule. Unless otherwise stated in Footnotes 1 and 2 of the fee schedule, the Exchange does not offer volume tiered pricing for securities priced below \$1.00.

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(4).

The Exchange believes that its proposal to pass through BX's rebate of \$0.0010 per share for orders that route to BX and remove liquidity (Flag C) represents an equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities because the Exchange does not levy additional fees or offer additional rebates for orders that it routes to BX through DE Route. Currently, BX offers a rebate to DE Route for orders that route to BX and remove liquidity, and DE Route passes through that rebate to the Exchange and the Exchange passes through that rebate to its Members. As of February 1, 2012, BX rebates DE Route \$0.0010 per share for orders that route to BX and remove liquidity provided that DE Route achieves the required volume on BX to qualify for such tier. Therefore, the Exchange's proposal will enable DE Route to pass through BX's rebate of \$0.0010 per share, and DE Route, in turn, may pass through the rebate of \$0.0010 per share to the Exchange and the Exchange, in turn, pass through the rebate of \$0.0010 per share to its Members. The Exchange believes its proposal is equitable and reasonable because it allows the Exchange to continue to pass through BX's rebate to its Members. The Exchange notes that routing through DE Route is voluntary. Lastly, the Exchange also believes that this proposed amendment is non-discriminatory because it applies uniformly to all Members.

The Exchange believes that the proposed Single MPID Step-up Add Tier 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 requirements of the Single MPID Step-up Add Tier to post more than .10% of the TCV on EDGA, on a daily basis, measured monthly more than the MPID's December Baseline incentivizes substantial volume from Members (on an MPID basis) that generally add volume to the Exchange by offering MPIDs a discounted removal rate of \$0.0005 per share. The Exchange also believes that establishing an MPID's

December Baseline rewards liquidity provision attributes and encourages price discovery and market transparency by encouraging growth in liquidity over a defined baseline. The Exchange believes the Single MPID Step-up Add Tier will also encourage certain market participants, who are not currently adders, to grow their add volume over an established baseline of 10 million shares set by the Exchange in order to achieve the tier. In addition, the Exchange believes that this proposed amendment is non-discriminatory because it applies uniformly to all Members.

The Exchange believes the Single MPID Step-up Add Tier will increase and attract volume to the Exchange. Therefore, the Exchange can discount the removal rate from the default rate of \$0.0006 per share to \$0.0005 per share. The increased volume increases potential revenue to the Exchange, and allows 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 in turn would allow the Exchange to pass on the savings to Members in the form of lower fees. The increased liquidity 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, promoting market transparency and improving investor protection. Volume-based rebates such as the one proposed herein have been widely adopted in the cash equities markets, and are equitable because they are open to all Members on an equal basis 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.

In addition, the criteria for the Single MPID Step-up Add Tier is also reasonable as compared to similar pricing mechanisms employed by Nasdaq that also offers rebates and tiers to

add liquidity through a single MPID.⁹ The concept of a single MPID also encourages those MPIDs that do the most to enhance EDGA's market quality through unified management of a high volume of added liquidity. EDGA also wishes to ensure that its fee schedule does not provide excessive encouragement to Members to aggregate the activity of several firms for the sole purpose of achieving a tiered discounted rate. Thus, a Member that is not able to achieve the requisite level of liquidity provision will not be able to meet the threshold by coordinating and consolidating the trading activity of other related firms using multiple MPIDs. EDGA believes that it is reasonable and equitable to offer a discounted rate to Members that provide volume through a single MPID because EDGA believes that such Members are most likely to provide consistent liquidity during periods of market stress and to manage their quotes/orders in a coordinated manner that promotes price discovery and market stability.

The Single MPID Step-up Add Tier is also reasonable in that NYSE Arca¹⁰ offers its customers a step-up tier for Tape C securities that discount the default removal rate of \$0.0030 per share when a baseline ADV is achieved. The Tape C Step Up Tier requires customers to add in excess of the greater of (i) 0.10% of US Tape C ADV over a January 2012 benchmark or (ii) 20% more than their January 2012 benchmark to earn a discounted removal rate of \$0.0029 per share.

