

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66558; File No. SR-EDGX-2012-06)

March 9, 2012

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the EDGX 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 February 29, 2012 the EDGX Exchange, Inc. (the "Exchange" or the "EDGX") 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 EDGX Rule 15.1(a) and (c). All of the changes described herein are applicable to EDGX 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 A Member is any registered broker or dealer, or any person associated with a registered broker or dealer, that has been admitted to membership in the Exchange.

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 make a technical amendment to the description of Footnote 9 and Flag CL to reflect the Commission's approval of the BATS BZX Exchange ("BATS BZX") as a primary listing exchange.⁴ Therefore, Footnote 9 will state that Flag O will be yielded and a fee of \$0.0005 per share will be assessed if an order is routed to NYSE Arca & BATS BZX's closing process. This fee in footnote 9 (\$0.0005 per share) gives a flat rate for the NYSE Arca & BATS BZX's closing processes, which is lower than other primary listing markets. Flag CL will apply to orders routed to a primary listing market's closing process except NYSE Arca and BATS BZX. In addition, the Exchange proposes to revise the descriptions on Flags CL, 8, and 9 to broaden their applicability to several routing strategies rather than just ROOC.⁵ Therefore, the Exchange proposes that Flag CL state "Routed to listing market closing process except NYSE Arca & BATS BZX." The Exchange proposes conforming amendments to Flags 8 and 9 to delete the ROOC routing strategy from the descriptions of these flags.

The Exchange proposes to amend Flag 9 and Flag 10 of its fee schedule. At this time, NYSE Arca offers its Members a rebate of \$0.0021 for orders that add liquidity on Tapes A or C and a rebate of \$0.0022 for orders that add liquidity on Tape B. The Exchange proposes to

⁴ See Securities and Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018).

⁵ See EDGX Exchange Rule 11.9(b)(3)(n).

amend Flag 9 to account for the pass-through of the NYSE Arca rebate for adding liquidity through Tapes A or C and to create Flag 10 to account for the pass-through of the NYSE Arca rebate for adding liquidity on Tape B.

The Exchange proposes to make a technical amendment by re-naming Flag H as Flag HA, which represents all non-displayed orders that add liquidity (not including Midpoint Match orders). Flag HA will identify all non-displayed orders that add liquidity to EDGX, not including Midpoint Match orders, and the Exchange will continue to provide a rebate of \$0.0015 per share. Finally, the Exchange proposes to make technical amendments to Flags G, L, N, and 3 to replace the “and” connector with “or” (i.e., “Tapes A or C” instead of “Tapes A and C”) to make these references accurate.

In SR-EDGX-2011-37,⁶ the Exchange amended several routing options contained in Rule 11.9(b)(3) to allow Users⁷ more discretion if shares remain unexecuted after routing. In particular, Rule 11.9(b)(3)(c)(i)-(iii) was amended to provide that Users may elect that any remainder of an order be posted to another destination on the System routing table. In conjunction with this amendment, the Exchange proposes to create the following new flags⁸:

The Exchange proposes to add Flag RB for orders that are routed from EDGX to Nasdaq OMX BX and add liquidity. The Exchange proposes to assess a charge of \$0.0018 per share to account for the pass-through of the Nasdaq OMX BX fee for adding liquidity.

The Exchange proposes to add Flag RC for orders that are routed from EDGX to the National Stock Exchange, Inc. (“NSX”) and add liquidity. The Exchange proposes to offer

⁶ See Securities Exchange Act Release No. 65903 (December 6, 2011), 76 FR 77284 (December 12, 2011) (SR-EDGX-2011-37).

⁷ As defined in Rule 1.5(ee).

⁸ These flags account for all postable destinations that are not already accounted for by other flags on the fee schedule.

Members a rebate of \$0.0026 per share to account for the pass-through of the NSX rebate for adding liquidity.

The Exchange proposes to add Flag RM for orders that are routed from EDGX to the Chicago Stock Exchange, LLC (“CHX”) and add liquidity. The Exchange proposes to assess no charge to account for the pass-through of no CHX fee for adding liquidity.

The Exchange proposes to add Flag RS for orders that are routed from EDGX to the Nasdaq OMX PSX (“PSX”) and add liquidity. The Exchange proposes to offer Members a rebate of \$0.0024 per share to account for the pass-through of the PSX rebate for adding liquidity.

