

1. Text of the Proposed Rule Change

- (a) EDGA Exchange, Inc. (“EDGA” or the “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to make modifications to the existing technology that it provides to a User that wishes to avoid trading against orders from that same User (“Anti-Internalization Qualifier” or “AIQ”). The Exchange proposes to offer Anti-Internalization Qualifier (“AIQ”) functionality to Exchange Users pursuant to proposed Rule 11.9(f). The text of the proposed rule change is attached as Exhibit 5 and is available on the Exchange’s website at [www.directedge.com](http://www.directedge.com), at the Exchange’s principal office, and at the Public Reference Room of the Commission.
- (b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on April 27, 2010. Exchange staff will advise the EDGA Exchange Board of Directors of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change. Therefore, the Exchange’s internal procedures with respect to the proposed change are complete.

The persons on the Exchange staff prepared to respond to questions and comments on the proposed rule change are:

Eric W. Hess  
General Counsel  
EDGA Exchange  
201-942-8239

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The Exchange proposes to offer Anti-Internalization Qualifier (“AIQ”) functionality to Exchange Users pursuant to proposed Rule 11.9(f).

## Background

The proposed AIQ modifiers are designed to prevent two orders with the same Unique Identifier (as defined below) from executing against each other. The Exchange proposes to offer five AIQ modifiers that will be implemented and can be set at the market participant identifier (“MPID”), the Exchange Member identifier or the Anti-Internalization Group identifier level<sup>1</sup> (any such identifier, a “Unique Identifier”).<sup>2</sup> With one exception, described below, the AIQ modifier on the incoming order controls the interaction between two orders marked with AIQ modifiers from the same Unique Identifier. The five AIQ modifiers are discussed more thoroughly below.

### AIQ Cancel Newest (“CN”)

An incoming order marked with the CN modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The incoming order marked with the CN modifier will be cancelled back to the originating User. The resting order marked with an AIQ modifier, which otherwise would have interacted with the incoming order from the same Unique Identifier, will remain on the EDGA book (“Book”).

### AIQ Cancel Oldest (“CO”)

An incoming order marked with the CO modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The resting order marked with the AIQ modifier, which otherwise would have interacted with the incoming order by the same Unique Identifier, will be cancelled back to the originating User. The incoming order marked with the CO modifier will remain on the Book.

### AIQ Decrement and Cancel (“DC”)

An incoming order marked with the DC modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User. If the orders are not equivalent in size, the smaller order will be cancelled back to the originating User and the larger order will be decremented by the size of the smaller order, with the balance remaining on the Book.

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<sup>1</sup> The Anti-Internalization Group identifier is a unique two character ID that an Exchange Member selects.

<sup>2</sup> Any Exchange Member that has an MPID issued by FINRA is identified in the Exchange’s internal systems by that MPID.

AIQ Cancel Both (“CB”)

An incoming order marked with the CB modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The entire size of both orders will be cancelled back to the originating User.

AIQ Cancel Smallest (“CS”)

An incoming order marked with the CS modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User. If the orders are not equivalent in size, the smaller of the two orders will be cancelled back to the originating User and the larger order will remain on the Book.

Additional Discussion

AIQ modifiers are intended to prevent interaction between the same Unique Identifier. AIQ modifiers must be present on both the buy and the sell order in order to prevent a trade from occurring and to effect a cancel instruction. AIQ modifiers are available for orders entered in either an agency or principal capacity. An incoming AIQ order cannot cancel through resting orders that have price and/or time priority. When an order with an AIQ modifier is entered it will first interact with all available interest in accordance with the execution process described in Exchange Rules 11.8 and 11.9. If there is a remaining balance on the order after trading with all orders with higher priority, it may then interact with an opposite side AIQ order in accordance with the rules established above. Incoming AIQ orders that are priced through the price of a resting AIQ order may cancel the resting order as long as no other non-AIQ orders have priority.

The Exchange believes that adding this functionality will allow Exchange Users to better manage order flow and prevent undesirable executions with themselves or the potential for (or the appearance of) “wash sales” that may occur as a result of the velocity of trading in today’s high speed marketplace. Many Exchange Users have multiple connections into the Exchange due to capacity and speed related demands. Orders routed by the same User via different connections may, in certain circumstances, trade against each other. The new AIQ modifiers provide Users the opportunity to prevent these potentially undesirable trades occurring under the same Unique Identifier on both the buy and sell side of the execution. The Exchange also believes that this functionality will allow firms to better internalize agency order flow which in turn may decrease the costs to its customers. The Exchange notes that the AIQ modifiers do not alleviate, or otherwise exempt, broker-dealers from their best execution obligations. As such, broker-dealers using the AIQ modifiers will be obligated to internally cross

agency orders at the same price, or a better price than they would have received had the orders been executed on the Exchange. Additionally, the AIQ modifiers will assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. Finally, the Exchange notes that offering the AIQ modifiers will streamline certain regulatory functions by reducing false positive results that may occur on Exchange generated wash trading surveillance reports when orders are executed under the same Unique Identifier. For these reasons, the Exchange believes the AIQ modifiers offer users enhanced order processing functionality that may prevent potentially undesirable executions without negatively impacting broker-dealer best execution obligations.

