SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67290; File No. SR-EDGX-2012-25)

June 28, 2012

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing of Proposed Rule Changes to Amend EDGX Rules to Add the Route Peg Order

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 June 26, 2012, the EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items 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 changes from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Changes

The Exchange proposes to amend Rule 11.5 to provide an additional order type, the Route Peg Order. In addition, the Exchange proposes to amend Rule 11.8 to describe the priority of the Route Peg Order relative to other orders on the EDGX Book.

The text of the proposed rule changes are attached as Exhibit 5[3] and are available on the Exchange's website at www.directedge.com, at the Exchange's principal office, at the Public Reference Room of the Commission, and on the Commission's website at www.sec.gov.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 The Commission notes that the Exhibit 5 is attached to the filing, but is not attached to this Notice.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule changes and discussed any comments it received on the proposed rule changes. 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 Statutory Basis for, the Proposed Rule Changes

Purpose

The Exchange proposes to amend Rule 11.5(c) to add a new subparagraph (17) that describes a Route Peg Order. A Route Peg Order would be a non-displayed limit order eligible for execution at the national best bid (the "NBB") for Route Peg Orders to buy, and at the national best offer (the "NBO", and together with the NBB, the "NBBO") for Route Peg Orders to sell, against routable orders[4] that are equal to or less than the size of the Route Peg Order. Thus, the Route Peg Order would only be eligible for execution at a price that matches the NBB for buy orders, and the NBO for sell orders. The Route Peg Order would be a passive, resting order designed exclusively to provide liquidity; therefore, it would not be permitted to take liquidity.

4 Orders that are not designated for routing are not executable against Route Peg Orders because Users entering non-routable orders typically expect to post liquidity on EDGX or seek to execute immediately against the EDGX displayed quote or attempt to ferret out hidden liquidity at or within the NBBO, e.g., through an Immediate-or-Cancel Order type. By contrast, the Route Peg Order would be designed for Users to interact with other Users that seek to access liquidity at the NBBO, and that employ routable orders to access such liquidity at a range of trading venues.

An incoming order that has been designated as eligible for routing would be able to interact with Route Peg Orders. Such an order would first be matched against orders other than Route Peg Orders in price/time priority in accordance with Rule 11.8(a)(2)(A)-(D). If any portion of the incoming order remained unexecuted, only then would such order be eligible to execute against Route Peg Orders.[5] Thus, the Route Peg Order is intended only to provide liquidity in the event that a marketable order would otherwise route to another destination.

As mentioned supra, Route Peg Orders would only trade with orders that are equal to or smaller in quantity than the original order quantity of the Route Peg Order. If a Route Peg Order were partially executed, it would be able to execute against orders that were larger than the remaining balance of the order, but those orders would still need to be equal to or smaller than the original order quantity of the Route Peg Order. [6]

The following example illustrates how this would work: Assume Member A places a Route Peg Order to buy 500 shares, and an incoming order to sell executes against the Route Peg Order at the NBB for 300 shares. That would leave Member A with a remaining balance of 200 shares to buy. Another incoming order to sell 400 shares would be eligible to execute against Member A's balance, for 200 shares, because the size of its order would be less than the original size of Member A's order. If, however, the incoming order were to sell 600 shares, it would not execute against the Route Peg Order because the size of the order would be greater than the

[5] The Exchange proposes to codify this principle in proposed new paragraph (a)(2)(E) of Rule 11.8.

[6] If a Route Peg Order were partially executed, the remaining portion of the order would continue to be eligible for execution, but it would be assigned a new time priority and new timestamp after each partial execution, until either the remaining size of the order is exhausted or it is cancelled. Assigning a new timestamp after each partial execution would allow for a kind of rotating priority of execution for Users who place Route Peg Orders. The Exchange is proposing to codify this principle in Rule 11.8(a)(5) and proposed new subparagraph (a)(7) of Rule 11.8.

original size of Member A's order. In that event, such order would be routed externally. It should be noted, however, that if there were another Route Peg Order on the Book, behind Member A's order in time priority, for, say, 1000 shares, the order to sell 600 shares would execute against that second Route Peg Order.

The Exchange elected to design the System in this manner, as opposed to alternatives such as measuring incoming orders against the aggregate size of all Route Peg Orders then on the Book, in order to avoid the possibility of a single block-sized order potentially clearing all the liquidity on the Book attributable to Route Peg Orders.

Route Peg Orders would be able to be entered, cancelled and cancelled/replaced prior to and during Regular Trading Hours.[7] Route Peg Orders would be eligible for execution in a given security during Regular Trading Hours, except that, even after the commencement of Regular Trading Hours, Route Peg Orders would not be eligible for execution (1) in the opening cross, and (2) until such time that regular session orders in that security could be posted to the EDGX Book.[8] A Route Peg Order would not execute at a price that is inferior to a Protected Quotation,[9] and would not be permitted to execute if the NBBO were locked or crossed. Any and all remaining, unexecuted Route Peg Orders would be cancelled at the conclusion of Regular Trading Hours.

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[7] As defined in Rule 1.5(y).

