

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72002; File No. SR-EDGX-2014-10)

April 23, 2014

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”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 9, 2014, 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 Members<sup>3</sup> of the Exchange pursuant to EDGX Rule 15.1(a) and (c) (“Fee Schedule”) to harmonize the definitions of Average Daily Trading Volume (“ADV”) and Total Consolidated Volume (“TCV”) with those contained in the BATS Exchange, Inc. (“BATS”) and BATS-Y Exchange, Inc. (“BYX”) fee schedules by: (i) modifying the way that, for purposes of tiered pricing, the Exchange calculates ADV and average daily TCV; and (ii) clarify the

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

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

<sup>3</sup> 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).

manner in which Members may aggregate their ADV with other affiliated 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 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

On January 31, 2014, Direct Edge Holdings LLC ("DE Holdings"), the former parent company of the Exchange, completed its business combination with BATS Global Markets, Inc., the parent company of BATS and BYX.<sup>4</sup> As part of its effort to reduce regulatory duplication and relieve firms that are members of the Exchange, BATS, and BYX of conflicting or unnecessary regulatory burdens, the Exchange is now engaged in the process of reviewing and amending certain Exchange, BATS, and BYX Rules. To

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<sup>4</sup> See Securities Exchange Act Release No. 71449 (January 30, 2014), 79 FR 6961 (February 5, 2014) (SR-EDGX-2013-43). Upon completion of the Combination, DE Holdings and BATS Global Markets, Inc. each became intermediate holding companies, held under a single new holding company. The new holding company, formerly named "BATS Global Markets Holdings, Inc.," changed its name to "BATS Global Markets, Inc."

conform to comparable BATS and BYX rules for purposes of its harmonization efforts due to its business combination, the Exchange proposes to amend the definitions of ADV and TCV to make each definition similar to those contained in the BATS and BYX fee schedules by modifying the way that, for purposes of tiered pricing: (i) the Exchange calculates ADV and average daily TCV; and (ii) the manner in which Members may aggregate their ADV with other affiliated Members. The Exchange notes that it is not proposing to modify any of the existing rebates or the percentage thresholds at which a Member may qualify for certain rebates pursuant to the tiered pricing structure.

#### ADV and TCV

Currently, the Exchange determines the liquidity adding rebate that it will provide to Members based on the Exchange's tiered pricing structure based on the calculation of ADV,<sup>5</sup> and/or average daily TCV.<sup>6</sup> Unlike on BATS and BYX, the Exchange does not currently exclude any trading days from its calculation of ADV and TCV. Therefore, to harmonize the calculation of ADV and TCV with BATS and BYX, the Exchange proposes to amend the definitions of ADV and TCV to exclude shares on: (i) any day that the Exchange's system experiences a disruption that lasts for more than 60 minutes during Regular Trading Hours<sup>7</sup> ("Exchange System Disruption"); and (ii) the last Friday

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<sup>5</sup> As provided in the Fee Schedule, "ADV" is currently defined as the average daily volume of shares that a Member executed on the Exchange for the month in which the fees are calculated.

<sup>6</sup> As provided in the Fee Schedule, "TCV" is currently defined as the volume reported by all exchanges and trade reporting facilities to the consolidated transaction reporting plans for Tapes A, B and C securities for the month in which the fees are calculated.

<sup>7</sup> "Regular Trading Hours" is defined as "the time between 9:30 a.m. and 4:00 p.m. Eastern Time." See Exchange Rule 1.5(y).

in June (the “Russell Reconstitution Day”). The Exchange also proposes to amend the definition of ADV to clarify that routed shares are not included in ADV calculation.

First, the Exchange proposes to modify the definitions of ADV and TCV to exclude trading days where the Exchange experiences a systems disruption that lasts for more than 60 minutes during Regular Trading Hours and define it as an Exchange System Disruption.<sup>8</sup> As an example, an Exchange System Disruption may occur where a certain group of securities (i.e., securities in a select symbol range such as A through C) traded on the Exchange are unavailable for trading due to an Exchange system issue. Similarly, the Exchange may be able to perform certain functions with respect to accepting and processing orders, but may have a failure to another significant process, such as routing to other market centers, that would lead Members that rely on such process to avoid utilizing the Exchange until the Exchange’s entire system was operational.

The Exchange believes that this modification is reasonable because it avoids penalizing Members that might otherwise qualify for certain tiered pricing but that, because of a significant Exchange system problem, did not participate on the Exchange to the extent that they might have otherwise participated. The Exchange believes that certain systems disruptions could preclude some Members from submitting orders to the Exchange even if such issue is not actually a complete systems outage. Therefore, the Exchange is proposing to modify its Fee Schedule to exclude trading activity occurring on any day that the Exchange experiences an Exchange System Disruption.

Second, the Exchange proposes to exclude the last Friday of June each year from the definition of ADV and TCV because the last Friday of June is the day that Russell

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<sup>8</sup> See SR-BATS-2014-010 and SR-BYX-2014-006 (proposing to exclude Exchange System Disruptions from the definition of ADV).

