



SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-74463; File No. SR-EDGX-2015-12]

Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Fees for Use of EDGX Exchange, Inc.

March 10, 2015

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 February 26, 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, II and III below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under section 19(b)(3)(A)(ii) of the Act³ and Rule 19b-4(f)(2) thereunder,⁴ which renders the proposed rule change 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 its fees and rebates applicable to Members⁵ of the Exchange pursuant to EDGX Rule 15.1(a) and (c) (“Fee Schedule”) related to the fees

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ The term “Member” is defined as “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.” See Exchange Rule 1.5(n).

charged and rebates provided for executions occurring at the midpoint of the National Best Bid or Offer (“NBBO”) by: (i) Amending the descriptions of fee codes MM and MT; and (ii) adopting new fee code AM.

The text of the proposed rule change is available at the Exchange’s website at www.batstrading.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its Fee Schedule related to the fees charged and rebates provided for executions occurring at the midpoint of the NBBO by: (i) Amending the descriptions of fee codes MM and MT; and (ii) adopting new fee code AM.

Fee Code MM

Fee code MM is applied to orders that add liquidity at the midpoint of the NBBO using: (i) a MidPoint Match Order;⁶ (ii) an order with a Hide Not Slide instruction;⁷ or (iii) an order

⁶ See Rule 11.8(d) for a description of MidPoint Match Orders.

⁷ See Rule 11.6(l)(1)(B) for a description of the Hide Not Slide instruction.

with a Non-Displayed instruction.⁸ Orders yielding fee code MM are charged a fee of \$0.0012 per share in securities priced at \$1.00 or above and receive a rebate of \$0.00003 per share in securities priced below \$1.00. The Exchange proposes to reformat the description of fee code MM using numbers (1) through (3) to better delineate each transaction to which the fee code is applied.

Pursuant to footnote 11 of the Fee Schedule, an order with a Non-Displayed instruction will receive fee code MM where it executes against an order that receives fee code MT, as discussed below. The Exchange proposes to amend footnote 11 to specifically state that an order with a Non-Displayed instruction that adds liquidity at the midpoint of the NBBO will only receive fee code MM where it receives price improvement relative to its limit price (in contrast to an order receiving fee code AM, as proposed below). Footnote 11 also currently lists the three types of orders against which an order with a Non-Displayed instruction will execute that results in fee code MM for such order, including orders with a Hide Not Slide instruction (as well as MidPoint Match Orders and orders with a Non-Displayed and Post Only instruction). The Exchange proposes to specify in footnote 11 that an order with a Non-Displayed instruction executing against an order with a Hide Not Slide instruction will receive fee code MM if the order with a Hide Not Slide instruction receives fee code MT because it also contains a Post Only instruction⁹ and the difference between the NBB and NBO is \$0.01. The applicability of fee code MT to such orders with a Hide Not Slide instruction is described in further detail below and in proposed footnote 13. As described below, the Exchange proposes an update to footnote 3, which relates to a volume tier for orders that receive fee code MM, and to append footnote 3

⁸ See Rule 11.6(e)(2) for a description of the Non-Displayed instruction.

⁹ See Rule 11.6(n)(4) for a description of the Post Only instruction.

to fee code MM, as this is the fee code to which the footnote pertains.

Neither the proposed changes to fee code MM nor the proposed changes to footnotes 3 and 11 are intended to amend the amount of the fees charged, the amount of the rebate provided or the transactions to which fee code MM is applied. The proposed changes are intended to clearly delineate the transactions to which fee code MM may be applied when adding liquidity at the midpoint of the NBBO.

