

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69875; File No. SR-EDGX-2013-23)

June 27, 2013

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend EDGX Rule 11.5(c), NBBO Offset Peg Order

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 24, 2013, EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 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 Rule 11.5(c), which describes the manner in which the NBBO Offset Peg Order operates. 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 [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 self-regulatory organization 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

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

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

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Rule 11.5(c)(15), the NBBO Offset Peg Order, to state that the order type will: (1) only be eligible for execution once the Market Maker quoting obligations under Rule 11.21(d) are triggered; (2) not be repriced when it would establish the National Best Bid or Offer (“NBBO”); and (3) delay the implementation date of the order type [sic] from April 15, 2013 to no later than October 31, 2013.

On September 25, 2012, the Exchange filed for immediate effectiveness a proposed rule change to adopt the NBBO Offset Peg Order.<sup>3</sup> The NBBO Offset Peg Order will enable Users<sup>4</sup> to submit buy and sell orders to the Exchange that are pegged to a designated percentage away from the NBB and NBO, respectively, while providing them full control over order origination and order marking.<sup>5</sup> This retention of control, in turn, is designed to allow Market Makers<sup>6</sup> to comply independently with the requirements of Regulation SHO<sup>7</sup> under the Act and Rule 15c3-5<sup>8</sup> under the Act (the “Market Access Rule”). The Exchange subsequently amended the text of

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<sup>3</sup> See Securities Exchange Act Release No. 67959 (October 2, 2012), 77 FR 61449 (October 9, 2012) (SR-EDGX-2012-44) (notice of filing and immediate effectiveness of the proposal to adopt the NBBO Offset Peg Order) (“EDGX Adopting Release”).

<sup>4</sup> “User” is defined as “any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.” EDGX Rule 1.5(ee).

<sup>5</sup> See EDGX Rule 11.5(c)(15).

<sup>6</sup> “Market Maker” is defined as “a Member that acts as a Market Maker pursuant to Chapter XI.” EDGX Rule 1.5(l).

<sup>7</sup> 17 CFR 242.200 through 242.204.

<sup>8</sup> 17 CFR 242.15c3-5.

Rule 11.5(c)(15) to remove the ability of Users to cancel or reject NBBO Offset Peg Orders under certain circumstances.<sup>9</sup>

When is a NBBO Offset Peg Order Eligible for Execution?

First, the Exchange proposes that the NBBO Offset Peg Order will only be eligible for execution once the Market Maker quoting obligations under Rule 11.21(d) are triggered. Currently, Rule 11.5(c)(15) allows Users to submit NBBO Offset Peg Orders at the beginning of the Pre-Opening Session,<sup>10</sup> but states that the order is not executable or automatically priced until the beginning of Regular Trading Hours.<sup>11</sup> However, a Market Maker's quoting obligations under Rule 11.21(d) do not commence during any trading day until after the first regular way transaction on the primary listing market in the security as reported by the responsible single plan processor.<sup>12</sup> Such a transaction may not occur until after the start of Regular Trading Hours. Therefore, the Exchange proposes to amend the text of Rule 11.5(c)(15) to state that an NBBO Offset Peg Order is not executable until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, rather

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<sup>9</sup> See Securities Exchange Act Release No. 68596 (January 7, 2013), 78 FR 2477 (January 11, 2013) (SR-EDGX-2012-49) (notice of filing and immediate effectiveness).

<sup>10</sup> "Pre-Opening Session" is defined as "the time between 8:00 a.m. and 9:30 a.m. Eastern Time." EDGX Rule 1.5(s).

<sup>11</sup> "Regular Trading Hours" is defined as "the time between 9:30 a.m. and 4:00 p.m. Eastern Time." EDGX Rule 1.5(y).

<sup>12</sup> Under Exchange Rule 11.21(d)(2), the pricing obligations for Market Makers "(i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor." Securities Exchange Act Release No. 65964 (December 15, 2011), 76 FR 79254 (December 21, 2011) (order approving SR-EDGX-2011-28).

than the beginning of Regular Trading Hours. Accordingly, the amended text would read as follows:

Users may submit NBBO Offset Peg Orders to the Exchange starting at the beginning of the Pre-Opening Session, but the order is not executable or automatically priced until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor and expires at the end of Regular Trading Hours (emphasis added).

