

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64428; File No. SR-EDGX-2011-14)

May 6, 2011

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing of Proposed Rule Change to Amend EDGX Rules 11.13 and 11.14

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> notice is hereby given that on May 4, 2011, EDGX Exchange, Inc. (“EDGX” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by EDGX. 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 EDGX Rules 11.13 and 11.14 to include additional securities in the pilot by which such rule operates. The text of the proposed rule change is attached as Exhibit 5 and is available on the Exchange’s website at [www.directedge.com](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 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.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

1. Purpose

The Exchange proposes to amend EDGX Rules 11.13 and 11.14 to include additional securities in the pilot by which such rule operates.

Background

EDGX Rule 11.14 allows the Exchange to provide for uniform market-wide trading pause standards for individual securities in the S&P 500 Index, securities included in the Russell 1000<sup>®</sup> Index ("Russell 1000"), and specified Exchange Traded Products ("ETP") that experience rapid price movement (collectively known as "Circuit Breaker Securities"). Pursuant to Rule 11.14, the Exchange is allowed to pause trading in any Circuit Breaker Securities when the primary listing market for such stock issues a trading pause in any Circuit Breaker Securities.

EDGX Rule 11.14 was approved by the Commission on June 10, 2010 on a pilot basis to end on December 10, 2010.<sup>3</sup> The pilot was subsequently extended until April 11, 2011.<sup>4</sup> It was further extended then through the earlier of August 11, 2011 or the date on which a limit up / limit down mechanism to address extraordinary market volatility, if adopted, applies.<sup>5</sup>

As the Exchange noted in its filing to adopt EDGX Rule 11.14, during the pilot period, the Exchange would continue to assess whether additional securities need to be added and whether the parameters of the rule would need to be modified to accommodate trading characteristics of different securities. The original pilot list of securities was all securities

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<sup>3</sup> See Securities Exchange Act Release No. 62252 (June 10, 2010) (SR-EDGX-2010-01), 75 FR 34186 (June 16, 2010).

<sup>4</sup> See Securities Exchange Act Release No. 63507 (December 9, 2010) (SR-EDGX-2010-22), 75 FR 78787 (December 16, 2010).

<sup>5</sup> See Securities Exchange Act Release No. 64205 (April 6, 2011)(SR-EDGX-2011-10), 76 FR 20417 (April 12, 2011).

included in the S&P 500<sup>®</sup> Index (“S&P 500”). As noted in comment letters to the original filing to adopt EDGX Rule 11.14, concerns were raised that including only securities in the S&P 500 in the pilot rule was too narrow. In particular, commenters noted that securities that experienced volatility on May 6, 2010, including ETFs, should be included in the pilot.

In response to these concerns, various exchanges and national securities associations collectively determined to expand the list of pilot securities to include securities in the Russell 1000 (“Russell 1000”) and specified ETPs to the pilot beginning in September 2010.<sup>6</sup> The Exchange believed that adding these securities would address concerns that the scope of the pilot may be too narrow, while at the same time recognizing that during the pilot period, the markets will continue to review whether and when to add additional securities to the pilot and whether the parameters of the rule should be adjusted for different securities.

As noted above, during the pilot, the Exchange continued to re-assess, in consultation with other markets whether: (i) specific ETPs should be added or removed from the pilot list; (ii) the parameters for invoking a trading pause continue to be the appropriate standard; and (iii) the parameters should be modified.

The Exchange has continued to assess whether additional securities need to be added to the pilot and whether the parameters of Rule 11.14 need to be modified to accommodate trading characteristics of different securities. In consultation with other markets and the staff of the Commission, the Exchange proposes to include all NMS stocks within the pilot that are not already included therein. In particular, the proposed additional stocks are those not currently included in the S&P 500 Index, Russell 1000 Index, or specified ETPs, and therefore are more

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<sup>6</sup> See Securities Exchange Act Release No. 62884 (September 10, 2010) (SR-EDGX-2010-05), 75 FR 56618 (September 16, 2010).

likely to be less liquid securities or securities with lower trading volumes. As a result, the Exchange notes that the primary listing markets will also apply a wider Trading Pause Trigger Price, as defined in Rule 11.13(c)(4), to the newly added securities.<sup>7</sup> Similarly, because leveraged ETPs trade at a ratio against the associated index, primary listing markets will also apply a broader Trading Pause Trigger Price for leveraged ETPs. Accordingly, the Exchange proposes to delete the last sentence in Interpretations and Policies .05, which defines the scope of the pilot, as the text therein would no longer be necessary as well as delete the reference to “Circuit Breaker Securities” in Rule 11.13(c)(4) and replace it with “NMS stock”.

The Exchange is not proposing any other changes to the text of Rules 11.13, 11.14, or the operation of the pilot, and will continue to assess whether the parameters for invoking a Trading Pause continue to be appropriate and whether the parameters should be modified.

## 2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Act,<sup>8</sup> 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)<sup>9</sup> of the Act in that it seeks to ensure fair competition among brokers and dealers and among exchange markets. The Exchange

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<sup>7</sup> Other primary listing markets are submitting rule filings describing these Trading Pause Trigger Prices. The Exchange notes that the rationale for the differentiation in Trading Pause Trigger Prices between securities at or above \$1 (30% threshold) and securities below \$1 (50% threshold) is that lower-priced securities may tend to be more volatile, and price movements of lower-priced stocks equate to a higher percentage move than a similar price change for a higher-priced stock.

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> 15 U.S.C. 78k-1(a)(1).

believes that the proposed rule meets these requirements because it expands the scope of the pilot to cover all NMS stocks that will promote uniformity across markets concerning decisions to pause trading in a security when there are significant price movements.

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 this notice in the Federal Register 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, or

(B) institute proceedings to determine whether the proposed rule change 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:

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](mailto:rule-comments@sec.gov). Please include File Number SR-EDGX-2011-14 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-EDGX-2011-14. 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 such filing also will be available for inspection and copying at the principal office of EDGX. 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 publicly available. All submissions should refer

to File Number SR-EDGX-2011-14 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.<sup>10</sup>

Elizabeth M. Murphy  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).