Fee Code MT

Fee code MT is applied to orders that remove liquidity at the midpoint of the NBBO using: (i) A MidPoint Match Order; (ii) an order with a Hide Not Slide instruction; or (iii) an order with a Non-Displayed and Post Only instruction. Orders yielding fee code MT are charged a fee of \$0.0012 per share in securities priced at \$1.00 or above and 0.30% of the trade's dollar value in securities priced below \$1.00. The Exchange proposes to reformat the description of fee code MT using numbers (1) through (3) to better delineate each type of transaction to which the fee code is applied. The Exchange also proposes to specify within the description of fee code MT that an order with a Non-Displayed and Post Only instruction that removes liquidity at the midpoint of the NBBO will receive fee code MT if such order receives price improvement relative to its limit price. As background for this change, an order with a Post Only instruction typically does not remove liquidity. However, pursuant to Rule 11.6(n)(4), an order with a Post Only instruction will remove contra-side liquidity from the EDGX Book¹⁰ under specific circumstances, including if the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted to the EDGX Book and subsequently provided liquidity, including the applicable fees charged or rebates provided.

¹⁰ See Rule 1.5(d) for the definition of the EDGX Book.

Thus, to the extent an order with a Non-Displayed and Post Only instruction would not receive price improvement at the midpoint of the NBBO relative to its limit price then it will not remove liquidity on entry based on the Post Only instruction on such order. Accordingly, the additional language proposed for fee code MT is intended to avoid potential confusion that all orders with a Non-Displayed and Post Only instruction will remove liquidity and receive such fee code.

The Exchange also proposes to append footnote 13 to fee code MT. Proposed footnote 13 would further explain when an order with a Hide Not Slide instruction would remove liquidity at the midpoint of the NBBO and receive fee code MT. Specifically, as proposed, an order with a Hide Not Slide instruction that removes liquidity at the midpoint of the NBBO will receive fee code MT if such order also contains a Post Only instruction and the difference between the NBB and NBO is \$0.01. As described in further detail below, by charging a lower fee of \$0.0012 per share for an order with a Hide Not Slide and Post Only instruction, the Exchange facilitates an execution pursuant to its rule applicable to orders with a Post Only instruction (i.e., such orders will execute despite their Post Only instruction if economically in the best interest of the Member, as described above).¹¹ If, instead, the Exchange assigned its standard fees in such a situation, an order with a Hide Not Slide and Post Only instruction would instead be posted to the EDGX Book because the price improvement associated with a midpoint execution when the spread of the NBBO is \$0.01 would not be sufficient to result in an

¹¹ The Exchange notes that a recently approved proposal to amend Exchange rules provided information regarding the execution of an order with a Hide Not Slide instruction and a Post Only instruction at the midpoint of the NBBO. See Securities Exchange Act Release No. 72676 (July 25, 2014), 79 FR 44520, 44535 (July 31, 2014) (“Proposing Release”), “*Operation of Limit Orders with Displayed and Post Only Instructions*,” Example Number 1, Scenario Number 2. See also, Securities Exchange Act Release No. 73468 (October 29, 2014), 79 FR 65450 (November 4, 2014) (SR-EDGX-2014-18) (“Approval Order”). The Exchange believes, however, that readers of the Exchange’s fee schedule could benefit from additional detail with respect to this behavior.

execution. The Exchange also proposes to state in footnote 13 that it will charge the standard fee to remove liquidity to any order with a Hide Not Slide instruction that does not contain a Post Only instruction and to any order with a Hide Not Slide and Post Only instruction that removes liquidity at the midpoint of the NBBO when the difference between the NBB and NBO is larger than \$0.01.

Neither the proposed changes to fee code MT nor the addition of footnote 12 are intended to amend the amount of the fees charged or the transactions to which fee code MT is applied. These changes are intended to clearly delineate the transactions to which fee code MT may be applied when removing liquidity at the midpoint of the NBBO.

Fee Code AM

The Exchange proposes to adopt new fee code AM, which would be applied to certain orders that add liquidity at the midpoint of the NBBO using: (i) An order with a Non-Displayed instruction; or (ii) an order with a Discretionary Range instruction.¹² Under the Exchange's fee structure, executions of orders with a Non-Displayed instruction that add liquidity and to which fee code MM does not apply receive fee code HA and a rebate of \$0.0015 per share. Further, orders with a Discretionary Range instruction receive either a rebate of \$0.0020 per share if such orders include a Displayed instruction or a rebate of \$0.0015 per share if such orders include a Non-Displayed instruction.¹³ As proposed, rather than receiving a rebate of \$0.0015 or \$0.0020 per share when executing against incoming MidPoint Match Orders, such orders will yield fee code AM as described above and will not be charged a fee nor provided any rebate. The

¹² See Rule 11.6(d) for a description of the Discretionary Range instruction.

