



SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70364; File No. SR-EDGA-2013-26)

September 10, 2013

Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the EDGA 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 August 30, 2013, EDGA Exchange, Inc. (the “Exchange” or “EDGA”) 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 Fee Schedule to: (i) decrease the fee for orders yielding Flag RP; (ii) add the Step-Up Tier 2; and (iii) move the bullets related to “added flags,” “removal flags,” and “routed flags” from the Definitions section to the General Notes section. All of the changes described herein are applicable to EDGA Members.<sup>3</sup> 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.

---

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

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

<sup>3</sup> As defined in Exchange Rule 1.5(n).

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

The Exchange proposes to amend its Fee Schedule to: (i) decrease the fee for orders yielding Flag RP; (ii) add the Step-Up Tier 2; and (iii) move the bullets related to “added flags,” “removal flags,” and “routed flags” from the Definitions section to the General Notes section.

Flag RP

Currently, the Exchange assesses a fee of \$0.0005 per share for non-displayed orders that add liquidity using the Route Peg order type, yielding Flag RP. The Exchange proposes to decrease this rate from a fee of \$0.0005 to \$0.0004 per share, resulting in a rate that is \$0.0001 below the standard rate of \$0.0005 for adding liquidity on the Exchange.

Addition of Step-Up Tier 2

Currently, Footnote 4 of the Fee Schedule contains the Step-Up Tier, which provides Members with a reduced fee of \$0.0003 per share to add liquidity to the Exchange when the Member, on an MPID basis, adds more than 0.10% of the total consolidated volume (“TCV”) on EDGA on a daily basis, measured monthly, more than the MPID’s December 2012 added TCV. Where an MPID’s December 2012 TCV is zero, the Exchange applies a default TCV baseline of

10,000,000 shares. The Exchange proposes to add the Step-Up Tier 2 to Footnote 4 of the Fee Schedule. The Step-Up Tier 2 would provide Members with a reduced fee of \$0.0003 per share to add liquidity to the Exchange when the Member: (i) on an MPID basis, adds more than 0.05% of the TCV on EDGA on a daily basis, measured monthly, more than the MPID's December 2012 added TCV; and (ii) has an "added liquidity" to "added plus removed liquidity" ratio of at least 85%. Where an MPID's December 2012 TCV is zero, the Exchange would apply a default TCV baseline of 10,000,000 shares.

The Exchange also proposes to change the name of the Step-Up Tier to the "Step-Up Tier 1" to differentiate it from the proposed Step-Up Tier 2. Furthermore, the Exchange proposes to remove the phrase "Volume from non-displayed orders that add liquidity will count towards this tier" under the Step-Up Tier 1 because the Fee Schedule includes the flags assigned to non-displayed orders that add liquidity (DM, HA, PA and RP) in the list of added flags that count towards tiers under the Definitions section (proposed to be moved to the General Notes section, see below). The Exchange notes that volume from non-displayed orders that add liquidity will continue to count towards the volume tiers in Footnote 4, and would also count towards the proposed Step-Up Tier 2.

#### Amendments to Lists of Added, Removal and Routed Flags

Currently, the Definitions section in the Fee Schedule contains three bullets that contain the list of applicable "added flags," "removal flags," and "routed flags," that may be considered when calculating whether a Member satisfied a certain tier. The Exchange proposes to move the text contained within each of the three bullets to the General Notes section. In addition, the Exchange proposes to re-word the text of each bullet to improve readability and remove references to the flags as defined terms. For example, the amended bullet regarding added flags

would read as follows: “Unless otherwise indicated, the following added flags are counted towards tiers...” The Exchange notes that the list of added/removal/routed flags associated with each bullet would remain unchanged.

### Implementation Date

The Exchange proposes to implement these amendments to its Fee Schedule on September 3, 2013.

### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of Section 6 of the Act,<sup>4</sup> in general, and furthers the objectives of Section 6(b)(4),<sup>5</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.