Investments reconstitutes its family of indexes (“Russell Rebalance”), resulting in particularly high trading volumes, much of which the Exchange believes derives from market participants who are not generally as active entering the market to rebalance their holdings in-line with the Russell Rebalance.<sup>9</sup> The Exchange believes that trading occurring as a result of the Russell Rebalance can significantly skew the calculation of ADV and TCV. For example, since 2008, on the last Friday in June, the TCV has exceeded the average daily TCV for the preceding trading days in June by approximately 43% on average. The chart below reflects the TCV on the last Friday of June for each year dating to 2008 and compares it to the average daily TCV for the preceding trading days in the month of June.

<b>Russell Reconstitution Date (RCD)</b>	<b>TCV on RCD</b>	<b>MTD Average TCV as of Day Before RCD</b>	<b>% Difference</b>
6/28/2013	10,211,508,622	6,954,840,047	46.83%
6/29/2012	7,924,340,355	6,833,486,672	15.96%
6/24/2011	10,472,502,657	7,237,593,514	44.70%
6/25/2010	14,482,717,113	8,981,067,278	61.26%
6/26/2009	13,024,518,377	9,597,498,903	35.71%
6/27/2008	12,010,692,402	7,835,813,201	53.28%

Because of the extremely high volume numbers and abnormally distributed daily volume or percentage of the TCV on this day, it stands that the ADV or percentage of average daily TCV can be significantly impacted.

As such, the Exchange believes that eliminating the last Friday of June from the definition of ADV and TCV, and thereby eliminating that day from the calculation as it relates to rebates for adding liquidity to the Exchange, will help to eliminate significant

<sup>9</sup> Securities Exchange Act Release No. 69793 (July 18, 2013), 78 FR 37865 (July 24, 2013) (SR-BATS-2013-034) (excluding the Russell Reconstitution Day from the definition of ADV).

uncertainty faced by Members as to their monthly ADV or percentage of average daily TCV and the rebates that this percentage will qualify for, providing Members with an increased certainty as to their monthly cost for trades executed on the Exchange. The Exchange further believes that removing this uncertainty will encourage Members to participate in trading on the Exchange during the remaining trading days in June in a manner intended to be incented by the Exchange's Fee Schedule.

Lastly, the Exchange proposes to clarify within the definition of ADV that ADV does not include shares that are routed to other trading centers. ADV is defined as the average daily volume of shares executed on the Exchange for the month in which the fees are calculated. Clarifying that routed orders are not included in the definition of ADV is designed to add further clarity and harmonize the definition with BATS and BYX.

#### ADV Aggregation

The Exchange also proposes to amend when a Member may aggregate share volumes with other affiliated Members. Currently, under the "General Notes" section of the Fee Schedule, the Exchange will aggregate share volume calculations for wholly owned affiliates on a prospective basis upon a Member's request. The Exchange proposes to relocate this provision to the definition of ADV and amend the language to allow a Member to aggregate ADV with other Members that control, are controlled by, or are under common control with such Member (as evidenced on such Member's Form BD).<sup>10</sup> To the extent two or more affiliated companies maintain separate Exchange memberships and can demonstrate their affiliation by showing they control, are

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<sup>10</sup> Securities Exchange Act Release No. 64211 (April 6, 2011), 76 FR 20414 (April 12, 2014 [sic]) (SR-BATS-2011-012) (permitting Members to aggregate shares volumes with affiliated entities).

controlled by, or are under common control with each other, the Exchange will permit such Members to count overall volume of the affiliates in calculating ADV.

#### Implementation Date

The Exchange proposes to implement these amendments to its Fee Schedule on May 1, 2014.

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>11</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>12</sup> 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 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 structures at a particular venue to be unreasonable and/or excessive.

Members who are also members of BATS or BYX are subject to different definitions of ADV and TCV as well as differing standards for aggregating ADV with affiliated Members when seeking to qualify for certain tiered pricing. The Exchange believes that the proposed rule change will provide greater harmonization between similar Exchange, BATS and BYX rules, resulting in greater uniformity and less burdensome and more efficient regulatory compliance for common members. 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

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<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b)(4).

perfect the mechanism of a free and open market and a national market system. Lastly, the Exchange believes that the proposed change is non-discriminatory because it applies uniformly to all Members.

Volume-based tiers such as the liquidity adding tiers maintained by the Exchange have been widely adopted, and are equitable and not unfairly discriminatory. They are open to all Members on an equal basis and provide higher rebates or lower fees 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 process. Accordingly, the Exchange believes that the proposal is equitably allocated and not unfairly discriminatory because it is consistent with the overall goals of enhancing market quality. Further, the Exchange believes that a tiered pricing model not significantly altered by a day of atypical trading behavior which allows Members to predictably calculate what their costs associated with trading activity on the Exchange will be is reasonable, fair and equitable and not unreasonably discriminatory as it is uniform in application amongst Members and should enable such participants to operate their business without concern of unpredictable and potentially significant changes in expenses.

