

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73939; File No. SR-EDGA-2014-34)

December 24, 2014

Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rules 2.11, 2.12, 11.11 and 11.14 to Replace References to “Direct Edge ECN LLC d/b/a DE Route” and “DE Route” with “BATS Trading, Inc.”

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 December 22, 2014, EDGA Exchange, Inc. (the “Exchange” or “EDGA”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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 the Substance of the Proposed Rule Change

The Exchange filed a proposed rule change to amend Rules 2.11, 2.12, 11.11 and 11.14 to replace references to “Direct Edge ECN LLC d/b/a DE Route” and “DE Route” with “BATS Trading, Inc.” (“BATS Trading”). The Exchange does not propose to amend the requirements of any of these rules.

The text of the proposed rule change is available at the Exchange’s 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Earlier this year, the Exchange and its affiliate, EDGX Exchange, Inc. ("EDGX") received approval to effect a merger (the "Merger") of the Exchange's parent company, Direct Edge Holdings LLC, with BATS Global Markets, Inc., the parent of BATS Exchange, Inc. ("BZX") and BATS Y-Exchange, Inc. ("BYX", together with BZX, EDGA and EDGX, the "BGM Affiliated Exchanges" or "BATS Exchange").³ As a result, the Exchange amended Rule 2.12 to reflect that BATS Trading, Inc., the affiliated BZX and BYX routing broker dealer, would also act as the inbound router for routing orders from BYX and BZX to the Exchange. In the context of the Merger, the BGM Affiliated Exchanges are working to migrate EDGX and EDGA onto the BATS technology platform, and align certain system functionality, retaining only intended differences between the BGM Affiliated Exchanges. As a result of these efforts, the Exchange proposes to amend Rules 2.11, 2.12, 11.11 and 11.14 to replace references to "Direct Edge ECN LLC d/b/a DE Route" and "DE Route" with "BATS Trading" to reflect that BATS Trading, Inc. will replace DE Route at [sic] the Exchange's routing broker-dealer upon migration of the Exchange onto the BATS technology platform. Thereafter, BATS Trading will

³ See Securities Exchange Act Release No. 71449 (January 30, 2014), 79 FR 6961 (February 5, 2014) (SR-EDGX-2013-43; SR-EDGA-2013-34).

serve as the sole inbound and outbound routing broker-dealer for the Exchange. The Exchange does not propose to amend the requirements of any of these rules.

Rule 2.11, BATS Trading as Outbound Router

Pursuant to Exchange Rule 2.11, the Exchange relies on DE Route to provide outbound routing services from itself to other Trading Centers.⁴ The Exchange proposes to amend Rules 2.11 to replace all references to DE Route with BATS Trading, as BATS Trading will replace DE Route as the outbound routing service for the Exchange upon migration of the Exchange onto the BATS technology platform. The Exchange does not propose to amend the requirements of this rule. Therefore, the conditions and limitations set forth in Exchange Rule 2.11 will continue to require that:

- The Exchange will regulate the BATS Trading as a facility (as defined in Section 3(a)(2) of the Act), subject to Section 6 of the Act. The Exchange will file with the Commission proposed rule changes and fees relating to the BATS Trading outbound router function and BATS Trading will be subject to the Exchange's non-discrimination requirements.
- FINRA will carry out oversight and enforcement responsibilities as the designated examining authority designated by the Commission pursuant to Rule 17d-1 of the Act with the responsibility for examining BATS Trading for compliance with applicable financial responsibility rules.

⁴ Rule 600(b)(78) of Regulation NMS, 17 CFR 242.600(b)(78), defines a "Trading Center" as "a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent." See also Exchange Rule 2.11(a).

- A Member's⁵ use of BATS Trading to route orders to another Trading Center will be optional.
- BATS Trading will not engage in any business other than (a) its outbound router function, (b) its inbound router function as described in Rule 2.12, (c) its usage of an error account in accordance with Exchange Rule 2.11(a)(7) and (d) any other activities it may engage in as approved by the Commission.
- The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and BATS Trading, and any other entity, including any affiliate of BATS Trading, and, if BATS Trading or any of its affiliates engage in any other business activities other than providing routing services to the Exchange, between the segment of BATS Trading or its affiliate that provides the other business activities and the routing services.
- The Exchange or BATS Trading may cancel orders as either deems to be necessary to maintain fair and orderly markets if and when systems, technical or operational issues occur at the Exchange, BATS Trading or a Trading Center. The Exchange or BATS Trading shall provide notice of the cancellation of orders to affected Members as soon as practicable.
- BATS Trading shall maintain an error account for the purpose of liquidating an error position when such position, in the judgment of the Exchange or BATS Trading, subject to the factors described in Exchange Rule 2.11, cannot be fairly and practicably assigned

⁵ The term "Member" is defined as "any registered broker or dealer, or any person associated with a registered broker or dealer, that has been admitted to membership in the Exchange. A Member will have the status of a "member" of the Exchange as that term is defined in Section 3(a)(3) of the Act." See Exchange Rule 1.5(n).

to one or more Members in its entirety. An error position can be acquired if it results from a systems, technical or operational issue experienced by BATS Trading, by the Exchange, or by a Trading Center to which BATS Trading directed an outbound order.

