SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67226; File No. SR-EDGA-2012-22)

June 20, 2012

Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Amend EDGA Rules to add the Mid-Point
Discretionary 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 8, 2012, the EDGA Exchange, Inc.

(the "Exchange" or the "EDGA") 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 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

EDGA Exchange, Inc. ("EDGA" or the "Exchange") proposes to amend Exchange Rule

11.5(c) to add a new order type, the Mid-Point Discretionary Order, to the rule. In addition, the

Exchange proposes to amend Exchange Rule 11.8(a)(2)(C) to reflect the priority that a Mid-Point

Discretionary Order would have under certain circumstances. The text of the proposed rule

changes are attached as Exhibit 5 and are available on the Exchange's website at

www.directedge.com, at the Exchange's principal office, and at the Public Reference Room of

the Commission.

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

[2]   17 CFR 240.19b-4.

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 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

Purpose

1. Proposed Amendment to Rule 11.5(c)

Exchange Rule 11.5(c) describes the Exchange's current order types. In order to provide additional flexibility and increased functionality to its System[3] and its Users,[4] the Exchange proposes to add a new order type, the Mid-Point Discretionary Order (the "MDO"), to Rule 11.5(c)(17). MDOs to buy would be displayed at and pegged to the national best bid (the "NBB[5]"), with discretion to execute at prices up to and including the mid-point of the National Best Bid and Offer (the "NBBO[6]"). MDOs to sell would be displayed at and pegged to the national best offer (the "NBO[7]"), with discretion to execute at prices down to and including the mid-point of the NBBO. The displayed prices of MDOs would move in tandem with changes in the NBB (for buy orders) or the NBO (for sell orders). Moreover, MDOs would not

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3   As defined in Exchange Rule 1.5(cc)

4   As defined in Exchange Rule 1.5(ee).

5   As defined in Exchange Rule 1.5(o) and Rule 600(b)(42) of Regulation NMS under the Securities Exchange Act of 1934.

6   Id.

7   Id.

independently establish or maintain an NBB or NBO; rather, the displayed prices of MDOs would be derived from the then current NBB or NBO.

Users entering MDOs would have the option to enter limit prices to specify the highest or lowest prices at which MDOs to buy or sell, respectively, would be eligible to be executed under any circumstances. For example, if an MDO to buy was entered with a limit price that was less than the prevailing NBBO mid-point, it would not have discretion to buy up to the NBBO mid-point, but rather only up to its limit price. If a User did not place a limit price on an MDO, then the MDO would have discretion to execute to the mid-point of the NBBO, regardless of the price of then [sic] current NBBO, unless and until the MDO was cancelled or fully executed. Thus, depending on certain factors, including the types and characteristics of contra side orders and any limit prices placed on the MDO, the MDO could be executed at its displayed price, at a price between its displayed price and the mid-point of the NBBO, at the mid-point of the NBBO, or not be executed at all.

A new time stamp would be created for an MDO each time its displayed price was automatically adjusted. There would be no separate time stamp for the displayed and non-displayed portions of an MDO if the displayed price remained the same but the discretionary range changed. Like all discretionary order types, the only time stamp would be the one assigned to the displayed portion of the MDO.

In addition, pursuant to Exchange Rule 11.8(a)(2), as with all discretionary order types, as described below, the discretionary portion of the order would be given lower time priority than the displayed portion and non-displayed size/reserve quantity of reserve orders. In addition, MDOs would not be eligible for routing pursuant to Exchange Rule 11.9(b)(2).

<u>MDOs Entered Without Limit Prices</u>

The following examples demonstrate how an MDO that is entered without a limit price would operate:

Example 1

Assume the NBBO is 10.00 x 10.03 (so the NBBO mid-point is 10.015) and an MDO is entered without a limit price to buy 100 shares.

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.

- A contra side market order or marketable limit order to sell 100 shares at 10.00 would execute against the MDO to buy at 10.00 for 100 shares.

- A contra side limit order to sell 100 shares at 10.01 would execute against the MDO to buy at 10.01 for 100 shares. As discussed below, only certain types of contra side order would be able to execute against MDOs at sub-penny prices.

Example 2

Following on from Example 1, if the NBBO changes to 10.01 x 10.06 (so the NBBO mid-point is now 10.035), the displayed price of the MDO would be adjusted to 10.01, with discretion to buy up to 10.035. If the NBBO changes once again to 10.03 x 10.05 (so the NBBO mid-point is now 10.04), the displayed price of the MDO would be adjusted to 10.03, with discretion to buy up to 10.04.

This example illustrates that the displayed prices of MDOs entered without limit prices will continue to move in tandem with, and be displayed at, changes in the NBB (for buy orders) and the NBO (for sell orders).

Example 3

Assume the NBBO is 10.00 x 10.03 (so the NBBO mid-point is 10.015), and an MDO is entered without a limit price to buy 100 shares. Assume further that on the EDGA Book there are two other displayed orders to buy 100 shares each at 10.00, both with time priority over the MDO. Assume further that there is a displayed resting order to buy at 9.99 on the EDGA Book, and no other market is publishing a bid at 10.00.