The Exchange proposes to add Flag RW for orders that are routed from EDGX to the CBOE Stock Exchange, LLC (“CBSX”) and add liquidity. The Exchange proposes to assess a charge of \$0.0017 per share to account for the pass-through of the CBSX fee for adding liquidity.

The Exchange proposes to add Flag RY for orders that are routed from EDGX to the BATS BYX and add liquidity. The Exchange proposes to assess a charge of \$0.0003 per share to account for the pass-through of the BATS BYX fee for adding liquidity.

The Exchange proposes to add Flag RA for orders that are routed from EDGX to EDGA Exchange, Inc. (“EDGA”) and add liquidity. The Exchange proposes to offer Members a rebate of \$0.0004 per share to account for the pass-through of the EDGA fee for adding liquidity.

The Exchange proposes to add Flag RZ for orders that are routed from EDGX to the BATS BZX and add liquidity. The Exchange proposes to offer Members a rebate of \$0.0025 per share to account for the pass-through of the BATS BZX rebate for adding liquidity to BATS BZX.

Additional Changes to the EDGX Fee Schedule

The Exchange proposes to add three additional rebates to the fee schedule:

First, Members can qualify for the Mega Tape B Tier and be provided a \$0.0034 rebate per share for liquidity added on EDGX if the Member on a daily basis, measured monthly: (i) posts greater than or equal to .10% of the TCV in ADV more than their January 2012 ADV added to EDGX; and (ii) posts greater than or equal to .10% of the TCV in ADV in Tape B securities more than their January 2012 ADV added to EDGX.

Secondly, Members can qualify for the Mini Tape B Tier and be provided a \$0.0030 rebate per share for liquidity added on EDGX if the Member on a daily basis, measured monthly: (i) posts greater than or equal to .05% of the TCV in ADV more than their January 2012 ADV to EDGX; and (ii) posts greater than or equal to .05% of the TCV in ADV in Tape B securities more than their January 2012 ADV added to EDGX.

Finally, the Exchange proposes to amend footnote 11 on its fee schedule to provide that if a Member internalizes more than 4% of their ADV on EDGX (added, removed, and routed liquidity) and the Member, at a minimum, meets the criteria for the Mega Tier rebate of \$0.0032 per share in footnote 1, then the Member's internalization⁹ rate would be a rebate of \$0.00015 per share, instead of a fee of \$0.0001 per share if they met the tier provided in footnote 11 (posting 10,000,000 shares of more of ADV to EDGX) or a fee of \$0.00035 per share if a Member did not meet the tier.

⁹ This occurs when two orders presented to the Exchange from the same Member (i.e., MPID) are presented separately and not in a paired manner, but nonetheless inadvertently match with one another. Members are advised to consult Rule 12.2 respecting fictitious trading.

The Exchange proposes to implement these amendments to its fee schedule on March 1, 2012.

2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with the objectives of Section 6 of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(4),¹¹ 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 believes that the proposed technical amendment to Footnote 9 and Flag CL to include BATS BZX as one of the primary listing exchanges adds additional transparency to its fee schedule for investors as it brings the schedule up-to-date to account for a new listing exchange. The Exchange also believes that the amendments to Flags 8,9, and CL to remove the specific “ROOC routing strategy” from those flags descriptions provides additional transparency to the fee schedule by broadening those flags applicability to several routing strategies. This encourages Members to utilize the Exchange to route to various destinations. The Exchange believes that the proposed technical amendment to delete Flag H and replace it with Flag HA promotes market transparency and improves investor protection by adding additional transparency to its fee schedule by alerting Members of the name change for the flag.

In addition, the Exchange believes that the proposed pass-through of rates for Flags 9, 10, RA, RB, RC, RM, RS, RW, RY, and RZ represent an equitable allocation of reasonable dues, fees and other charges since it reflects the pass-through of the rates associated with transactions done on other exchanges, as described above. In addition, EDGX believes that it is reasonable

¹⁰ 15 U.S.C. 78f.

¹¹ 15 U.S.C. 78f(b)(4).

and equitable to pass-through certain rates to its Members. The Exchange also believes that the proposed pass-through of rates is non-discriminatory because it applies to all Members.

