

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70601; File No. SR-EDGX-2013-37)

October 2, 2013

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 September 30, 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, 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) (“Fee Schedule”) to: (i) increase the discounted fee to remove and/or route under the Mega Tier 1 from \$0.0015 per share to \$0.0029 per share; (ii) add a discounted fee of \$0.00295 per share to remove liquidity to the Mega Tier 3; (iii) add a new Market Depth Tier 2; (iv) rename the current Market Depth Tier as “Market Depth Tier 1”; (v) increase the rebate provided by the Tape B Step Up Tier from \$0.0025 per share to \$0.0027 per share; (vi) lower the ADV threshold required to meet the MidPoint Match Volume Tier; and (vii) decrease the rebate for orders yielding Flag RZ. The text of the proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 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).

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 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 amend its Fee Schedule to: (i) increase the discounted fee to remove and/or route under the Mega Tier 1 from \$0.0015 per share to \$0.0029 per share; (ii) add a discounted fee of \$0.00295 per share to remove liquidity to the Mega Tier 3; (iii) add a new Market Depth Tier 2; (iv) rename the current Market Depth Tier as "Market Depth Tier 1"; and (v) increase the rebate provided by the Tape B Step Up Tier from \$0.0025 per share to \$0.0027 per share; (vi) lower the ADV threshold required to meet the MidPoint Match Volume Tier; and (vii) decrease the rebate for orders yielding Flag RZ.

Amendment to Mega Tier 1

The Exchange proposes to increase the fee to remove and or route under the Mega Tier 1 from \$0.0015 per share to \$0.0029 per share. To be eligible for the fees and rebates offered under the Mega Tier 1, Members must: (1) add or route at least 4,000,000 shares of ADV prior to 9:30 AM or after 4:00 PM; (2) add a minimum of 35,000,000 shares of ADV on EDGX in

total, including during both market hours and pre and post-trading hours; and (3) have an “added liquidity” to “added plus removed liquidity” ratio of at least 85%. The Exchange notes that the criteria necessary to achieve the tier would remain unchanged.

Amendment to Mega Tier 3

The Exchange proposes to add a discounted fee to remove liquidity to Mega Tier 3 of \$0.00295 per share. To be eligible for the fees and rebates offered under the Mega Tier 3, Members must: (1) Add or route at least 1,500,000 shares of ADV prior to 9:30 AM or after 4:00 PM; and (2) add a minimum of 0.75% of the TCV on a daily basis measured monthly, including during both market hours and pre and post-trading hours. Mega Tier 3 does not currently provide a discounted fee to remove liquidity to Members that qualify for the tier. Instead, Members are charged the standard removal rate of \$0.0030 per share for securities priced at or above \$1.00 and 0.30% of the dollar value for securities priced below \$1.00. The Exchange now proposes to provide Members that qualify for the Mega Tier 3 with a discounted removal fee of \$0.00295 per share for securities priced at or above \$1.00.

Addition of the Market Depth Tier 2

The Exchange proposes to add a new tier to Footnote 1 to its Fee Schedule named the Market Depth Tier 2. The Market Depth Tier 2 would provide a rebate of \$0.0029 per share to Members that: (1) add 10,000,000 shares in average daily volume (“ADV”) on a daily basis, measured monthly; and (2) add at least 1,000,000 shares as non-displayed orders that yield Flag HA (non-displayed orders that add liquidity (not including MidPoint Match orders⁴)).

Amendment to Market Depth Tier

⁴ See Exchange Rule 11.5(c)(7).

Due to the proposed addition of the Market Depth Tier 2, discussed above, the Exchange proposes to rename the current Market Depth Tier as “Market Depth Tier 1.” The Exchange notes that the criteria necessary to achieve the tier and the rebates offered by the tier would remain unchanged.