The Exchange's discounted rate from its default rate of \$0.0006 per share to \$0.0005 per share for Members that achieve the Single MPID Step-up Tier is also reasonable because it is

⁹ See Nasdaq OMX, Price List – Trading & Connectivity, <http://nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

¹⁰ See NYSE Arca Equities Trading Fees, https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_arca_marketplace_fees_2_26_13.pdf. See also Securities Exchange Release No. 66568 (March 9, 2012), 77 FR 15819 (March 16, 2012) (SR-NYSEARCA-2012-17).

within the range of discounts offered by BATS BYX, where the default rate to add liquidity is \$0.0005 per share and customers that qualify for the tiers pay rates ranging from \$0.0002-\$0.00025 per share.¹¹

Additionally, defaulting the baseline to a set volume (i.e., 10 million shares) is also reasonable as Nasdaq defaults its baseline for its Investor Support Program to a baseline.¹² In addition, defaulting to a baseline of 10 million shares enables the Exchange to offer the tier only to those Members (on an MPID level) that satisfy it over an Exchange-established baseline instead of zero volume for the month of December 2012.

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

¹¹ See Securities Exchange Act Release No. 68665 (January 16, 2013), 78 FR 4946 (January 23, 2013) (SR-BYX-2013-001).

¹² See Nasdaq Rule 7014, which provides that “[a] member wishing to participate in the Investor Support Program (“ISP”) must submit an application in the form prescribed by Nasdaq and designate one or more of its Nasdaq ports for ISP use. By participating in the ISP and entering in the Nasdaq Market Center eligible orders in System Securities, a member may qualify for a monthly ISP fee credit.” Nasdaq Rule 7014(c)(1) provides that “a [Nasdaq] member shall be entitled to receive an ISP credit at the \$0.00005 rate with respect to all shares of displayed liquidity that are executed at a price of \$1 or more in the Nasdaq Market Center during a given month if: (A) the member's ISP Execution Ratio for the month in question is less than 10; (B) the shares of liquidity provided by the member through ISP-designated ports during the month are equal to or greater than 0.2% of the Consolidated Volume during the month; (C) at least 30% of the liquidity provided by the member during the month is provided through ISP-designated ports; and (D) the member's Participation Ratio for the month equals or exceeds its Baseline Participation Ratio.” Nasdaq Rule 7014(k)(1) further states that “[t]he term ‘Baseline Participation Ratio,’ shall mean, with respect to a member, the lower of such member's Participation Ratio for the month of August 2010 or the month of August 2011, provided that in calculating such Participation Ratios, the numerator shall be increased by the amount (if any) of the member's Indirect Order Flow for such month, and provided further that if the result is zero for either month, the Baseline Participation Ratio shall be deemed to be 0.485% (when rounded to three decimal places).” (emphasis added). See also Securities Exchange Act Release No. 63270 (November 8, 2010), 75 FR 69489 (November 12, 2010) (SR-NASDAQ-2010-141).

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

These proposed rule changes do not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that any of these changes represent a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors. Additionally, Members may opt to disfavor EDGA's pricing if they believe that alternatives offer them better value.

Accordingly, EDGA does not believe that the proposed changes will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

Regarding Flag C's proposed reduction in rebate, the Exchange believes that its proposal to pass through BX's lower rebate of \$0.0010 per share for securities priced at or above \$1.00 that route to BX and remove liquidity will increase competition because it is comparable to the rates charged by BX for removing liquidity. The Exchange believes its proposal will not burden intramarket competition given that the Exchange's rates apply uniformly to all Members that place orders. The Exchange believes that its proposal will increase competition for routing services because the market for order execution is competitive and the Exchange's proposal provides customers with another alternative to route their orders. The Exchange notes that routing through DE Route is voluntary.

Regarding the Single MPID Step-up Add Tier, EDGA believes that its proposal to offer such tier will increase competition as it will allow EDGA to compete with BATS BYX as a result of their January 2013 pricing change.¹³ The Exchange believes its proposal will not burden intramarket competition given that the Exchange's rates apply uniformly to all Members that place orders.

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 Act¹⁴ and Rule 19b-4(f)(2)¹⁵ 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:

¹³ See Securities Exchange Act Release No. 68665 (January 16, 2013), 78 FR 4946 (January 23, 2013) (SR-BYX-2013-001).

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(2).

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-2013-10 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-2013-10. 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-EDGA-2013-10 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.¹⁶

Kevin M. O'Neill
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).