The Exchange believes that the proposed amendment is necessary because it clarifies that the NBBO Offset Peg Order would only be eligible for execution once the quoting obligations for Market Makers apply. While use of the NBBO Offset Peg Order would not be limited to Market Makers, the Exchange believes that Market Makers would likely be the predominant, if not exclusive, users of the order type. Thus, the NBBO Offset Peg Order is designed such that its price would be automatically set and adjusted, both upon entry and at any time thereafter, in order to comply with the Exchange's Market Maker quotation requirements.<sup>13</sup>

#### Repricing When NBBO Offset Peg Order Establishes NBBO

Second, the Exchange proposes to amend Rule 11.5(c)(15) to make clear that a NBBO Offset Peg Order will not use its own pegged price as the basis for adjusting the order's price. Where there is no NBBO and a NBBO Offset Peg Order, whether upon entry or already on the EDGX Book,<sup>14</sup> is pegged to the last reported sale from the single plan processor, the NBBO Offset Peg Order will be reported to the responsible securities information processors and will be

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<sup>13</sup> Exchange Rule 11.21 describes the obligations of Members registered with the Exchange as Market Makers. Among other things, Market Makers are required to maintain continuous, two-sided quotations consistent with the requirements of paragraph (d) of Rule 11.21, which generally states that such quotations must be priced within a designated percentage of the NBB for buy quotations, and the NBO for sell quotations.

<sup>14</sup> "EDGX Book" is defined as "the System's electronic file of orders." EDGX Rule 1.5(d).

disseminated to the Exchange as the NBBO. The Exchange proposes that if after entry, the NBBO Offset Peg Order is priced based on the consolidated last sale and such NBBO Offset Peg Order establishes the NBBO, the NBBO Offset Peg Order will not be subsequently adjusted in accordance with the proposed rule until either there is a new consolidated last sale, or a new NBB or NBO is established by a national securities exchange. The Exchange believes that not adjusting the price in this instance is consistent with the intent of the NBBO Offset Peg Order (i.e., keeping the order a certain percentage away from the inside market) while also avoiding a situation where the order would use its own pegged price as a basis for adjusting the price of the order. The Exchange notes that the proposal amends the functionality of the NBBO Offset Peg Order to more closely resemble analogous order types offered by The NASDAQ Stock Market LLC (“Nasdaq”),<sup>15</sup> BATS Exchange, Inc. (“BATS”),<sup>16</sup> and BATS Y-Exchange, Inc. (“BYX”).<sup>17</sup>

#### Implementation Date Delay

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<sup>15</sup> See NASDAQ Rule 4751(f)(15). See also Securities Exchange Act Release No. 67584 (August 2, 2012), 77 FR 47472 (August 8, 2012) (SR-NASDAQ-2012-066) (order approving Nasdaq’s Market Maker Peg Order available for exchange market makers) (“Nasdaq Approval Order”).

<sup>16</sup> See BATS Rule 11.9(c)(16). See also Securities Exchange Act Release No. 67756 (August 29, 2012), 77 FR 54633 (September 5, 2012) (SR-BATS-2012-026) (order approving BATS’s Market Maker Peg Order available for exchange market makers) (“BATS Approval Order”); and Securities Exchange Release No. 69310 (April 4, 2013), 78 FR 21447 (April 10, 2013) (SR-BATS-2013-022) (notice of filing and immediate effectiveness to amend BATS’ Market Maker Peg Order).

<sup>17</sup> See BYX Rule 11.9(c)(16). See also Securities Exchange Act Release No. 67755 (August 29, 2012), 77 FR 54630 (September 5, 2012) (SR-BYX-2012-012) (order approving BYX’s Market Maker Peg Order available for exchange market makers) (“BYX Approval Order”); and Securities Exchange Act Release No. 69309 (April 4, 2013), 78 FR 21455 (April 10, 2013) (SR-BYX-2013-011) (notice of filing and immediate effectiveness to amend the BYX Market Maker Peg Order).

The Exchange originally proposed to implement the NBBO Offset Peg Order on or about November 19, 2012<sup>18</sup> and later delayed the implementation date to on or about April 15, 2013.<sup>19</sup> The Exchange now proposes to further delay the implementation date to no later than October 31, 2013. The Exchange anticipates uniform industry-wide amendments to the market making quoting requirements' Designated Percentages<sup>20</sup> and Defined Limits<sup>21</sup> to realign the percentages based on the Appendix A Percentage Parameters of the National Market System Plan to Address Extraordinary Market Volatility (the "Limit-Up/Limit-Down Plan").<sup>22</sup> This additional time will enable the Exchange to make the necessary system changes to implement the NBBO Offset Peg Order to accommodate those amendments.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>23</sup> and furthers the objectives of Section 6(b)(5) of the Act,<sup>24</sup> in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

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<sup>18</sup> See EDGX Adopting Release, supra note 3.

<sup>19</sup> See Securities Exchange Act Release No. 68596, supra note 9.

<sup>20</sup> "Designated Percentage" is defined as "8% with respect to securities included in the S&P 500® Index and the Russell 1000® Index, as well as a pilot list of Exchange Traded Products for securities subject to an individual stock pause trigger under the applicable rules of a primary listing market ("Original Circuit Breaker Securities"). For times during Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market, the Designated Percentage shall be 20% for Original Circuit Breaker Securities." EDGX Rule 11.21(d)(2)(D).

