

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74255; File No. SR-EDGX-2015-06)

February 11, 2015

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rules 1.5, 2.3, 2.5, and 2.6 Related to the Registration Requirements for Members of EDGX Exchange, Inc.

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 January 30, 2015, 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 Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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 filed a proposal to amend Rules 1.5, 2.3, 2.5, and 2.6 related to the registration requirements for Members of the Exchange.

The text of the proposed rule change is available at the Exchange’s website at [www.batstrading.com](http://www.batstrading.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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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> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts 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 the various Exchange rules related to the registration requirements on the Exchange in order to make the Exchange’s registration requirements substantively identical to the corresponding rules on BATS Exchange, Inc. (“BZX”) and BATS Y-Exchange, Inc. (“BYX”), as further described below. Earlier this year, the Exchange and its affiliate, EDGA Exchange, Inc. (“EDGA”), received approval to effect a merger (the “Merger”) of the Exchange’s parent company, Direct Edge Holdings LLC, with BATS Global Markets, Inc., the parent of BZX and BYX (together with BZX, EDGA, and EDGX, the “BGM Affiliated Exchanges”).<sup>5</sup> In the context of the Merger, the BGM Affiliated Exchanges are working to align certain system and regulatory functionality, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the proposal set forth below is intended to amend Rules 1.5, 2.3, 2.5, and 2.6 to make such Rules substantively identical to corresponding rules on BZX and

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<sup>5</sup> See Securities Exchange Act Release No. 71449 (January 30, 2014), 79 FR 6961 (February 5, 2014) (SR-EDGX-2013-043; SR-EDGA-2013-034).

BYX<sup>6</sup> related to registration requirements in order to provide a consistent regulatory approach across each of the BGM Affiliated Exchanges.<sup>7</sup>

Currently, Rule 1.5(n) defines the term “Member” as meaning 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. The Exchange is proposing, however, to delete “or any person associated with a registered broker or dealer” from the rule text, as such phrase is not contained in corresponding BZX and BYX rules (*i.e.*, Rule 1.5(n)) and because the Exchange no longer believes that this language is necessary. The Exchange is also proposing to amend the rule text such that Membership may be granted to a sole proprietor, partnership, corporation, limited liability company or other organization which is a registered broker or dealer pursuant to Section 15 of the Act, and which has been approved by the Exchange, language which is currently included in Rule 2.3(a), which, as described below, the Exchange is proposing to delete in order to further align Exchange rules with BZX and BYX 1.5(n).

The Exchange is also proposing to delete the definition of “Principal” from Rule 1.5(t), which will instead be defined in the proposed changes to paragraph (d) of Interpretation and Policy .01 to Rule 2.5, which are further described below. Currently, the term principal means persons associated with a member who are actively engaged in the management of the member’s securities business, including supervision, solicitation, conduct of business or the training of persons associated with a Member for any of these functions. Such persons shall include sole

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<sup>6</sup> See BZX and BYX Rules 1.5, 2.3, 2.5, and 2.6.

<sup>7</sup> The Exchange notes that EDGA intends to file a proposal very similar to this proposal that will align the rules related to registration requirements across each of the BGM Affiliated Exchanges.

proprietors, officers, partners, managers of business offices engaged in such functions, and directors of corporations. The Exchange is proposing to add the text “(Reserved)” to the rule text in order to maintain the current paragraph numbering within Rule 1.5. The proposed new definition for principal will be discussed below.