The books, records, premises, officers, agents, directors and employees of BATS Trading will be deemed to be the books, records, premises, officers, agents, directors and employees of the Exchange for purposes of, and subject to oversight pursuant to, the Act. The books and records of BATS Trading shall be subject at all times to inspection and copying by the Exchange and the Commission. Nothing in Rule 2.11 will preclude officers, agents, directors or employees of the Exchange from also serving as officers, agents, directors and employees of BATS Trading.

Rule 2.12, BATS Trading as Inbound Router

DE Route and BATS Trading provide Members of the Exchange, EDGX, BZX and BYX with optional routing services to other Trading Centers. Thus, in certain circumstances, DE Route and BATS Trading provide inbound routing from EDGX, BYX, or BZX to the Exchange. Exchange Rule 2.12 governs this inbound routing of orders by DE Route and BATS Trading to the Exchange in DE Route's and BATS Trading's capacity as a facility of the Exchange. The Exchange proposes to amend Rule 2.12 to remove all references to DE Route as BATS Trading will be the sole inbound routing service for the Exchange upon migration of the Exchange onto the BATS technology platform. The Exchange does not propose to amend the requirements of this rule. Therefore, the conditions and limitations set forth in Exchange Rule 2.12(a) will continue to require that:

- The Exchange enter into (a) a plan pursuant to Rule 17d-2 under the Act with a non-affiliated self-regulatory organization ("SRO") to relieve the Exchange of regulatory responsibilities for BATS Trading with respect to rules that are common rules between

the Exchange and the non-affiliated SRO, and (b) a regulatory services contract (“Regulatory Contract”) with a non-affiliated SRO to perform regulatory responsibilities for BATS Trading for unique Exchange rules.

- The Regulatory Contract require the Exchange to provide the non-affiliated SRO with information, in an easily accessible manner, regarding all exception reports, alerts, complaints, trading errors, cancellations, investigations, and enforcement matters (collectively “Exceptions”) in which BATS Trading is identified as a participant that has potentially violated Exchange or Commission rules, and requires that the non-affiliated SRO provide a report, at least quarterly, to the Exchange quantifying all Exceptions in which BATS Trading is identified as a participant that has potentially violated Exchange or Commission rules.
- The Exchange, on behalf of its parent company, establish and maintain procedures and internal controls reasonably designed to ensure that BATS Trading does not develop or implement changes to its system based on non-public information obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Members of the Exchange.
- The Exchange furnish to BATS Trading only the same information and on the same terms as the Exchange makes available in the normal course of business to other users.⁶

In addition, Exchange Rule 2.12(b) states that, provided the conditions in Exchange Rule 2.12(a) are complied with, and provided further that DE Route operates as an outbound router on behalf of EDGX on the same terms and conditions as it does for the Exchange, and in accordance with the rules of EDGX, DE Route may provide inbound routing services to the Exchange from

⁶ See Exchange Rule 2.12(a)(2).

EDGX. BATS Trading provides members of the BGM Affiliated Exchanges (including EDGX) with optional routing services to other market centers, which may include routing from a BGM Affiliated Exchange to the Exchange. Therefore, the Exchange proposes to remove reference to EDGX as BATS Trading will be required under Exchange Rule 2.12(b) to operate as an outbound router on behalf of each BATS Exchange on the same terms and conditions as it does for the Exchange, and in accordance with the rules of each BATS Exchange, BATS Trading may provide inbound routing services to the Exchange from each BATS Exchange. The Exchange believes that Rule 2.12 will continue to adequately manage the potential for conflicts of interest that could arise from BATS Trading routing orders to the Exchange.

Rule 11.11(i), Market Access

Rule 11.11(i) states that, in addition to the Exchange Rules regarding routing to away Trading Centers, DE Route has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate the financial and regulatory risks associated with providing the Exchange's Members access to such away Trading Centers. Pursuant to the policies and procedures developed by DE Route to comply with Rule 15c3-5, if an order or series of orders are deemed to be erroneous or duplicative, would cause the entering Member's credit exposure to exceed a preset credit threshold, or are non-compliant with applicable pre-trade regulatory requirements (as defined in Rule 15c3-5), DE Route will reject such orders prior to routing and/or seek to cancel any orders that have been routed.

The Exchange proposes to amend Rules 11.11(i) to replace all references to DE Route with BATS Trading, as BATS Trading will be the sole inbound routing service for the Exchange upon migration of the Exchange onto the BATS technology platform. The Exchange does not propose to amend the requirements of this rule. Under Rule 11.11(i) and BZX and BYX Rules

11.13(e), BATS trading has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate the financial and regulatory risks associated with providing the Exchange's Members with access to such away Trading Centers. BATS Trading also has policies and procedures in place to comply with Rule 15c3-5, under which BATS Trading will reject such orders prior to routing and/or seek to cancel any orders that have been routed, where an order or series of orders are deemed to be erroneous or duplicative, would cause the entering Member's credit exposure to exceed a preset credit threshold, or are non-compliant with applicable pre-trade regulatory requirements (as defined in Rule 15c3-5).