In addition, the Exchange believes that adding an additional method to achieve rebates of \$0.0034 per share and \$0.0030 per share, respectively, that are tied to January 2012 baselines and Tape B volume also represents an equitable allocation of reasonable dues, fees, and other charges since it encourages Members, based on growth over new baselines and in a new subset of securities (Tape B), to add increasing amounts of liquidity to EDGX each month. Such increased volume increases potential revenue to the Exchange, and would allow 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 would allow the Exchange to pass on the savings to Members in the form of higher rebates. The increased liquidity also benefits all investors by deepening EDGX'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 ones 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 rebates specific for Tape B securities are also reasonable in that other exchanges also employ similar pricing mechanisms. For example, Nasdaq OMX charges \$0.0027 per share for market participant identifiers ("MPIDs") removing 1.50% and adding 0.50% of Tape B consolidated volume, and MPIDs that remove 0.50% and add 0.25% of Tape B consolidated volume are charged \$0.0028 per share. All other MPIDs are charged

\$0.0030 per share.¹² Similarly, NYSE Arca has rebates and fees that are specific to adding/removing in Tape B securities throughout their fee schedule.¹³

Finally, the Exchange believes that the rebates of \$ 0.0034 per share and \$0.0032 [sic] per share for the new Tape B tiers also represent an equitable allocation of reasonable dues, fees, and other charges since higher rebates are directly correlated with more stringent criteria.

Currently, the Mega Tier rebates of \$0.0034/\$0.0032 per share have the most stringent criteria associated with them, and are \$0.0003/\$0.0001 greater than the Ultra Tier rebate (\$0.0031 per share) and \$0.0006/\$0.0004 greater than the Super Tier rebate (\$0.0028 per share).

For example, in order for a Member to qualify for the Mega Tier rebate of \$0.0034, the Member would have to add or route at least 4,000,000 shares of average daily volume during pre and post-trading hours and add a minimum of 20,000,000 shares of ADV on EDGX in total, including during both market hours and pre and post-trading hours. The criteria for this tier is the most stringent as fewer Members generally trade during pre and post-trading hours because of the limited time parameters associated with these trading sessions. The Exchange believes that this higher rebate awarded to Members would incent liquidity during these trading sessions.

In order to qualify for an equivalent rebate of \$0.0034 per share (Mega Tape B tier), a Member would have to (i) post greater than or equal to .10% of the TCV in ADV more than their January 2012 ADV added to EDGX; and (ii) post greater than or equal to .10% of the TCV in ADV in Tape B securities more than their January 2012 ADV (baseline) added to EDGX.

¹² See Nasdaq OMX Rule 7018 [sic].

¹³ See NYSE Arca Equities, Inc. Schedule of Fees and Charges for Exchange Services.

Assuming a TCV for January 2012 of 8.0 billion and a January 2012 ADV of 1 million shares, the Member would have to post greater than or equal to 9 million shares (8 million shares more than their January 2012 baseline of 1 million shares in ADV added to EDGX), and post greater than or equal to 9 million shares in Tape B securities to EDGX).

Another way a Member can qualify for the Mega Tier (with a rebate of \$0.0032 per share) would be to post 0.75% of TCV. Assuming an average TCV for January 2012 (8.0 billion), this would be 60 million shares on EDGX. A second method to qualify for the rebate of \$0.0032 per share would be to post 0.12% of the TCV (9.6 million shares) more than the Member's February 2011 or (as proposed, December 2011) ADV added to EDGX. Assuming the Member's February 2011/December 2011 ADVs are 1 million shares, the Exchange believes that requiring Members to post 10.6 million more shares than a February or December 2011 baseline ADV encourages Members to add increasing amounts of liquidity to EDGX each month. Such increased volume increases potential revenue to the Exchange, and would allow 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 would allow the Exchange to pass on the savings to Members in the form of higher rebates. The increased liquidity also benefits all investors by deepening EDGX'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 ones 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.

A Member can also qualify for the Mega Tier rebate of \$0.0032 per share by adding or routing at least 4,000,000 shares of ADV prior to 9:30 AM or after 4:00 PM (includes all flags except 6) and adding a minimum of .20% of the TCV on a daily basis measured monthly, including during both market hours and/or pre and post-trading hours. Based on an average TCV for January 2012 (8.0 billion shares), a Member would qualify by adding 16 million shares during both market hours and/or pre and post-trading hours and adding or routing at least 4,000,000 shares of ADV during pre and post trading hours. The Exchange notes that fewer Members generally trade during pre and post-trading hours because of the limited time parameters associated with these trading sessions. Therefore, the amount of shares that the Exchange requires to be added or routed to satisfy this tier is less than for the Ultra Tier, for example, which is based on posting liquidity to EDGX during regular trading hours. The Exchange believes that this higher rebate awarded to Members would incent liquidity during these trading sessions. Such increased volume increases potential revenue to the Exchange, and would allow 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 would allow the Exchange to pass on the savings to Members in the form of a higher rebate.

