

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69539; File No. SR-EDGX-2013-16)

May 8, 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 May 1, 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). 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, 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ As defined in Exchange Rule 1.5(n).

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

Currently, Footnote 1 of the Exchange's fee schedule provides that Members may qualify for the Mega Tier rebate of \$0.0035 per share for all liquidity posted on EDGX where Members add or route at least 2 million shares of average daily volume ("ADV") prior to 9:30 AM or after 4:00 PM (includes all flags except 6) and add a minimum of 35 million shares of ADV on EDGX in total, including during both market hours and pre- and post-trading hours (hereinafter referred to as the "\$0.0035 Mega Tier Rebate"). Members also may qualify for the Mega Tier but will earn a rebate of \$0.0032 per share for all liquidity posted on EDGX if they add or route at least 4 million shares of ADV prior to 9:30 AM or after 4:00 PM (includes all flags except 6) and add a minimum of .20% of the Total Consolidated Volume ("TCV") on a daily basis measured monthly, including during both market hours and pre- and post-trading hours (hereinafter referred to as the "\$0.0032 Mega Tier Rebate"). Currently, for meeting the aforementioned criteria (the \$0.0035 Mega Tier Rebate or the \$0.0032 Mega Tier Rebate), Members will pay a reduced rate for removing liquidity of \$0.0029 per share for Flags N, W, 6, BB, PI, and ZR (hereinafter referred to as the \$0.0029 Reduced Rate). Where a Member does not meet the criteria for either the \$0.0035 Mega Tier Rebate or \$0.0032 Mega Tier Rebate, then a removal rate of \$0.0030 per share applies.

The Exchange proposes to amend Footnote 1 of its fee schedule to provide that if Members qualify for the \$0.0035 Mega Tier Rebate, they can also qualify for a separate reduced

rate for removing and/or routing liquidity of \$0.0020 per share for Flags N, W, 6, 7, BB, PI, RT, and ZR (hereinafter referred to as the \$0.0020 Reduced Rate). The Exchange proposes to append Footnote 1 to Flags 7 and RT (the routing flags) to signify a rate change from the routing rates of \$0.0030 per share if the criteria of Footnote 1 is met. Footnote 1 is already appended to the other above-mentioned flags.

The Exchange notes that Members that qualify for the \$0.0035 Mega Tier Rebate would no longer qualify for the \$0.0029 Reduced Rate and may only qualify for the \$0.0020 Reduced Rate. The Exchange also proposes to add the following language to the end of the paragraph regarding the \$0.0035 Mega Tier Rebate: Where a Member does not meet the aforementioned criteria, then a rate of \$0.0030 per share applies.

In addition, the Exchange proposes to separate out the criteria for the \$0.0035 Mega Tier Rebate and the \$0.0032 Mega Tier Rebate by separating out the tiers and accompanying reduced rates into their own paragraphs. Lastly, the Exchange proposes to add “per share” following the amount of the reduced rate in the paragraph regarding the \$0.0032 Mega Tier Rebate, as well as to use the term “aforementioned” instead of “for the Mega Tier.” Therefore, the final two sentences in the paragraph will now read as follows: “In addition, for meeting the aforementioned criteria, Members will pay a reduced rate for removing liquidity of \$0.0029 per share for Flags N, W, 6, BB, PI, and ZR. Where a Member does not meet the aforementioned criteria, then a removal rate of \$0.0030 per share applies.”

The Exchange proposes to implement this amendment to its fee schedule on May 1, 2013.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,⁴ in general, and furthers the objectives of Section 6(b)(4),⁵ 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 believes that its proposal to provide that if Members qualify for the \$0.0035 Mega Tier Rebate, they can also qualify for the \$0.0020 Reduced Rate represents an equitable allocation of reasonable dues, fees, and other charges because it incentivizes Members to add liquidity to the EDGX Book⁶ as well as remove and/or route liquidity through the Exchange. The increased liquidity benefits all investors by deepening EDGX's liquidity pool, supporting the quality of price discovery, promoting market transparency and improving investor protection. The Exchange also believes that the \$ 0.0020 Reduced Rate makes EDGX a more attractive venue to take liquidity from or route liquidity through, which brings a higher quality of order flow to the EDGX Exchange and supports price discovery on EDGX. Finally, the Exchange believes that the discounted removal and/or routing rate of \$0.0020 per share will also help it to grow its market share as new takers who are incentivized to achieve the \$0.0035 Mega Tier Rebate would send additional volume to the Exchange or remove additional shares from the Exchange in future trading opportunities. Volume-based rebates that also include removal and/or routing fee reductions as a result of meeting such volume-based rebate such as the one proposed herein have been widely adopted in the cash equities markets, and are equitable because they are open to all Members on an equal basis and provide discounts that are

⁴ 15 U.S.C. 78f.

⁵ 15 U.S.C. 78f(b)(4).

⁶ As described in Exchange Rule 1.5(d).