The Exchange intends to consolidate its registration requirements in Rule 2.5 in order to align the rule with BZX and BYX Rule 2.5. Accordingly, the Exchange is also proposing to make several changes to Rule 2.3, currently titled “Member Eligibility & Registration”, which will also make the Rule consistent with BZX and BYX Rule 2.3. First, consistent with this consolidation, the Exchange is proposing to delete “& Registration” from the title of Rule 2.3, which is also consistent with BZX and BYX Rule 2.3. The Exchange is also proposing to amend Rule 2.3(a), which currently states that “Except as hereinafter provided, any broker or dealer registered pursuant to Section 15 of the Act, that is and remains a member of another registered national securities exchange or association (other than or in addition to the Exchange’s affiliates – BATS Exchange, Inc., BATS Y-Exchange, Inc., or EDGX Exchange, Inc.), or any person associated with such a registered broker or dealer, shall be eligible to be and to remain a Member. Membership may be granted to a sole proprietor, partnership, corporation, limited liability company or other organization or individual that has been approved by the Exchange.” The Exchange is proposing to amend Rule 2.3(a) to read: “Except as hereinafter provided, any registered broker or dealer that is and remains a member of another registered national securities exchange or association (other than or in addition to the Exchange’s affiliates – BATS Exchange, Inc., BATS Y-Exchange, Inc., or EDGX Exchange, Inc.), or any person associated with such a registered broker or dealer, shall be eligible to be and to remain a Member,” which will make such Rule substantively identical to that of both BZX and BYX Rule 2.3(a). As described above,

the Exchange has proposed to add substantially similar language to Exchange Rule 1.5(n) to conform such Rule with BZX and BYX Rule 1.5(n).

The Exchange is also proposing to delete Rules 2.3(b), (c), and (d), entitled “Registration Requirements,” “Registration of Principals,” and “Persons Exempt from Registration” and replace them with proposed new Rule 2.5 Interpretation and Policy .01 (d) through (i) and Rule 2.6(g), effectively moving the requirements from Rule 2.3 to Rules 2.5 and 2.6, making the Exchange Rules consistent with those of BZX and BYX. The Exchange notes that, except as stated below, there are no substantive differences between the language that the Exchange is proposing to delete in Rules 2.3(b), (c), and (d) that is not otherwise being proposed to be added back in the amendments to Rule 2.5 Interpretation and Policy .01 (d) through (i) and Rule 2.6(g). The only material differences between the Exchange’s current rules and the proposed rules are as follows: (i) as proposed, the Exchange would accept the New York Stock Exchange Series 14 Compliance Official Examination in lieu of the Series 24 to satisfy the requirement for any person designated as a Chief Compliance Officer, which it currently does not; and (ii) as proposed, the Exchange would permit the Series 56 as a prerequisite to the Series 24 or Series 14 for those Principals whose supervisory responsibilities are limited to overseeing the activities of proprietary traders instead of requiring the Series 7 for all principals. The Exchange also notes that, as proposed, Rule 2.5 Interpretation and Policy .01(e) would allow the Exchange to waive the Financial/Operations Principal requirements where a Member has satisfied the financial and operational requirements of the Member’s designated examining authority applicable to registration, a provision which the Exchange has proposed to include because the Exchange is not the designated examining authority for any of its Members and requires all of its Members to be a member of at least one other national securities association or national securities exchange

(excluding other BGM Affiliated Exchanges).<sup>8</sup> The Exchange does not believe that not including certain exemptions currently existing within Rules 2.3(b) and (c) are substantive differences because the Exchange believes that, while not necessarily presented as exemptions to Exchange Rules, such language is otherwise covered by proposed Rule 2.5 Interpretation and Policy .01. For instance, the Exchange does not believe it needs to exempt clerical or administrative personnel from Exchange registration requirements because Exchange Rules, either in their current form or as amended, do not state or imply that such personnel are required to register with the Exchange. The Exchange's registration rules instead require registration with the Exchange of Authorized Traders as well as those personnel responsible for supervision of such personnel and the supervision of a Member firm more generally (i.e., a firm's Chief Compliance Officer and Financial/Operations Principal).