### Flag RP

The Exchange believes that amending the fee for orders that yield Flag RP from \$0.0005 to \$0.0004 per share represents an equitable allocation of reasonable dues, fees and other charges among its Members and other persons using its facilities because a rate of \$0.0004 continues to be less than the prevailing rates for other forms of non-displayed order types that add liquidity (e.g., the Exchange assesses a charge of \$0.0005 per share for non-displayed orders that add liquidity using the Midpoint Discretionary order type yielding Flag DM and \$0.0010 per share for non-displayed orders that add liquidity yielding Flag HA).<sup>6</sup> Within the non-displayed category of liquidity, Route Peg orders have the lowest order book priority, followed by

---

<sup>4</sup> 15 U.S.C. 78f.

<sup>5</sup> 15 U.S.C. 78f(b)(4).

<sup>6</sup> See Securities Exchange Act Release No. 67839 (September 12, 2012), 77 FR 57631 (September 18, 2012) (SR-EDGA-2012-41) (adding Flag RP to the Fee Schedule).

Midpoint Discretionary orders and then non-displayed orders. Lower order book priority correlates to a lower chance of execution, which justifies a lower fee. Therefore, the Exchange is proposing to continue to offer a lower fee for Flag RP. Furthermore, the Exchange notes that the proposed rate change is in response to the August 2013 change in the standard rate from a fee of \$0.0006 per share to \$0.0005 per share for adding liquidity on EDGA.<sup>7</sup> The proposed change would cause the fee for Flag RP to continue to be \$0.0001 per share below the standard rate for adding liquidity on the Exchange. Lastly, the Exchange believes that the proposed rate is non-discriminatory in that it would apply uniformly to all Members.

#### Addition of Step-Up Tier 2

The Exchange believes a reduced fee of \$0.0003 per share for adding liquidity provided by the Step-Up Tier 2 versus the standard fee of \$0.0005 per share represents an equitable allocation of reasonable dues, fees, and other charges since reduced fees reward higher liquidity provision commitments by Members. The Exchange believes that offering Members a reduced fee will incentivize adding liquidity on the Exchange. Such increased volume would increase potential revenue to the Exchange and allow the Exchange to spread its administrative and infrastructure costs over a greater number of shares, which would result in lower per share costs. The Exchange may then pass on these savings to Members in the form of reduced fees. The increased liquidity would also benefit all investors by deepening EDGA's liquidity pool, offering additional flexibility for all investors to enjoy cost savings, supporting the quality of price discovery, promoting market transparency and improving investor protection. Volume-based reduced fees such as the proposed Step-Up Tier 2 have been widely adopted in the cash equities markets, and are equitable because volume-based reduced fees are open to all Members on an

---

<sup>7</sup> See Securities Exchange Release No. 70146 (August 8, 2013), 78 FR 49574 (August 14, 2013) (SR-EDGA-2013-21).

equal basis and provide discounts 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.

In addition, the criteria for the Step-Up Tier 2 is also reasonable as compared to similar pricing mechanisms employed by The Nasdaq Stock Market LLC ("Nasdaq") that also offers rebates and tiers to add liquidity through a single MPID.<sup>8</sup> The concept of a single MPID also encourages those MPIDs that do the most to enhance EDGA's market quality through unified management of a high volume of added liquidity. The Exchange also wishes to ensure that its Fee Schedule does not provide excessive encouragement to Members to aggregate the activity of multiple MPIDs for the sole purpose of achieving a tiered discounted rate. Thus, a Member that is not able to achieve the requisite level of liquidity provision will not be able to meet the threshold by coordinating and consolidating the trading activity of other related firms using multiple MPIDs. The Exchange believes that it is reasonable and equitable to offer a discounted rate to Members that provide volume through a single MPID because the Exchange believes that such Members are most likely to provide consistent liquidity during periods of market stress and to manage their quotes/orders in a coordinated manner that promotes price discovery and market stability.

