

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72088; File No. SR-EDGX-2014-14)

May 2, 2014

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend EDGX Rule 11.5 Regarding the Route 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 April 21, 2014, EDGX Exchange, Inc. (“EDGX” or “Exchange”) 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 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 the Route Peg Order under Rule 11.5(c)(17) to permit: (i) executions against routable orders that are equal to or less than the aggregate size of the Route Peg Order interest available at that price; and (ii) Users<sup>3</sup> to add a minimum execution quantity instruction. 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.

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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 “User” is defined as “any Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3.” See Exchange Rule 1.5(ee).

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the Route Peg Order under Rule 11.5(c)(17) to permit: (i) executions against routable orders that are equal to or less than the aggregate size of the Route Peg Order interest available at that price, which would replace the current requirement that routable orders be equal to or less than the size of an individual Route Peg Order; and (ii) Users to add a minimum execution quantity instruction.

A Route Peg Order is a non-displayed limit order that posts to the EDGX Book, and thereafter is eligible for execution at the national best bid (“NBB”) for buy orders and national best offer (“NBO”) for sell orders against routable orders that are equal to or less than the size of the Route Peg Order.<sup>4</sup> Route Peg Orders are passive, resting orders on the EDGX Book<sup>5</sup> and do not take liquidity. Route Peg Orders may be entered, cancelled, and cancelled/replaced prior to

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<sup>4</sup> See Securities Exchange Act Release No. 67726 (August 24, 2012), 77 FR 52771 (August 30, 2012) (Order Approving the Route Peg Order).

<sup>5</sup> The “EDGX Book” is defined as “the System’s electronic file of orders.” See Exchange Rule 1.5(d).

and during Regular Trading Hours.<sup>6</sup> Route Peg Orders are eligible for execution in a given security during Regular Trading Hours, except that, even after the commencement of Regular Trading Hours, Route Peg Orders are not eligible for execution (1) in the opening cross, and (2) until such time that regular session orders in that security can be posted to the EDGX Book. A Route Peg Order does not execute at a price that is inferior to a Protected Quotation, and is not permitted to execute if the NBBO is locked or crossed. Any and all remaining, unexecuted Route Peg Orders are cancelled at the conclusion of Regular Trading Hours.

#### Aggregate Size

As noted above, Route Peg Orders will currently only trade with routable orders that are equal to or smaller in quantity than the order quantity of an individual Route Peg Order. The Exchange proposes to amend the operation of the Route Peg Order to permit it to execute against routable orders that are equal to or less than the aggregate size of the Route Peg Order interest available at that price. The Exchange believes this change would incentivize Users seeking large size executions to route orders to the Exchange by increasing opportunities for executions against Route Peg Orders. This proposed change to the Route Peg Order is similar to the operation of the Nasdaq Stock Market LLC's ("Nasdaq") Supplemental Order and NYSE Arca, Inc.'s ("NYSE Arca") Tracking Order, which both only execute if the size of the incoming order is less than or equal to the aggregate size of Supplemental Order or Tracking Order interest available at that price.<sup>7</sup>

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<sup>6</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).

<sup>7</sup> See Nasdaq Rules 4751(f)(14), 4751(g) and 4757(a)(1)(D); see also NYSE Arca Rule 7.31(f).

### Minimum Execution Quantity

The Exchange also proposes to amend the Route Peg Order under Rule 11.5 to add optional functionality to allow Users to designate a minimum execution quantity. As proposed, a minimum execution quantity on a Route Peg order will no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. This proposed change is similar to the operation of NYSE Arca, Inc.'s Tracking Order, which permits Tracking Orders to include a minimum size requirement.<sup>8</sup> The Exchange believes that providing Users with the option to designate a minimum quantity for Route Peg Orders will promote the entry of liquidity at the Exchange because Users entering such orders will be assured of obtaining a larger sized execution. The Exchange believes that the proposed rule change could attract Users that are seeking larger executions to enter Route Peg Orders because by designating a minimum quantity, the submitting User would be assured that they are not traded against by smaller-sized interest.

### Implementation Date

The Exchange will announce the effective date of the proposed rule change in a Trading Notice to be published no later than 30 days following publication of the proposed rule change by the Commission.

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<sup>8</sup> On NYSE Arca, if the Tracking Order with a minimum size requirement is executed but not exhausted and the remaining portion of the Tracking Order is less than the minimum size requirement, NYSE Arca would cancel the Tracking Order. See NYSE Arca Rule 7.31(f). See also Securities Exchange Act Release No. 71366 (January 22, 2014), 79 FR 4515 (January 28, 2014) (SR-NYSEArca-2014-01) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending NYSE Arca Equities Rule 7.31 to Add a Minimum Execution Size Designation for Tracking Orders).

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>10</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

### Aggregate Size

The Exchange believes that the proposal to permit executions against routable orders that are equal to or less than the aggregate size of the Route Peg Order interest available at that price would remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest because it would incentivize Users seeking large size executions to route orders to the Exchange by increasing opportunities for executions against Route Peg Orders in a manner similar to existing functionality available on Nasdaq and NYSE Arca.<sup>11</sup> The proposed rule change also encourages market participants to post liquidity at the NBBO on the Exchange through the use of Route Peg Orders, thereby promoting just and equitable principles of trade and removing impediments to and perfecting 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. Lastly, the Exchange does not believe that this

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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 8 and accompanying text.

will permit unfair discrimination among customers, brokers, or dealers because it will be available to all Users.

#### Minimum Execution Quantity

The Exchange also believes its proposal to amend the Route Peg Order under Rule 11.5 to add optional functionality to allow Users to designate a minimum execution quantity removes impediments to and perfects the mechanism of a free and open market and protects investors and the public interest because it would provide an incentive for Members seeking larger-sized executions both to post liquidity at the Exchange using this feature and to route larger-sized orders to the Exchange because of the potential for an execution against such liquidity. The Exchange further believes that adding an optional minimum quantity would remove impediments to and perfect the mechanism of a free and open market system because the proposed functionality is similar to functionality available at the NYSE Arca.<sup>12</sup> The Exchange believes it is appropriate to provide an option for Users seeking to provide such liquidity to not only designate a minimum execution quantity, but for a minimum execution quantity on a Route Peg order to no longer apply where the number of shares remaining after a partial execution are less than the minimum execution quantity. Doing so would permit Users to continue to have their Route Peg Orders eligible for execution in such circumstances. In such case, Users will have the option to cancel their Route Peg Order if they wish.

#### 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, the Exchange believes that the proposal will promote competition by enhancing the

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<sup>12</sup> See supra note 9 [sic] and accompanying text.

value of the Exchange's Route Peg Order by mirroring the function of similar order types offered by Nasdaq and NYSE Arca.<sup>13</sup>

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 filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup> Because the 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) 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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>16</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

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<sup>13</sup> See supra notes 8 [sic] and 9 [sic] and accompanying text.

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

<sup>16</sup> 15 U.S.C. 78s(b)(2)(B).

#### 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-2014-14 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-2014-14. 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 publicly available. All submissions should refer to File Number SR-EDGX-2014-14 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>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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