<sup>21</sup> "Defined Limit" is defined as "9.5% for Original Circuit Breaker Securities. For times during Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market, the Defined Limit shall be 21.5% for Original Circuit Breaker Securities." EDGX Rule 11.21(d)(2)(F).

<sup>22</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (approving the Limit-Up/Limit-Down Plan on a pilot basis).

<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Exchange believes that proposing that the order type will only be eligible for execution once the Market Maker quoting obligations under Rule 11.21(d) are triggered makes the order type consistent with when market making obligations begin<sup>25</sup> and therefore, simplifies its functionality. While use of the NBBO Offset Peg Order would not be limited to Market Makers, the Exchange believes that Market Makers would likely be the predominant, if not exclusive, users of the order type. Thus, the NBBO Offset Peg Order is designed such that its price would be automatically set and adjusted, both upon entry and at any time thereafter, in order to comply with the Exchange's Market Maker quotation requirements.<sup>26</sup> Therefore, the Exchange believes the proposed rule change is designed to promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in facilitating transactions in securities, and remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, protect investors and the public interest.

The Exchange also believes that the proposed amendment removes impediments to and perfects the mechanisms of a free and open market and a national market system because it clarifies that a NBBO Offset Peg Order will not use its own pegged price as the basis for adjusting the order's price. The Exchange notes that the proposed clarification is substantially

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<sup>25</sup> The Exchange notes while use of the NBBO Offset Peg Order would not be limited to Market Makers that Market Makers would likely be the predominant, if not exclusive, users of the order type.

<sup>26</sup> EDGX Rule 11.21(d)(2).

similar to that for similar order types (Market Maker Peg Orders) on Nasdaq, BATS, and BYX.<sup>27</sup> Further, clarifying when a NBBO Offset Peg Order would not be re-priced to align with the functionality of similar order types on other exchanges fosters cooperation and coordination with persons engaged in facilitating transactions in securities, and removes impediments to a free and open market and a national market system because it will result in a continuing benefit to market participants by simplifying the functionality of the order type and its complexity of implementation.

Lastly, the Exchange believes that the delay of the implementation date is also consistent with Section 6(b)(5) of the Act<sup>28</sup> because it is designed to coordinate the implementation of the NBBO Offset Peg Order with anticipated changes to market making quoting requirements in response to the Limit-Up/Limit-Down Plan. Thus, the Exchange believes that the proposed rule change promotes the efficient execution of investor transactions, and thus investor confidence, over the long term.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would increase intermarket competition among the exchanges because the NBBO Offset Peg Order will directly compete with similar existing order types offered by Nasdaq, BATS and BYX.<sup>29</sup> Amending Rule 11.5(c)(15), to clarify that the NBBO Offset Peg Order will not use its own pegged price as the basis for adjusting the order's price is similar to

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<sup>27</sup> Nasdaq Rule 4751(f)(15); BATS Rule 11.9(c)(16); BYX Rule 11.9(c)(16). The Exchange has previously noted that such Market Maker Peg Orders are similar in functionality to the NBBO Offset Peg Order. See EDGX Adopting Release, supra note 3.

<sup>28</sup> 15 U.S.C. 78f(b)(5).

<sup>29</sup> Nasdaq Rule 4751(f)(15); BATS Rule 11.9(c)(16); BYX Rule 11.9(c)(16).

the functionality of the Market Maker Peg Order on Nasdaq, BATS, and BYX;<sup>30</sup> and, therefore, reduces the potential for confusion amongst market participants. In addition, the Exchange believes proposing that the NBBO Offset Order will only be eligible for execution once its Market Maker quoting obligations under Rule 11.21(d) are triggered simplifies the functionality and corresponding complexity of implementation. The proposed rule change would not burden intramarket competition because the NBBO Offset Peg Order would be available to all Members<sup>31</sup> on a uniform basis.

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

Because the foregoing 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 for 30 days after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>32</sup> and Rule 19b-4(f)(6)<sup>33</sup> thereunder.

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<sup>30</sup> Id.

<sup>31</sup> “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.” EDGX Rule 1.5(n).

<sup>32</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>33</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and 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. The Exchange has satisfied this requirement.

At any time within sixty (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 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)<sup>34</sup> of the Act 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](mailto:rule-comments@sec.gov). Please include File Number SR-EDGX-2013-23 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-2013-23. 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

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<sup>34</sup> 15 U.S.C. 78s(b)(2)(B).

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-2013-23 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>35</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>35</sup> 17 CFR 200.30-3(a)(12).