The Exchange notes that the reduced fee provided by the Step-Up Tier 2 is equivalent to that provided by the Step-Up Tier 1. The Exchange believes that the reduced fee of \$0.0003 per share provided by the Step-Up Tier 2 is reasonable because, although the Step-Up Tier 2 requires a lower added TCV threshold in comparison to the Step-Up Tier 1, the Step-Up Tier 2 contains

---

<sup>8</sup> See Nasdaq OMX, Price List – Trading & Connectivity, <http://nasdaqtrader.com/Trader.aspx?id=PriceListTrading2>.

an additional requirement that the Member have an “added liquidity” to “added plus liquidity” ratio of at least 85%. The Exchange believes that the requirement that a Member have an “added liquidity” to “added plus removed liquidity” ratio of at least 85% is reasonable because it would incentivize Members aspiring to achieve the Step-Up Tier 2 to add liquidity to the Exchange. Members that primarily post liquidity are more valuable Members to the Exchange and the marketplace in terms of liquidity provision and would therefore be rewarded with a reduced fee for having a high “added liquidity” to “added plus removed liquidity” ratio.

The Exchange also believes that removal of the phrase “Volume from non-displayed orders that add liquidity will count towards this tier” under the Step-Up Tier 1 is reasonable because the Fee Schedule already includes the flags assigned to non-displayed orders that add liquidity (DM, HA, PA and RP) in the list of added flags that count towards tiers under the Definitions section (proposed to be moved to the General Notes section, see below). The Exchange notes that volume from non-displayed orders that add liquidity will continue to count towards the volume tiers in Footnote 4, and would also count towards the proposed Step-Up Tier 2. The removal of such language from Footnote 4 eliminates redundancy and clarifies the Fee Schedule.

Lastly, the Exchange believes that the proposed Step-Up Tier 2 is non-discriminatory because it would apply uniformly to all Members.

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

These proposed rule changes do 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 any of 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 EDGA's pricing if they believe that alternatives offer them better value.

Accordingly, the Exchange 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.

#### Flag RP

The Exchange believes that its proposal to decrease the fee for orders yielding Flag RP from \$0.0005 to \$0.0004 per share would increase intermarket competition because the lower fee for orders that yield Flag RP would incent market participants to send to the Exchange non-displayed orders that add liquidity using the Route Peg order type and yield Flag RP. The Exchange believes that the proposed rate change would neither increase nor decrease intramarket competition because the proposed rate would apply uniformly to all Members.

#### Addition of Step-Up Tier 2

The Exchange believes that the proposed addition of the Step-Up Tier 2 would increase intermarket competition as it would incentivize market participants to add liquidity to the Exchange in order to qualify for the reduced fee for adding liquidity. The Exchange believes that the Step-Up Tier 2 would neither increase nor decrease intramarket competition because the reduced fee for adding liquidity would be available to all Members that satisfy the criteria required to achieve the tier.

#### Amendments to Lists of Added, Removal and Routed Flags

The Exchange believes that the proposed relocation and changes to the bullets related to "added flags," "removal flags," and "routed flags" in its Fee Schedule would not affect intermarket nor intramarket competition because this change is not designed to amend any fee or rebate or alter the manner in which the Exchange assesses fees or calculates rebates. The

proposed change is intended to provide greater transparency to Members with regard to which added, removal and routed flags are counted towards certain tiers.

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>9</sup> and Rule 19b-4(f)(2)<sup>10</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-EDGA-2013-26 on the subject line.

---

<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4 (f)(2).

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-EDGA-2013-26. 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 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-EDGA-2013-26 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>11</sup>

Kevin M. O'Neill  
Deputy Secretary

[FR Doc. 2013-22404 Filed 09/13/2013 at 8:45 am; Publication Date: 09/16/2013]

---

<sup>11</sup> 17 CFR 200.30-3(a)(12).