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 processes. In addition, the Exchange also believes that these proposed amendments are non-discriminatory because they apply uniformly to all Members.

In particular, the \$0.0035 Mega Tier rebate is reasonable in that it is competitive with Nasdaq's Routable Order Program ("ROP"),⁷ a similar program with similar criteria focused on recognizing the propensity of Members representing retail customers to make use of exchange-provided routing strategies and pre- and post-market trading sessions, as compared with proprietary traders.⁸ Similar to Nasdaq's program, the \$0.0035 Mega Tier is also aimed at encouraging greater participation on EDGX by Members that represent retail customers.⁹ To qualify for the ROP and receive a rebate of \$0.0037 per share and a reduced removal fee of \$0.0029 per share for SCAN or LIST orders that access liquidity on Nasdaq, an MPID must: (i)

⁷ See Nasdaq Equity Trader Alert 2013-8, <http://www.nasdaqtrader.com/TraderNews.aspx?id=ETA2013-8>. See also, The Nasdaq Stock Market LLC, Price List – Trading Connectivity, <http://www.nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

⁸ See Securities Exchange Act Release No. 68905 (February 12, 2013), 78 FR 11716 (February 19, 2013) (SR-NASDAQ-2013-023).

⁹ The Commission has expressed concern that a significant percentage of the orders of individual investors are executed in over-the-counter markets, that is, at off exchange markets. Securities Exchange Act Release No. 61358 (January 14, 2010), 75 FR 3594 (January 21, 2010) (Concept Release on Equity Market Structure, "Concept Release"). In the Concept Release, the Commission recognized the strong policy preference under the Act in favor of price transparency and displayed markets. See also Mary L. Schapiro, Strengthening Our Equity Market Structure (Speech at the Economic Club of New York, Sept. 7, 2010) (available on the Commission website) (comments of Commission Chairman on what she viewed as a troubling trend of reduced participation in the equity markets by individual investors, and that nearly 30 percent of volume in U.S.-listed equities is executed in venues that do not display their liquidity or make it generally available to the public).

add 35 million shares or more per day on average using the SCAN or LIST routing strategies; and (ii) of the liquidity provided using SCAN or LIST strategies, at least 2 million shares per day on average must be provided before the Nasdaq opening cross and/or after the Nasdaq closing cross. In addition, similar to Nasdaq's ROP's reduced removal fees, the proposed reduction in removal fees and routing rates for the Exchange's listed flags is reasonable because it reflects significant fee reductions, thereby reducing the costs to Members that represent retail customers and take advantage of the tier, and potentially also reducing costs to the retail customers themselves. The change is consistent with an equitable allocation of fees because EDGX believes that it is reasonable to use fee reductions on removal and routing fees as a means to encourage greater retail participation on EDGX. In particular, Flags RT and 7 are proposed to be offered lower routing rates because they are yielded from routing strategies ROUT¹⁰ and pre and post-session routing, respectively, which are used by retail investors and are similar to Nasdaq's SCAN routing strategy.¹¹ The other removal flags selected (Flags N, W, 6, BB, PI, and ZR) represent all possible removal flags that are yielded from removing liquidity from EDGX.

Because retail orders are more likely to reflect long-term investment intentions than the orders of proprietary traders, they promote price discovery and dampen volatility. Accordingly, their presence on the EDGX Book has the potential to benefit all market participants. For this reason, EDGX believes that it is equitable to provide significant financial incentives to encourage greater retail participation in the market in general and on EDGX in particular.

¹⁰ As defined in Exchange Rule 11.9(b)(2).

¹¹ See NASDAQ Rule 4758(a)(1)(A)(iv). See also Securities Exchange Act Release No. 68905 (February 12, 2013), 78 FR 11716, 11717 (February 19, 2013) (SR-NASDAQ-2013-023) (describing SCAN as a basic Nasdaq routing strategy that is widely used by firms that represent retail customers. SCAN checks the Nasdaq Market Center System for available shares, while remaining shares are simultaneously routed to destinations on the applicable routing table. If shares remain un-executed after routing, they are posted on the Nasdaq book).

EDGX further believes that the proposed program is not discriminatory because it is offered to all Members, whether or not they represent retail customers, that provide significant levels of liquidity, and is therefore complementary to existing incentives that already aim to encourage greater retail participation, such as EDGX's Retail Order Tier¹² and flags ZA/ZR in Footnote 4 of its fee schedule.

The Exchange also believes that the criteria for the \$0.0035 Mega Tier Rebate also represents an equitable allocation of reasonable dues, fees, and other charges since higher rebates and proposed reduced fees for removal of liquidity and/or routing are directly correlated with more stringent criteria.