Amendment to Tape B Step-Up Tier

The Exchange proposes to increase the rebate provided under the Tape B Step Up Tier orders yielding flags B and 4 (adds liquidity to EDGX in Tape B securities) from \$0.0025 per share to \$0.0027 per share. To be eligible for the rebate offered under the Tape B Step Up Tier, Members must add 600,000 shares in ADV in Tape B securities more than the Member’s August 2013 ADV in Tape B securities added to EDGX. The Exchange notes that the criteria necessary to achieve the tier would remain unchanged.

Amendment to the MidPoint Match Volume Tier

Footnote 3 of the Fee Schedule currently provides that Members may qualify for the MidPoint Match Volume Tier and not be charged a fee for orders that yield Flag MM on EDGX if they add and/or remove an ADV of at least 3,000,000 shares on a daily basis, measured monthly, on EDGX, yielding flags MM (adds liquidity to MPM using the Midpoint Match order type⁵) and/or MT (removes liquidity from MPM using MPM order type). The Exchange proposes to amend Footnote 3 of its Fee Schedule to decrease the ADV requirement of the MidPoint Match Volume Tier from 3,000,000 shares of ADV to 2,500,000 shares of ADV. The remainder of the criteria required to meet the tier as well as the rate offered by the tier would remain unchanged.

Flag RZ

⁵ As defined in Exchange Rule 11.5(c)(7), the Midpoint Match (“MPM”) order type is an order with an instruction to execute it at the midpoint of the NBBO.

In securities priced at or above \$1.00, the Exchange currently provides a rebate of \$0.0025 per share for Members' orders that yield Flag RZ, which routes to the BATS Exchange Inc. ("BATS") and adds liquidity. The Exchange proposes to amend its Fee Schedule to decrease this rebate to \$0.0020 per share for Members' orders that yield Flag RZ. The proposed change represents a pass through of the rate that Direct Edge ECN LLC (d/b/a DE Route) ("DE Route"), the Exchange's affiliated routing broker-dealer, is rebated for routing orders to BATS when it does not qualify for a volume tiered rebate. When DE Route routes to BATS, it is rebated a standard rate of \$0.0020 per share.⁶ DE Route will pass through this rate on BATS to the Exchange and the Exchange, in turn, will pass through this rate to its Members. The Exchange notes that the proposed change is in response to BATS's October 2013 fee change where BATS decreased the rebate it provides its customers, such as DE Route, from a rebate of \$0.0025 per share to a rebate of \$0.0020 per share for orders that are routed to BATS.⁷

Implementation Date

The Exchange proposes to implement these amendments to its Fee Schedule on October 1, 2013.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,⁸ in general, and furthers the objectives of Section 6(b)(4),⁹ in particular, as

⁶ The Exchange notes that to the extent DE Route does or does not achieve any volume tiered discount on BATS, its rate for Flag RZ will not change.

⁷ See BATS Exchange Pricing Effective October 1, 2013, http://cdn.batstrading.com/resources/fee_schedule/2013/BATS-BZX-Exchange-Pricing-Effective-October-1-2013.pdf (offering a standard, non-tiered rebate of \$0.0020 per share).

⁸ 15 U.S.C. 78f.

⁹ 15 U.S.C. 78f(b)(4).

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.

Amendment to Mega Tier 1

The Exchange believes that the proposal to increase the discounted fee to remove and/or route under the Mega Tier 1 from \$0.0015 per share to \$0.0029 per share represents an equitable allocation of reasonable dues, fees, and other charges among Members and other persons using its facilities because it will enable the Exchange to retain additional funds to offset increased administrative, regulatory, and other infrastructure costs associated with operating an exchange. The Exchange believes that it is reasonable to increase the discounted removal and/or routing fees using liquidity provision patterns. A discounted removal rate that is designed to incent fee sensitive liquidity takers to the Exchange, provided they are able to meet certain volume requirements. The proposed removal and/or routing rate is also similar to that provided by the Mega Tier 2 in Footnote 1 of the Fee Schedule.¹⁰ Lastly, the Exchange believes that the proposed amendment to the Mega Tier 1 is non-discriminatory because it applies uniformly to all Members.