In order to qualify for the Ultra Tier, which has less stringent criteria than the Mega Tier and Mega Tape B Tier, and be provided a rebate of \$0.0031 per share, the Member would have to post 0.50% of TCV. Based on average TCV for January 2012 (8.0 billion shares), this would be 40 million shares on EDGX.

Members can qualify for the Mini Tape B Tier and be provided a \$0.0030 rebate per share for liquidity added on EDGX if the Member on a daily basis, measured monthly: (i) posts greater than or equal to .05% of the TCV in ADV more than their January 2012 ADV added to EDGX; and (ii) posts greater than or equal to .05% of the TCV in ADV in Tape B securities more than their January 2012 ADV added to EDGX. Based on a TCV of 8.0 billion shares for January 2012 and a Member's ADV for January 2012 of 1 million shares (baseline), this would amount to (i) posting greater than or equal to 5 million shares to EDGX; and (ii) posting greater than or equal to 5 million shares in Tape B securities to EDGX.

The Super Tier has the least stringent criteria of the tiers mentioned above. In order for a Member to qualify for this rebate, the Member would have to post at least 10 million shares on EDGX and would qualify for a rebate of \$0.0028 per share. As stated above, these rebates also result, in part, from lower administrative and other costs associated with higher volume. The reduction in rebate would allow the Exchange to recoup additional revenue to recover increased infrastructure and administrative expenses. This rebate also results, in part, from lower administrative and other costs associated with higher volume.

Another way a Member can qualify for a rebate of \$0.0028 per share is to post 0.065% of the TCV in ADV more than their February 2011 ADV added to EDGX. This tier allows Members even greater flexibility with respect to achieving an additional rebate and rewards growth patterns in volume by Members as this rebate's conditions encourage Members to add increasing amounts of liquidity to EDGX each month. Based on an ADV in February 2011 (baseline) of 1,000,000 shares, the Member would have to add 6.2 million shares total to qualify

for such rebate. This rebate also results, in part, from lower administrative and other costs associated with higher volume.

The Exchange believes that the rebate for the internalization tier of \$0.00015 per share represents an equitable allocation of reasonable dues, fees and other charges among its members and other persons using its facilities since it allows Members of the Exchange who inadvertently match against each other on both sides of a trade to avoid having to be penalized by paying an internalization fee of \$0.00035 per share per side during regular or pre and post trading sessions (Flags E/5) or a fee of \$0.0001 per share per side if they met the tier provided in footnote 11 of the fee schedule.

Finally, the internalization rebate is equitable in that it is in line with the EDGX fee structure¹⁴ which currently has a maker/taker spread of \$0.0006 per share (the standard rebate to add liquidity on EDGX is \$0.0023 per share, while the standard fee to remove liquidity is \$0.0029 per share). EDGX also has a variety of tiered rebates ranging from \$0.0023- \$0.0034 per share, which makes its maker/taker spreads range from \$.0006 (standard add – standard removal rate), -\$0.0001 (standard removal rate -Super Tier rebate), -\$0.0002, (standard removal rate – Ultra Tier rebate),-\$0.0003 (standard removal rate - Mega Tier rebate of \$0.0032), and -\$0.0005 (standard removal rate - Mega Tier rebate of \$0.0034 per share). As a result of the customer internalization rebate, Members who internalized and met the criteria to satisfy the Mega Tier and the volume threshold of 4% of their ADV on EDGX would be rebated \$0.00015 per share per side of an execution (total rebate of \$0.0003 per share), which would be an internalization

¹⁴ In SR-EDGX-2011-13 (April 29, 2011), the Exchange represented that “it will work promptly to ensure that the internalization fee is no more favorable than each prevailing maker/taker spread.”

rate that is no more favorable the prevailing maker/taker spread by satisfying the Mega Tier rebate of \$0.0032 (\$-0.0003).

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.

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 Act¹⁵ and Rule 19b-4(f)(2)¹⁶ 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

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 19b-4(f)(2).

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-EDGX-2012-06 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-2012-06. 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-EDGX-2012-06 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

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).