¹³ Currently, such orders may receive an increased rebate where the Member qualifies for the Exchange's tier-based pricing structure. Orders yielding fee code AM will continue to count towards a Member's monthly ADV to determine whether that Member qualifies for an increased rebate or lower fee.

proposed pricing for fee code AM is applicable to both securities priced at \$1.00 or above and securities priced below \$1.00.

The Exchange also proposes to adopt footnote 12 to add additional detail regarding the situations in which an order with a Non-Displayed instruction that adds liquidity at the midpoint of the NBBO will receive fee code AM (rather than fee code MM). As proposed, an order that adds liquidity at the midpoint of the NBBO using an order with a Non-Displayed instruction will receive fee code AM if it receives no price improvement relative to its limit price and executes against the following orders that receive fee code MT: a MidPoint Match order and an order with a Non-Displayed and Post Only instruction. As explained in further detail below, the Exchange proposes to adopt footnote 12 to specifically differentiate between an order with a Non-Displayed instruction that receives price improvement relative to its limit price, which will receive fee code MM and pay a fee of \$0.0012 per share in such circumstances, and an order with a Non-Displayed instruction that receives no price improvement relative to its limit price, which will receive fee code AM and neither pay a fee nor receive a rebate. A Member that submits an order with a Non-Displayed instruction that is resting on the Exchange likely anticipates to receive an execution with fee code HA, and thus, a rebate of \$0.0015 per share; however, the Exchange believes that assigning fee code MM and charging a fee when an execution occurs at a price better than an order's limit price is reasonable because it recognizes the value associated with the price improvement received by the Non-Displayed order as compared to the limit price of the order. In contrast, when a Member expects a rebate and receives no price improvement, the Exchange believes it is reasonable to provide an execution free of charge in order to facilitate an execution at the midpoint of the NBBO.

Similarly, as proposed, an order with a Discretionary Range instruction will receive fee

code AM where it adds liquidity at the midpoint of the NBBO and executes against a MidPoint Match order. The Exchange believes it is reasonable to apply fee code AM to an order with a Discretionary Range instruction for reasons similar to those described above. Although a Member representing an order with a Discretionary Range instruction on the Exchange is likely expecting to receive a rebate for such execution, if the Member receives a midpoint execution against a MidPoint Match Order and receives fee code AM, such Member is at least receiving price improvement as compared to the NBB or NBO, as applicable.

In addition to the changes described above, the Exchange proposes to modify footnote 3 to add fee code AM to the list of orders that contribute to the tier calculation specified in such footnote. Footnote 3 describes the MidPoint Match Volume Tier, which results in executions without charge or rebate for any Member that adds liquidity yielding fee code MM if such Member adds or removed a combined ADV of 2,500,000 shares resulting from various fee codes related to midpoint executions, including AA, MM or MT. The Exchange proposes to add fee code AM to this list, as executions receiving fee code AM will also be midpoint executions.

The below examples illustrate when fee codes AM and MM would be applied to executions of specified orders at the midpoint of the NBBO.

Example – An Order with a Non-Displayed Instruction Adds Liquidity

Assume the NBBO is \$10.00 by \$10.10, resulting in a midpoint of the NBBO of \$10.05. Assume the Exchange receives an order with a Non-Displayed and Book Only instruction¹⁴ to buy 100 shares at \$10.05 per share and that there is no available contra-side liquidity on the EDGX Book. The order to buy is posted to the EDGX Book non-displayed at \$10.05, the midpoint of the NBBO. An incoming MidPoint Match Order to sell is entered and executes

¹⁴ See Rule 11.6(n)(3) for a description of the Book Only instruction.

against the resting order to buy at \$10.05, the midpoint of the NBBO. The order to buy with a Non-Displayed and Book Only instruction will receive fee code AM and will not be charged a fee because it added liquidity at the midpoint of the NBBO against an incoming Midpoint Match Order and did not receive price improvement relative to its limit price. The incoming MidPoint Match Order to sell will receive fee code MT and will be charged \$0.0012 per share based on the Exchange's pre-existing pricing structure. The result would be the same if the incoming order was not a MidPoint Match Order but was instead an order with a Non-Displayed and Post Only instruction that removed liquidity on entry (i.e., priced at \$10.04 or better, thus removing liquidity based on the economic best interest discussion above).