The Exchange is also proposing to make certain amendments to Rule 2.5 in order to conform with BZX and BYX Rule 2.5. Specifically, the Exchange is proposing to amend Interpretation and Policy .03 to Rule 2.5, to conform the numbering of such Interpretation and Policy to BZX and BYX Rule 2.5, Interpretation and Policy .01(c). As such, the Exchange is proposing that such paragraph state that the Exchange requires the General Securities Representative Examination or an equivalent foreign examination module approved by the Exchange in qualifying persons seeking registration as general securities representatives, including as Authorized Traders on behalf of Members. For those persons seeking limited registration as Proprietary Traders as described in proposed paragraph (f), the Exchange requires the Proprietary Traders Qualification Examination. The Exchange uses the Uniform Application for Securities Industry Registration or Transfer as part of its procedure for registration and

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<sup>8</sup> See Exchange Rule 2.3.

oversight of Member personnel. The changes do not substantively modify the operation of Interpretation and Policy .03, but rather, serve to modify the numbering of the provision (renumbering it as paragraph (c) of Interpretation and Policy .01), update internal cross-references, and modify the language of the provision to align with that contained within BZX and BYX Rule 2.5, Interpretation and Policy .01(c).

Finally, the Exchange is proposing to make certain non-substantive changes including the deletion of paragraphs (1) through (4) of Interpretation and Policy .03 to Rule 2.5, along with the entirety of Interpretation and Policy .04, .05, and .06 to Rule 2.5 and replacing them with the language from the corresponding BZX and BYX rules contained within proposed Interpretation and Policy .02 (“Continuing Education Requirements”), .03 (“Registration Procedures”), and .04 (“Termination of Employment”) to Rule 2.5. Such proposed language is substantively identical to the existing Exchange rules and constitutes a reorganization of rule text designed to harmonize the structure of the rules across each of the BGM Affiliated Exchanges rather than to materially amend any Exchange Rules. The Exchange is also proposing to change the numbering and adding [sic] titles in several of the Interpretations and Policies to Rule 2.5 to increase clarity in the proposed rules.

The Exchange notes that there are certain additional differences between the rules proposed herein and those of BZX that relate to registration for options trading because BZX has an options trading platform and thus has certain registration requirements that do not apply to the Exchange. Similar to the proposed rules proposed for the Exchange, BYX has no such registration requirements because it also does not have an options trading platform.

The Exchange is proposing to implement the proposed changes on March 2, 2015.

## 2. Statutory Basis

The Exchange believes that the rule change proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>9</sup> Specifically, the proposed change is consistent with Section 6(b)(5) of the Act,<sup>10</sup> because it is designed to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors and the public interest. As mentioned above, the proposed rule changes, combined with the planned filing for EDGA,<sup>11</sup> would allow the BGM Affiliated Exchanges to provide a consistent set of rules as it relates to the registration requirements across each of the exchanges. Consistent rules, in turn, will simplify the regulatory requirements for Members of the Exchange that are also participants on EDGA, BZX and/or BYX. The proposed rule change would provide greater harmonization between rules of similar purpose on the BGM Affiliated Exchanges, resulting in greater uniformity and less burdensome and more efficient regulatory compliance. 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 perfect the mechanism of a free and open market and a national market system.

Similarly, the Exchange also believes that, by harmonizing the rules and registration requirements across each BGM Affiliated Exchange, the proposal will enhance the Exchange's ability to fairly and efficiently regulate its Members, meaning that the proposed rule change is

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> See supra note 7.

equitable and will promote fairness in the market place.

Finally, the Exchange believes that the non-substantive changes discussed above will contribute to the protection of investors and the public interest by helping to avoid confusion with respect to Exchange rules.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the act. To the contrary, allowing the Exchange to implement substantively identical registration rules across each of the BGM Affiliated Exchanges does not present any competitive issues, but rather is designed to provide greater harmonization among Exchange [sic], BYX, EDGA, and EDGX rules of similar purpose, resulting in less burdensome and more efficient regulatory compliance for common members of the BGM Affiliated Exchanges and an enhanced ability of the BGM Affiliated Exchanges to fairly and efficiently regulate members, which will further enhance competition.

**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**

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>12</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>13</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4.

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 to determine whether the proposed rule 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-2015-06 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-2015-06. 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 such filing will also 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-2015-06 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.<sup>14</sup>

Brent J. Fields  
Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).