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.

- A contra side market order to sell 200 shares would execute against the two buy orders with time priority over the MDO at 10.00, thereby leaving the MDO order to buy on the EDGA Book.

- The MDO would then re-price to 9.99 because MDOs could not independently establish or maintain an NBB or NBO – rather, their displayed prices would be derived from the NBB and NBO. Therefore, the MDO would be displayed at 9.99 with discretion to trade up to 10.01 (assuming the NBO remained at 10.03), although the resting buy order at 9.99 would have time priority over the MDO.

MDOs Entered With Limit Prices

The following examples demonstrate how an MDO that is entered with a limit price would operate:

Example 1

Assume the NBBO is 10.00 x 10.03 (so the NBBO mid-point is 10.015) and an MDO is entered to buy 100 shares with a limit price of 10.03.

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.

- A contra side market order or marketable limit order to sell 100 shares at 10.00 would execute against the MDO to buy at 10.00 for 100 shares.

- A contra side limit order to sell 100 shares at 10.01 would execute against the MDO to buy at 10.01 for 100 shares.

- A contra side limit order to sell 100 shares at 10.02 would not execute against the MDO to buy, because the MDO had discretion to buy only up to the mid-point of the NBBO. The limit order to sell would thus be displayed at 10.02 and reduce the mid-point of the NBBO to 10.01.

Example 2

Assume the NBBO is 10.00 x 10.04 (so the NBBO mid-point is 10.02) and an MDO is entered to buy 100 shares with a limit price of 10.03.

- The MDO would be displayed at 10.00 with discretion to buy up to 10.02.

- A contra side limit order to sell 100 shares at 10.02 would execute against the MDO to buy at 10.02 for 100 shares.

Example 3

Following on from Example 2, assume the NBBO changes to 10.01 x 10.06 (so the NBBO mid-point is now 10.035). The displayed price of the MDO to buy would be adjusted to 10.01 with discretion to buy up to 10.03, and not the NBBO mid-point of 10.035, because the NBBO mid-point would be higher than the 10.03 limit price placed on the MDO.

- A contra-side limit order to sell 100 shares at 10.03 would execute against the MDO to buy at 10.03. If the sell order were for 10.02, then it would execute against the MDO to buy at 10.02.

Example 4

Following on from Example 3, assume the NBBO changes once again to 10.03 x 10.05 (so the NBBO mid-point is now 10.04). The displayed price of the MDO to buy would be adjusted to 10.03, but there would be no discretion to trade at a price exceeding 10.03 because of the limit price placed on the MDO. And, if the NBBO changed again to 10.04 x 10.06, the MDO to buy would simply post to the EDGA Book at its limit price of 10.03 and be displayed as a limit order (in the depth of book view) with no discretion. However, if the NBBO again changed to, say, 10.02 x 10.03, then the MDO would again be displayed at the NBB with discretion to trade up to the NBBO mid-point of 10.025 (assuming the MDO was not cancelled or fully executed in the meantime).

Example 5

Following on from Example 4, assume the NBBO is still 10.04 x 10.06, and that on the EDGA Book there is one displayed order to buy 100 shares at 10.04 and two separate displayed orders to buy 100 shares each at 10.03 with time priority over the MDO resting at 10.03. Assume further that there is also a displayed buy order at 10.02 for 100 shares on the EDGA Book, and no other market is publishing a bid at either 10.03 or 10.04.

- A contra side market order to sell 300 shares would execute first against the buy order on the book at 10.04, and then against the two buy orders on the book with time priority over the MDO at 10.03, thereby leaving the MDO to buy on the book.

- The MDO would then re-price to 10.02 because MDOs could not independently establish or maintain an NBB or NBO – rather, their displayed price(s) would be derived from the then current NBB and NBO. Therefore, the MDO would be

displayed at 10.02 with discretion to trade up to 10.03 (assuming the NBO remained at 10.06), although the resting buy order at 10.02 would have time priority over the MDO.

<u>Sub-Penny Executions</u>

MDOs would only be able to execute at sub-penny prices in stocks priced at $1 or more against contra side orders that were by their terms eligible for NBBO mid-point executions regardless [sic] whether such mid-point is in a penny or sub-penny increment, namely, (1) other MDOs, and (2) Mid-Point Peg Orders ("MPOs"),[8]. Nonetheless, despite being eligible to execute in sub-pennies to the extent that they executed at the NBBO mid-point, MDOs would not be displayed or ranked in sub-penny increments. MDOs would execute against all other order types solely in penny increments.

Example 1

Assume the NBBO is 10.00 x 10.03 (so the NBBO mid-point is 10.015) and an MDO is entered to buy 100 shares with a limit price of 10.02.

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side MPO to sell 100 shares would execute against the MDO to buy at the NBBO mid-point of 10.015.