#### ADV and TCV

The Exchange believes that its proposed amendments to the definitions of ADV and TCV to exclude shares on the day of an Exchange System Disruption are reasonable because, as explained above, they will help provide Members with a greater level of certainty as to their level of rebates and costs for trading in any month where the Exchange experiences an Exchange System Disruption on one or more trading days. The

Exchange is not proposing to amend the thresholds a Member must achieve to become eligible for, or the dollar value associated with, the tiered rebates or fees. By eliminating the inclusion of a trading day on which an Exchange System Disruption occurs the Exchange would almost certainly be excluding a day that would otherwise lower a Member's ADV or percentage of average daily TCV. Thus, the proposed change will make the majority of Members more likely to meet the minimum or higher tier thresholds, incentivizing Members to increase their participation on the Exchange in order to meet the next highest tier. In addition, the Exchange believes that the proposed changes to its Fee Schedule are equitably allocated among Exchange constituents and not unfairly discriminatory as the methodology for calculating ADV and TCV will apply equally to all Members. While, although unlikely, certain Members may have a higher ADV or percentage of average daily TCV with their activity included from days where the Exchange experiences an Exchange System Disruption, the proposal will make all Members' cost of trading on the Exchange more predictable, regardless of how the proposal affects their ADV or percentage of average daily TCV.

The Exchange believes that its proposed amendments to the definitions of ADV and TCV to exclude shares on the Russell Reconstitution Day are reasonable because, as explained above, it will help provide Members with a greater level of certainty as to their level of rebates for trading in the month of June. The Exchange also believes that its proposal is reasonable because it is not changing the thresholds to become eligible or the dollar value associated with the rebates. Moreover, by eliminating the inclusion of a trading day that would almost certainly lower a Member's ADV or percentage of average daily TCV, it will make the majority of Members more likely to meet the minimum or

higher tier thresholds, which will provide additional incentive to Members to increase their participation on the Exchange in order to meet the next tier. In addition, the Exchange believes that the proposed changes are equitably allocated among Exchange constituents as the methodology for calculating ADV and TCV will apply equally to all Members. While, although unlikely, certain Members may have a higher ADV or percentage of average daily TCV with the day included, the proposal will make June trading rebates more similar to other months. Moreover, all Members' cost of trading on the Exchange will become more predictable, regardless of how the proposal affects their ADV or percentage of average daily TCV, which in turn will preserve Members' incentives to participate in trading on the Exchange in a manner intended to be incented by the Exchange's Fee Schedule.

Lastly, the Exchange proposes to clarify within the definition of ADV that ADV does not include shares that are routed to other trading centers. Clarifying that routed orders are not included in the calculation of ADV will promote just and equitable principles of trade and remove impediments to a free and open market by providing greater transparency concerning the operation of the Exchange and a Member's share volumes that are included in their ADV.

#### ADV Aggregation

The proposed language permitting aggregation of volume amongst Members that share common control for purposes of the ADV calculation is intended to avoid disparate treatment of Members that have divided their various business activities between separate corporate entities as compared to Members that operate those business activities within a single corporate entity. By way of example, subject to appropriate information barriers,

many firms that are Members of the Exchange operate both a market making desk and a public customer business within the same corporate entity. In contrast, other Members may be part of a corporate structure that separates those business lines into different corporate affiliates, either for business, compliance or historical reasons, and those affiliates are not also considered wholly owned affiliates. Those corporate affiliates, in turn, are required to maintain separate memberships with the Exchange. Absent the proposed change, such corporate affiliates that cannot be considered wholly owned but are under common control would not receive the same treatment as Members who are considered wholly owned affiliates. Current Members who aggregate share volumes on the Exchange with wholly owned affiliates will be considered as being under common control and continue to be able to aggregate share volumes. Accordingly, the Exchange believes that its proposed policy is fair and equitable, and not unreasonably discriminatory. In addition to ensuring fair and equal treatment of its Members, the Exchange does not want to create incentives for its Members to restructure their business operations or compliance functions simply due to the Exchange's pricing structure.

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

The Exchange believes its proposed amendments to its Fee Schedule would 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 the proposed change represents 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 change will impair the

ability of Members or competing venues to maintain their competitive standing in the financial markets.

The proposed change will help to promote intramarket competition by avoiding a penalty to Members for days when trading on the Exchange is disrupted for a significant portion of the day. In addition, excluding the Russell Rebalance Day from the definition of ADV and TCV will help the Exchange to continue to incentivize higher levels of liquidity at a tighter spread while providing more stable and predictable costs to its Members. Lastly, easing Member's ability to aggregate volumes with Members who are under common control would increase competition because it would incentivize Members that could not previously aggregate their volumes to send higher volume to the Exchange in an effort to achieve tier-based pricing. As stated above, the Exchange 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 structures to be unreasonable or excessive.

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 Act<sup>13</sup> and Rule 19b-4(f)(2)<sup>14</sup> 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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-EDGX-2014-10 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-EDGX-2014-10. This file number should be included on the subject line if e-mail is used. To help the Commission process

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4 (f)(2).

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-2014-10, 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>15</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).