For example, in order for a Member to qualify for the \$0.0035 Mega Tier Rebate, the Member would have to add or route at least 2 million shares of ADV during pre- and post-trading hours and add a minimum of 35 million shares of ADV on EDGX in total, including during both market hours and pre- and post-trading hours in order to obtain the \$0.0020 Reduced Rate for routing and/or removal of liquidity fees. The criteria for this tier is the most stringent of all other tiers on the Exchange's fee schedule as fewer Members generally trade during pre- and post-trading hours because of the limited time parameters associated with these trading sessions, which generally results in less liquidity. In addition, the Exchange assigns a higher value to this resting liquidity because liquidity received prior to the regular trading session typically remains resident on the EDGX Book throughout the remainder of the entire trading day. Furthermore, 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

¹² Footnote 4 of the Exchange's fee schedule provides that Members will be provided a rebate of \$0.0034 per share if they add an average daily volume of Retail Orders (Flag ZA) that is 0.10% or more of the TCV on a daily basis, measured monthly.

relative illiquidity of the pre- and post-trading hour sessions. The Exchange believes that offering a higher rebate and reduced fees for removal of liquidity and/or routing incentivizes Members to provide liquidity during these trading sessions.

In order to qualify for the next best tier after the Mega Tier (at \$0.0033), the Market Depth Tier, a Member would receive a rebate of \$0.0033 per share for displayed liquidity added on EDGX if they post greater than or equal to 0.50% of the TCV in ADV on EDGX in total, where at least 2 million shares of which are Non-Displayed Orders that yield Flag HA.

Assuming a TCV of 6 billion shares for March 2013, this would amount to 30 million shares, at least 2 million shares of which are Non-Displayed Orders. The criteria for this tier is less stringent than the volume thresholds for the \$0.0035 Mega Tier Rebate because Members must add a minimum of 35 million shares of ADV in addition to adding or routing at least 2 million shares of ADV during pre- and post-trading hours to earn a rebate of \$0.0035 per share and be eligible for lower removal and/or routing fees (\$0.0020 Reduced Rate). As discussed, the criteria for the Mega Tier is the most stringent as fewer Members generally trade during pre- and post-trading hours because of the limited time parameters associated with these trading sessions, which generally results in less liquidity.

The Exchange believes that it is reasonable to lower removal and/or routing fees using liquidity provision patterns. First, the lower removal and/or routing rates are similar to the Exchange's Step-up Take Tier in Footnote 2 of its fee schedule¹³ and other similar tiers on NYSE Arca¹⁴ and BATS BZX,¹⁵ in that it offers a discounted removal rate that is designed to

¹³ See Securities Exchange Act Release No. 68166 (November 6, 2012), 77 FR 67695 (November 13, 2012) (SR-EDGX-2012-46).

¹⁴ The Exchange's discounted removal rate from \$0.0030 per share to \$0.0020 per share for Members that achieve the \$0.0035 Mega Tier is also reasonable because it is similar in concept to discounts offered by NYSE Arca, where the default removal rate is \$0.0030

incentive fee sensitive liquidity takers to the Exchange provided they are able to meet certain volume requirements. The Exchange believes that the proposed reduction of certain of the Exchange's routing fees (Flags RT and 7) provided the criteria for the \$0.0035 Mega Tier Rebate is met is equitably allocated, fair and reasonable, and non-discriminatory in that the lower fees are equally applicable to all Members that meet the applicable criteria and are designed to provide a reduced fee for orders routed to certain market centers.

The Exchange also 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 levels at a particular venue to be excessive. The proposed rule change reflects a competitive pricing structure designed to incentivize market participants to direct their order flow to the Exchange. The Exchange believes that the proposed rates are equitable and non-discriminatory in that they apply uniformly to all Members. The Exchange believes the fees and credits remain competitive with those charged by other venues and therefore continue to be reasonable and equitably allocated to Members.

per share and customers that qualify for the Tape C Step Up Tier earn discounts of \$0.0029 per share. See NYSE Arca Equities, Inc. Schedule of Fees and Charges for Exchange Services, https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_arca_marketplace_fees_5_1_13.pdf.

¹⁵ Lower routing fees for routing through an exchange to reach another destination are common on BATS BZX Exchange in particular, which offers “one under” pricing. BATS BZX Exchange provides a discounted fee for Destination Specific Orders routed to certain of the largest market centers measured by volume (NYSE, NYSE Arca and NASDAQ), which, in each instance has been \$ 0.0001 less per share for orders routed to such market centers by the BATS BZX Exchange than such market centers currently charge for removing liquidity. See BATS BZX Exchange Fee Schedule, http://cdn.batstrading.com/resources/regulation/rule_book/BATS-Exchanges_Fee_Schedules.pdf.

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

This proposed rule change does 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 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, EDGX 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.

The Exchange believes its proposal will increase intermarket competition and possibly encourage the Exchange's competitors to make competitive responses. The Exchange believes the proposal will increase intermarket competition because it is comparable in financial incentives and criteria to Nasdaq's ROP, as described above, in that both require the addition of 35 million shares or more per day on average of liquidity, at least 2 million shares per day on average must be provided during pre and post-trading hours. The Exchange believes that its proposal will have no burden on intramarket competition because the rate applies 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-EDGX-2013-16 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-2013-16. 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

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(2).

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-2013-16 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).