Amendment to Mega Tier 3

The Exchange believes that its proposal to add a discounted fee to remove liquidity to Mega Tier 3 of \$0.00295 per share represents an equitable allocation of reasonable dues, fees, and other charges among Members and other persons using its facilities because the tier would further encourage Members to add liquidity to EDGX during pre- and post-trading hours. Fewer Members generally trade during pre- and post-trading hours because of the limited time

¹⁰ Members that qualify for the Mega Tier 2 are charged a discounted removal rate of \$0.0029. See the Exchange's Fee Schedule, available at <http://www.directedge.com/Membership/FeeSchedule/EDGXFeeSchedule.aspx>.

parameters associated with these trading sessions, which generally results in less liquidity. In addition, liquidity received during pre- and post-trading hours is an important contributor to price discovery and acts as an important indication of price for the market as a whole considering the relative illiquidity of the pre- and post-trading hour sessions. The Exchange believes that offering a discounted removal fee would incentivize Members to provide liquidity during these trading sessions.

The Exchange also believes that discounted fee provided by the Mega Tier 3 is reasonable and equitably allocated because the increased liquidity that may result from Members attempting to achieve the tier would benefit all investors by deepening EDGX's liquidity pool and improving investor protection. Volume-based discounted fees such as the one proposed herein are widely utilized in the cash equities markets, and are equitable because they are open to all Members on an equal basis and provide incentives 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 opportunities for price improvement.

Lastly, the Exchange believes that the proposed amendment to the Mega Tier 3 is non-discriminatory because it applies uniformly to all Members.

Addition of Market Depth Tier 2

The Exchange believes that its proposal to add the Market Depth Tier 2 to its Fee Schedule represents an equitable allocation of reasonable dues, fees, and other charges among Members and other persons using its facilities because the tier would encourage Members to add liquidity to EDGX to qualify for a higher rebate. This tier would also recognize the contribution that non-displayed liquidity provides to the marketplace, including: (i) adding needed depth to the EDGX market; (ii) providing price support/depth of liquidity; and (iii) increasing diversity of

liquidity to EDGX. The increased liquidity would benefit 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.

Furthermore, the Exchange believes that the criteria for the Market Depth Tier 2 represents an equitable allocation of reasonable dues, fees, and other charges because higher rebates are directly correlated with more stringent criteria. For example, for a Member to qualify for the current Market Depth Tier, and receive a rebate of \$0.0033 per share for displayed liquidity, a Member must post at least 0.50% of the TCV in ADV on EDGX in total, where at least 1.8 million shares are non-displayed orders that add liquidity to EDGX yielding Flag HA. Based on a TCV of six (6) billion shares, this would amount to 30,000,000 shares for the Market Depth Tier while the Market Depth Tier 2 would require an ADV of 10,000,000 shares. Members seeking to achieve the Market Depth Tier would also be required to post at least 1.8 million shares of non-displayed orders that add liquidity to EDGX yielding Flag HA, whereas the Market Depth Tier 2 would require that Members post 1,000,000 shares of non-displayed orders that add liquidity to EDGX yielding Flag HA. The lower volume requirement necessary to achieve the Market Depth Tier 2 justifies its lower rebate. Lastly, the Exchange believes that the proposed addition of the Market Depth Tier is non-discriminatory because it applies uniformly to all Members.

Amendment to Market Depth Tier

The Exchange believes that changing the "Market Depth Tier" to the "Market Depth Tier 1" is reasonable because it conforms to the numbering of the proposed Market Depth Tier 2. The Exchange notes that the criteria necessary to achieve the tier and the rate offered by the tier would remain unchanged.