If, in the example above, the original order posted to the EDGX Book was an order with a Non-Displayed and Book Only instruction to buy 100 shares at \$10.06 per share, then the example above would still be accurate except that such order would receive fee code MM and would be charged a fee of \$0.0012 per share because the order receives price improvement relative to its limit price when executed.¹⁵

Example – An Order with a Discretionary Range Instruction Yields Fee Code AM

Assume again that the NBBO is \$10.00 by \$10.10, resulting in a midpoint of the NBBO of \$10.05. Assume the Exchange receives an order with a Displayed and Book Only instruction to buy 100 shares of a security at \$10.00 per share and that such order also contains a Discretionary Range instruction to pay up to an additional \$0.05 per share. Further assume that

¹⁵ As set forth in Rule 11.6(l)(3), an order with a Non-Displayed instruction that is priced better than the midpoint of the NBBO is ranked at the midpoint of the NBBO with discretion to execute at its limit price. Thus, an order to buy at \$10.06 with a Non-Displayed instruction would be re-priced to \$10.05 with discretion to its limit price of \$10.06. In turn, when the later arriving MidPoint Match Order arrives the execution would occur at \$10.05, thus resulting in an execution \$0.01 better than the limit price of the order with the Non-Displayed instruction.

there is no available contra-side liquidity on the EDGX Book. The order to buy is posted to the EDGX Book at \$10.00 with discretion to pay up to \$10.05. An incoming MidPoint Match Order to sell is entered and executes against the resting order with a Discretionary Range instruction to buy at \$10.05, the midpoint of the NBBO. The order to buy with a Discretionary Range instruction will receive fee code AM and will not be charged a fee because it added liquidity at the midpoint of the NBBO against an incoming Midpoint Match Order. The incoming MidPoint Match Order will receive fee code MT and be charged \$0.0012 per share based on the Exchange's pre-existing pricing structure.

Implementation Date

The Exchange proposes to implement these amendments to its Fee Schedule on March 2, 2015.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the objectives of section 6 of the Act,¹⁶ in general, and furthers the objectives of section 6(b)(4),¹⁷ 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 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 Exchange believes that the proposed rates are equitable and non-discriminatory in that they apply uniformly to all Members.

The Exchange believes the proposed amendments to fee codes MM and MT are

¹⁶ 15 U.S.C. 78f.

¹⁷ 15 U.S.C. 78f(b)(4).

reasonable and equitable and not unfairly discriminatory because they provide additional specificity regarding the fees charged for executions occurring at the midpoint of the NBBO. The Exchange notes that the proposed changes to fee codes MM, MT, and the related footnotes do not amend the amount of the fees charged or rebate provided. Nor do the proposed changes to fee code MM, MT, or the related footnotes amend the transactions to which they may be applied. These changes are intended to amend the description of fee codes MM and MT to clearly delineate the transactions to which such fee codes are applied when adding liquidity and removing liquidity at the midpoint of the NBBO. Included within these changes are the changes to footnotes 11 and 13 that specify when an order with a Hide Not Slide instruction will receive fee code MT (i.e., when also designated with a Post Only instruction and the difference between the NBB and NBO is \$0.01). The Exchange believes that this pricing model is reasonable and equitable because it helps to facilitate executions at the midpoint of the NBBO that would not otherwise occur based on the Post Only instruction of such orders. Based on the foregoing, the proposed rule changes would remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

The Exchange also believes the proposed new fee code AM is consistent with the objectives of section 6 of the Act,¹⁸ in general, and furthers the objectives of section 6(b)(4),¹⁹ 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 because it will enable the Exchange to realign its pricing structure for such executions with its costs for providing such

¹⁸ 15 U.S.C. 78f.