Rule 11.14, Limitation of Liability

The Exchange also proposes to amend Exchange Rule 11.14(g) to replace references to DE Route with BATS Trading. Rule 11.14(g) authorizes the Exchange, subject to express conditions and limitations, to compensate Members for losses relating to orders routed by the Exchange through DE Route to Trading Centers that the Member claims resulted directly from a malfunction of the physical equipment, devices and/or programming, or the negligent acts or omissions of the employees, of such Trading Centers ("Trading Center Systems Issue"). Rule 11.14(g), applies to Members that experience losses due to Trading Center Systems Issues after DE Route routed the Members' orders to a Trading Center that experienced such issues. Under Rule 11.14(g), as an accommodation to Members, the Exchange, via DE Route, employs reasonable efforts to submit Members' claims for compensation on such Members' behalf to a Trading Center, and pass along to such Members the full amount of compensation, if any, obtained by DE Route from such Trading Center.

Under Rule 11.14(g), the Exchange undertakes to accept claims for losses submitted by Members, which claims must contain representations from such Members as to the accuracy of

the information contained therein and that any losses incurred were the direct result of a Trading Center Systems Issue.

Upon migration of the Exchange onto BATS technology, BATS Trading will be the Exchange's sole routing broker-dealer and responsible for submitting claims under Rule 11.14(g). As amended, the Exchange would continue to employ reasonable efforts to submit such claims, but via BATS Trading instead of DE Route, to the Trading Center in question. If and to the extent that BATS Trading were to receive compensation from a Trading Center in response to a claim submitted on behalf of a Member, the full amount of such compensation would be passed through to the Member.

Implementation Date

The Exchange intends to implement the proposed rule change on or about January 12, 2015, which is the anticipated date upon which the migration of the Exchange to the BATS technology platform will be complete and BATS Trading, Inc. will replace DE Route as the Exchange's routing broker-dealer.

2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act⁷ and further the objectives of Section 6(b)(5) of the Act⁸ because they are 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, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule change also is designed to support

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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 does not propose to amend the requirements of any of its rules and the proposed rule changes are intended only to reflect that BATS Trading will replace DE Route as the Exchange's routing broker-dealer upon migration of the Exchange to the BATS technology platform. A consistent technology offering through the use of a single routing broker-dealer by each of the BGM Affiliated Exchange will, in turn, simplify the technology implementation, changes and maintenance by users of the Exchange that are also participants on EDGX, BZX, and BYX. The proposed rule change would provide greater harmonization between the rules of the BGM Affiliated Exchanges, resulting in greater uniformity and less burdensome and more efficient regulatory compliance. As such, the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange reiterates that the proposed rule change is being proposed in the context of the technology integration of the BGM Affiliated Exchanges. Thus, the Exchange believes this proposed rule change is necessary to permit fair competition among national securities exchanges. In addition, the Exchange believes the proposed rule change will benefit Exchange participants in that it is one of several changes necessary to achieve a consistent technology

⁹ 15 U.S.C. 78k-1(a)(1).

offering by the BGM Affiliated Exchanges.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act¹⁰ and paragraph (f)(6) of Rule 19b-4 thereunder.¹¹ Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.¹²

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹³ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)¹⁴ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay in order to permit the Exchange to implement the proposed rule

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 C.F.R. 240.19b-4.

¹² 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

¹³ 17 CFR 240.19b-4(f)(6).

¹⁴ 17 CFR 240.19b-4(f)(6)(iii).

change on January 12, 2015, which is the anticipated date upon which the migration of the Exchange to the BATS technology platform will be complete and BATS Trading will replace DE Route as the Exchange's routing broker-dealer. The Exchange states that waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to replace DE Route with BATS Trading as the Exchange's routing broker-dealer upon migration of the Exchange to the BATS technology platform, thereby enabling BATS Trading to act as the routing broker-dealer for each of the BGM Affiliated Exchanges in a timely manner and simplifying the technology integration for Members of the Exchange that are also participants on EDGX, BZX and BYX. In this regard, the Exchange notes that, since completion of the Merger, both Members and the BGM Affiliated Exchanges have made numerous systems changes in preparation for the technology migration occurring on January 12, 2015, the Exchange has issued frequent updates to Members informing them of the BGM Affiliated Exchange technology migration as well as its anticipated time line so that Members may make the requisite system changes, and the Exchange has conducted multiple testing opportunities for Members to ensure that both Members' and the Exchange's systems will operate in accordance with the proposed rule change on January 12, 2015. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.¹⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such

¹⁵ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B) of the Act¹⁶ to determine whether the proposed rule change should be approved or 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:

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-2014-34 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-EDGA-2014-34. 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

¹⁶ 15 U.S.C. 78s(b)(2)(B).

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 at 100 F Street, NE, Washington, DC 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such 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-2014-34, 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.¹⁷

Brent J. Fields
Secretary

¹⁷ 17 CFR 200.30-3(a)(12).