Amendment to the Tape B Step-Up Tier

The Exchange believes that increasing the rebate offered by the Tape B Step-Up Tier from \$0.0025 per share to \$0.0027 per share represents an equitable allocation of reasonable dues, fees, and other charges because it would encourage Members to add liquidity to EDGX to qualify for a higher rebate. The rebate of \$0.0027 per share for the Tape B Step-Up Tier is reasonable when compared to the Step-Up Tier 1 in Tape B securities offered by NYSE Arca.¹¹ NYSE Arca currently offers a non-tiered rebate for adding liquidity in Tape B securities of \$0.22 per share and a non-tiered fee for removing liquidity in Tape B securities of \$0.30 per share. NYSE Arca's Step-Up Tier 1 provides for an add rebate of \$0.23 per share and a removal fee of \$0.28 per share for firms that add an excess of 0.20% in ADV in Tape B securities over a benchmark month, subject to a minimum increase of 20 million shares. The Tape B Step-Up Tier is similar to NYSE Arca's Step-Up Tier 1 in Tape B securities in that it provides Members with an increased rebate in exchange for increased volume in Tape B securities. The Exchange believes the increased rebate under the Tape B Step-Up Tier is reasonable in that it would encourage market participants to send additional liquidity in Tape B securities to EDGX in exchange for a higher rebate. Lastly, The Exchange believes that the proposed rate is non-discriminatory in that it applies uniformly to all Members.

Amendment to the MidPoint Match Volume Tier

The Exchange believes that lowering the ADV requirement in Flags MM and/or MT for the MidPoint Match Volume Tier represents an equitable allocation of reasonable dues, fees, and other charges because slightly lowering the threshold to achieve the tier encourages Members to

¹¹ NYSE Arca Equities Trading Fees, available at <http://usequities.nyx.com/markets/nyse-arca-equities/trading-fees>.

add liquidity at the midpoint of the national best bid or offer (“NBBO”) to the EDGX Book¹² each month. Only the liquidity added at the midpoint of the NBBO in this tier is not charged a fee, while both added and removed liquidity in Flags MM and MT are counted towards achieving the tier’s ADV threshold. The Exchange believes that Members utilizing MPM orders that add liquidity at the midpoint of the NBBO may receive the benefit of price improvement, and lowering the ADV requirement of the MidPoint Match Volume Tier and its associated lower rate would be a reasonable means by which to encourage the use of such orders. In addition, the Exchange believes that by encouraging the use of MPM orders, Members seeking price improvement would be more motivated to direct their orders to EDGX because they would have a heightened expectation of the availability of liquidity at the midpoint of the NBBO. In addition, the Exchange also believes that the proposed amendment to the MidPoint Match Volume Tier is non-discriminatory because it applies uniformly to all Members.

Flag RZ

The Exchange believes that its proposal to decrease the pass through rebate for Members’ orders that yield Flag RZ from \$0.0025 to \$0.0020 per share represents an equitable allocation of reasonable dues, fees, and other charges among 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 BATS through DE Route. Prior to BATS’s October 2013 fee change, BATS provided DE Route a rebate of \$0.0025 per share for orders yielding Flag RZ, which DE Route passed through to the Exchange and the Exchange passed through to its Members. In October 2013, BATS decreased the standard rebate it provides its customers, such as DE Route, from a rebate

¹² The EDGX Book is the System’s electronic file of orders. See Exchange Rule 1.5(d).

of \$0.0025 per share to a rebate of \$0.0020 per share for orders that are routed to BATS.¹³

Therefore, the Exchange believes that the proposed change in Flag RZ from a rebate of \$0.0025 per share to a rebate of \$0.0020 per share is equitable and reasonable because it accounts for the pricing changes on BATS. In addition, the proposal allows the Exchange to continue to charge its Members a pass-through rate for orders that are routed to BATS. The Exchange notes that routing through DE Route is voluntary. Lastly, the Exchange also believes that the proposed amendment is non-discriminatory because it applies uniformly to all 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 EDGX's pricing if they believe that alternatives offer them better value.

Accordingly, the Exchange 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.

Amendment to Mega Tier 1

The Exchange believes that increasing the removal fee under the Mega Tier 1 would not impact intermarket competition because it is similar to removal rates offered by the Exchange's

¹³ See BATS Exchange Pricing Effective October 1, 2013, http://cdn.batstrading.com/resources/fee_schedule/2013/BATS-BZX-Exchange-Pricing-Effective-October-1-2013.pdf (offering a standard, non-tiered rebate of \$0.0020 per share).