[8] To illustrate, for stocks listed on the New York Stock Exchange LLC (the "NYSE"), regular session orders can be posted to the EDGX Book upon the dissemination by the responsible Securities Information Processor ("SIP") of an opening print in that stock on the NYSE. Conversely, for stocks listed on, say, the NASDAQ Stock Market LLC, regular session orders can be posted to the EDGX Book upon the dissemination of the NBBO by the responsible SIP in that stock.

[9] As defined in Rule 1.5(v).

The Route Peg Order would provide Members with an additional means to post stable trading interest at the NBB and NBO. The purpose of the Route Peg Order is to encourage Members to further enhance the depth of liquidity at the NBBO on the Exchange. The Exchange believes that if the Route Peg Order became widely used, Members seeking to access liquidity at the NBBO would be more motivated to direct their orders to EDGX because they would have a heightened expectation of the availability of liquidity at the NBBO. In addition, a User[10] whose order executed against a Route Peg Order would be able to obtain an execution at the NBB or NBO while minimizing the risk that incremental latency associated with routing the order to an away destination may result in an inferior execution.

Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act[11] and further the objectives of Section 6(b)(5) of the Act,[12] in that they are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles 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. Moreover, the Exchange believes that the proposed rule changes are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The benefits to investors of enhanced depth of liquidity at the NBBO in today's market structure cannot be understated. The Route Peg Order is designed to incentivize Users to place greater liquidity at the NBBO, thereby promoting more favorable and efficient executions for the

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10 As defined in Rule 1.5(ee).

11 15 U.S.C. 78f(b).

12 15 U.S.C. 78f(b)(5).

benefit of public customers. It would do so by (1) offering liquidity providers a means to use the Exchange to post larger limit orders that are only executable at the NBBO and that do not disclose their trading interest to other market participants in advance of execution; (2) offering market participants seeking to access liquidity a greater expectation of market depth at the NBBO than may currently be the case; and (3) offering more predictable executions at the NBBO for Users by reducing the risk that incremental latency associated with routing an order to an away destination may result in an inferior execution. Thus, by providing an additional means by which market participants can be encouraged to post liquidity at the NBBO on the Exchange, which would add depth and support to the NBBO on the Exchange and mitigate the negative effects of market fragmentation, the proposed rule changes would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market and national market system. Moreover, the proposed rule changes would protect investors and the public interest by increasing the probability of an execution on the Exchange at the NBBO in the event that the order would otherwise be shipped to an external destination and potentially miss an execution at the NBBO while in transit.

The Exchange believes, however, that the benefits to be derived from Route Peg Orders would only be realized if Route Peg Orders only interact with orders eligible for routing. Routable orders are typically characteristic of public customers, both retail and institutional (colloquially referred to as well as "natural" investors), who are concerned with executing at the best price. On the other hand, non-routable orders typically expect to post liquidity on the Book or seek to execute immediately, such as via an Immediate-or-Cancel Order, against the Exchange's best displayed bid or offer or to ferret out hidden liquidity at or inside the NBBO (colloquially referred to as well as "pinging"). Professional traders, in particular, are more apt to submit, and often immediately cancel, "pinging" orders, as reflected in generally higher message-to-trade ratios. The Exchange believes this type of order behavior, while it may have its own business purposes, would not be suitable to interact with Route Peg Orders simply because Users would be reticent to post liquidity via Route Peg Orders given the uncertain, and therefore difficult to manage, exposure to executions against orders attributable to professional traders. Indeed, we believe potential liquidity providers would be more apt to provide liquidity in alternative trading systems and other non-exchange market centers where the customization and segmentation experience may be less transparent and objective.

While non-routable orders would not be permitted to execute against Route Peg Orders, the Exchange does not believe that the proposed rule changes would be designed to permit unfair discrimination between customers, brokers, or dealers. First, the Exchange believes this limited exception is constructed narrowly enough, based on rational and legitimate grounds, so that the compelling policy objectives, which are wholly consistent with the Act, can be realized. Second, the Exchange is not proposing to limit the type of User that can place routable orders, or that can place Route Peg Orders. So any disadvantage resulting from the limitation to executing against routable orders would not target particular segments of market participants, per se, but rather a particular type of market behavior. Therefore, the Exchange believes that not only would the proposed rule changes not be designed to permit unfair discrimination between customers, brokers, or dealers, the differentiation between routable and non-routable orders is an important element for the Route Peg Order to be able to achieve the objectives of protecting investors and the public interest and promoting just and equitable principles of trade.

Finally, because the Route Peg Order would be functionally similar to the Supplemental Order that is currently offered by the NASDAQ Stock Market LLC ("NASDAQ"),[13] the Route Peg Order would promote competition by enhancing EDGX's ability to compete with NASDAQ as well as other non-exchange market centers.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Changes 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 Changes and Timing for Commission Action

Within 45 days of the date of publication of this notice or within such longer period (i) as the Commission may designate up to 45 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(a) by order approve or disapprove such proposed rule changes; or

(b) institute proceedings to determine whether the proposed rule changes should be disapproved.

[13] See NASDAQ Rules 4751(f)(14), 4751(g) and 4757(a)(1)(D).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-EDGX-2012-25 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 No. SR-EDGX-2012-25. 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 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 No. SR-EDGX-2012-25 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.[14]

Kevin M. O'Neill
Deputy Secretary

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[14] 17 CFR 200.30-3(a)(12).