¹⁹ 15 U.S.C. 78f(b)(4).

executions while continuing to enable the Exchange to offer competitive, incentive based pricing for executions occurring at the midpoint of the NBBO. The Exchange believes that all Members utilizing orders that are eligible for an execution at the midpoint receive a form of price improvement even when such price improvement is not measured against their limit price. Specifically, a midpoint execution is by definition a better price than executing at the NBB for an order to sell or NBO for an order to buy. Therefore, the Exchange believes it is reasonable and equitable to provide a free transaction (i.e., no fee or rebate) for those executions at the midpoint of the NBBO that yield fee code AM. The Exchange also believes that the proposed pricing for fee code AM is not unfairly discriminatory because it is tailored to balance competing interests of the Member that submitted the order to add liquidity (and likely expects a rebate) against the fact that such Member receives a midpoint execution, which is typically an execution that is charged a fee pursuant to the Exchange's fee structure based on the value of such execution when compared to the NBB or NBO.

The Exchange's fee structure is intended to reasonably and equitably allocate fees amongst Members that receive executions at the midpoint of the NBBO under various scenarios. For example, an order with a Non-Displayed instruction that adds liquidity at the midpoint of the NBBO that executes against an incoming MidPoint Match Order and receives price improvement relative to its limit price will receive fee code MM and pay a fee of \$0.0012 per share. While such order has added liquidity, and thus the User that sent the order would typically expect a rebate, the Exchange believes that it is reasonable and equitable to impose a modest fee for such execution based on the price improvement received as compared to the order's limit price. In contrast, as proposed, that same order with a Non-Displayed instruction that similarly adds liquidity at the midpoint of the NBBO but receives no price improvement will yield fee code

AM. Because such order has not received price improvement over its limit price but has received an execution between the NBB and NBO, the Exchange believes it is reasonable and equitable not to assess a fee nor to pay a rebate. The Exchange further believes it is reasonable and equitable not to provide a rebate in such a circumstance because of the midpoint execution received on such order – while not price improvement from an order’s limit price, a midpoint execution is still price improvement as compared to the NBB or NBO, as applicable. The Exchange believes that the proposed pricing structure is reasonable and equitable because whether the order with a Non-Displayed instruction pays a fee or not in such circumstances is dependent on the order receiving price improvement. In addition, it is also reasonable and equitable to provide an order with a Discretionary Range instruction that adds liquidity at the midpoint of the NBBO against an incoming MidPoint Match Order with an execution at no charge because, as stated above, it will enable the Exchange to realign its fees and rebates for such executions while continuing to enable the Exchange to provide low cost midpoint executions for such orders. Lastly, the Exchange also believes that the proposed fee structure for fee code AM, MM and MT is not unfairly discriminatory because it applies uniformly to all Members and because all applicable order types and order instructions are equally available to all Members.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. The Exchange believes that proposed amendments to fee codes MM and MT would not result in any burden on competition because they are not designed to have a competitive impact. Rather, such changes are proposed to provide additional specificity regarding the fees

charged for executions occurring at the midpoint of the NBBO.

The Exchange further believes that proposed fee code AM would increase intermarket competition because it would lead to more competition for orders that seek liquidity at the midpoint of the NBBO by continuing to allow the Exchange to offer competitive, incentive based pricing for midpoint executions. The Exchange believes that proposed fee code AM would neither increase nor decrease intramarket competition because it would apply uniformly to all Members. As stated above, the Exchange notes that it operates in a highly competitive market in which market participants can readily direct order flow to competing venues if the deemed fee structures to be unreasonable or excessive.

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 Act²⁰ and paragraph (f) of Rule 19b-4 thereunder.²¹ At any time within 60 days of the filing of the 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-2015-12 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-2015-12. 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

²⁰ 15 U.S.C. 78s(b)(3)(A).

²¹ 17 CFR 240.19b-4(f).

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 a.m. and 3 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-2015-12, and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²²

Brent J. Fields,
Secretary.

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²² 17 CFR 200.30-3(a)(12).