Mega Tier 2 in Footnote 1 of its Fee Schedule¹⁴ and other similar tiers on NYSE Arca.¹⁵ The Exchange believes that the proposed tier would neither increase nor decrease intramarket competition because the proposed removal rate offered by the tier would apply uniformly to all Members that meet the requirements necessary to achieve the tier.

Amendment to Mega Tier 3

The Exchange believes that the proposed discounted removal rate for Mega Tier 3 would increase intermarket competition because it would encourage market participants to send additional liquidity to EDGX in exchange for a discounted removal rate. The Exchange believes that the proposed discounted removal rate would neither increase nor decrease intramarket competition because the discounted removal rate offered by the tier would apply uniformly to all Members that meet the requirements necessary to achieve the tier.

Addition of Market Depth Tier 2

The Exchange believes that the proposed addition of the Market Depth Tier 2 would increase intermarket competition because it would encourage market participants to send additional liquidity to EDGX in exchange for an increased rebate. The Exchange believes that the proposed tier would neither increase nor decrease intramarket competition because the

¹⁴ Members that qualify for the Mega Tier 2 are charged a discounted removal rate of \$0.0029. See the Exchange's Fee Schedule, available at <http://www.directedge.com/Membership/FeeSchedule/EDGXFeeSchedule.aspx>.

¹⁵ For example, the Mega Tier 3's proposed discounted removal rate of \$0.0029 per share (from a standard rate of \$0.0030 per share) is also reasonable because it is similar in concept to discounted removal rates offered by NYSE Arca, which offers a discounted removal rate of \$0.0029 (from a standard rate of \$0.0030 per share) to customers that qualify for its Tape C Step Up Tier. See NYSE Arca, Schedule of Fees and Charges for Exchange Services, https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_arca_marketplace_fees_9.4.13.pdf.

increased rebate offered by the tier would apply uniformly to all Members that meet the requirements necessary to achieve the tier.

Amendment to Market Depth Tier

The Exchange believes that the proposed non-substantive change to the Market Depth Tier would neither affect intermarket nor intramarket competition because the change does not alter the criteria necessary to achieve the tier nor does it alter the rate offered by the tier.

Amendment to the Tape B Step-Up Tier

The Exchange believes that the proposed increased rebate under the Tape B Step-Up Tier would increase intermarket competition because it would encourage market participants to send additional liquidity in Tape B securities to EDGX in exchange for a higher rebate. The Exchange believes that the proposed increased rebate would neither increase nor decrease intramarket competition because the increased rebate offered by the tier would apply uniformly to all Members that meet the requirements necessary to achieve the tier.

Amendments to the MidPoint Match Volume Tier

The Exchange believes that its proposal to decrease the ADV requirement in Flags MM and/or MT in the MidPoint Match Volume Tier would increase intermarket competition because the lower ADV requirement would incentivize Members that could not previously meet the tier to send higher volume to the Exchange. The Exchange believes that its proposal would neither increase nor decrease intramarket competition because the MidPoint Match Volume Tier would continue to apply uniformly to all Members and the ability of some Members to meet the tier would only benefit other Members by contributing to increased liquidity at the midpoint of the NBBO and better market quality at the Exchange.

Flag RZ

The Exchange believes that its proposal to pass through a rebate of \$0.0020 per share for Members' orders that yield Flag RZ would increase intermarket competition because it offers customers an alternative means to route to BATS for the same price as entering orders on BATS directly. The Exchange believes that its proposal would not burden intramarket competition because the proposed rate would apply uniformly to all Members.

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 Act¹⁶ and Rule 19b-4(f)(2)¹⁷ 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:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4 (f)(2).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-EDGX-2013-37 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-2013-37. 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-2013-37 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.¹⁸

Kevin M. O'Neill
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).