Assume the NBBO changes to 10.02 x 10.05 (so the NBBO mid-point is now 10.035).

- The MDO would be displayed at 10.02, with no discretion above 10.02 given its limit price.
- A contra side MPO to sell 100 shares would not execute against the MDO to buy at 10.02, because the NBBO mid-point would exceed the limit price on the MDO.

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[8]   As defined in Exchange Rule 11.5(c)(7).

Example 2

Assume the NBBO is 10.00 x 10.03 (so the mid-point is 10.015) and an MDO is entered to buy 100 shares with a limit price of 10.03, and an MDO is subsequently entered to sell 100 shares with a limit price of 10.00.

- The MDO to buy would be displayed at 10.00 with discretion to buy up to 10.015. The MDO to sell would then execute against the MDO to buy at the NBBO mid-point of 10.015.

If instead the MDO to sell was entered with a limit price of 10.02, it would not execute against the MDO to buy since the limit price on the MDO to sell was greater than the NBBO mid-point.

2. Proposed Amendment to Rule 11.8(a)(2)(C)

The Exchange proposes to amend Rule 11.8(a)(2)(C) to reflect the priority that MDOs would have when they are executed within their discretionary range. When MDOs execute at their displayed price, they would have the same priority as that of the displayed size of limit orders, in accordance with Rule 11.8(a)(2)(A). However, when they execute within their discretionary range, they would have the same priority as the discretionary range of Discretionary Orders, as set forth in Rule 11.8(a)(2)(C). Therefore, the Exchange is proposing to amend Rule 11.8(a)(2)(C) to account for the priority of MDOs when they act within their discretionary range.

Example

Assume the NBBO is 10.00 x 10.04 (so the NBBO mid-point is 10.02) and an MDO is entered to buy 100 shares with a limit price of 10.02, and a non-displayed order to buy 100 shares at 10.02 is subsequently entered.

- The MDO would be displayed at 10.00 with discretion to buy up to 10.02.

- A contra side limit order to sell 100 shares at 10.02 would execute against the non-displayed order, and not the MDO, since non-displayed orders would have priority over the discretionary range of MDOs in accordance with Rule 11.8(a)(2).

The Exchange will notify its Members in an information circular of the exact implementation date of these rule changes, which will be no later than July 31, 2012.

Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act[9] and further the objectives of Section 6(b)(5) of the Act,[10] because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule changes would provide Users with a greater selection of order types that may result in the efficient execution of such orders and provide additional flexibility and increased functionality to the Exchange's System and its Users. Specifically, the Exchange believes that Users may receive more efficient order executions by permitting them to have greater flexibility to be displayed at the NBBO with discretion to execute to the mid-point of the NBBO, resulting in the potential benefit of price improvement.

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[9]   15 U.S.C. 78f(b).

[10]   15 U.S.C. 78f(b)(5).

The MDO would be similar in nature to several existing order types of the Exchange.

First, the MDO would be similar to the Pegged Order[11] and the MPO in that like these order

types, an MDO's displayed price would be pegged to and automatically adjusted in tandem with

changes in the then current NBB or NBO, a new timestamp would be created for the order each

time it was automatically adjusted, and it would not be eligible for routing pursuant to Rule

11.9(b)(2). In addition, like the MPO, the MDO would be eligible to receive sub-penny

executions at the mid-point of the NBBO. However, unlike the MPO, the MDO would provide

the added benefit of transparency, since there would always be a displayed component to an

MDO. In addition, the MDO would be similar to a Discretionary Order,[12] in that it would

include a displayed order at a specified price (in this case, an objectively determined price based

on the prevailing NBB or NBO) and an undisplayed order at a specified price (in this case, an

objectively determined price based on the mid-point of the NBBO and subject to any limits the

User attaches the MDO). The Exchange believes that this proposed order type would benefit its

Users by offering greater flexibility to display liquidity at the NBBO with discretion generally to

execute to the NBBO mid-point, resulting in additional opportunities for price improvement for

contra-side orders.

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
       Change Received from Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed

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[11]   As defined in Exchange Rule 11.5(c)(6).

[12]   As defined in Exchange Rule 11.5(c)(13).

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

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 for 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[13] and Rule 19b-4(f)(6) thereunder.[14]

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[15] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)[16] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing, noting that similar functionality is already offered by other market centers.[17] The Commission believes that waiving the 30-day

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[13]   15 U.S.C. 78s(b)(3)(A).

[14]   17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

[15]   17 CFR 240.19b-4(f)(6).

[16]   17 CFR 240.19b-4(f)(6).

[17]   See NYSE Arca, Inc. Equities Rule 7.31(cc).

operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposal operative upon filing.[18]

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-EDGA-2012-22 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-EDGA-2012-22. 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

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[18]   For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(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 10:00 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-2012-22 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.[19]

Kevin M. O'Neill
Deputy Secretary

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[19]   17 CFR 200.30-3(a)(12).