(b) Statutory Basis

The rule change proposed in this submission is consistent with the requirements of the Securities Exchange Act of 1934 (the “Act”), and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b)<sup>3</sup> of the Act. Specifically, the proposed change is consistent with Section 6(b)(5)<sup>4</sup> of the Act, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system. Specifically, the AIQ functionality allows firms to better manage order flow and prevent undesirable executions against themselves, and the proposed change described herein enhances the choices available to such firms in how they do so.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

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<sup>3</sup> 15 U.S.C. 78f(b).

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

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>5</sup> of the Act and Rule 19b-4(f)(6)<sup>6</sup> thereunder. The proposed rule change effects a change that (A) does not significantly affect the protection of investors or the public interest; (B) does not impose any significant burden on competition; and (C) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest; provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and 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. The Exchange notes that this proposal does not propose any new policies or provisions that are unique or unproven. Also, the Exchange notes that other national securities exchanges have recently filed rule proposals on an immediately effective basis to offer similar functionality to their members.<sup>7</sup> For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4.

The Exchange respectfully requests that the Commission waive the 30-day pre-operative delay so that the proposed rule change may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act<sup>8</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>9</sup> Waiver of this requirement,

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<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

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

<sup>7</sup> See Securities Exchange Act Release No. 60182 (June 26, 2009), 74 FR 32014 (July 6, 2009) (SR-NASDAQ-2009-057); Securities Exchange Act Release No. 60191 (June 30, 2009) (SR-NYSEArca-2009-058); Securities Exchange Act Release No. 60266 (July 9, 2009), 74 FR 34380 (July 15, 2009) (SR-BATS-2009-022); Securities Exchange Act Release No. 62102 (May 13, 2010), 75 FR 28670 (May 21, 2010) (SR-BATS-2010-011).

<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

specified in Rule 19b-4(f)(6),<sup>10</sup> will allow the Exchange to immediately offer Exchange Users the ability to better manage order flow and prevent undesirable executions with themselves or the potential for (or the appearance of) “wash sales” that may occur as a result of the velocity of trading in today’s high speed marketplace. The Exchange expects to have technological changes in place to support the proposed rule change on or about January 7, 2011, and believes that benefits to Exchange Users expected from the proposed rule change should not be delayed. Based on the foregoing, the Exchange believes that its proposal should become immediately effective and requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.<sup>11</sup> Waiver of this requirement is consistent with the protection of investors and the public interest for the reasons described above.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register  
Exhibit 5 – Text of Proposed EDGA Rule 11.9.

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<sup>10</sup> Id.

<sup>11</sup> 17 CFR 240.19b-4(f)(6)(iii).

EXHIBIT 1SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-EDGA-2010-19)

[Date]

Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend EDGA Rules 11.9 to offer Anti-Internalization Qualifier (“AIQ”) functionality to Exchange Users

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 November 30, 2010, 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, 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 offer Anti-Internalization Qualifier (“AIQ”) functionality to Exchange Users pursuant to proposed Rule 11.9(f). The text of the proposed rule change is attached as Exhibit 5 and is available on the Exchange’s website at [www.directedge.com](http://www.directedge.com), at the Exchange’s principal office, and at the Public Reference Room of the Commission.

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

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

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 – The Exchange proposes to offer Anti-Internalization Qualifier (“AIQ”) functionality to Exchange Users pursuant to proposed Rule 11.9(f).

Background

The proposed AIQ modifiers are designed to prevent two orders with the same Unique Identifier (as defined below) from executing against each other. The Exchange proposes to offer five AIQ modifiers that will be implemented and can be set at the market participant identifier (“MPID”), the Exchange Member identifier or the Anti-Internalization Group identifier level<sup>3</sup> (any such identifier, a “Unique Identifier”).<sup>4</sup> With one exception, described below, the AIQ modifier on the incoming order controls the interaction between two orders marked with AIQ modifiers from the same Unique Identifier. The five AIQ modifiers are discussed more thoroughly below.

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<sup>3</sup> The Anti-Internalization Group identifier is a unique two character ID that an Exchange Member selects.

<sup>4</sup> Any Exchange Member that has an MPID issued by FINRA is identified in the Exchange’s internal systems by that MPID.



AIQ Cancel Newest (“CN”)

An incoming order marked with the CN modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The incoming order marked with the CN modifier will be cancelled back to the originating User. The resting order marked with an AIQ modifier, which otherwise would have interacted with the incoming order from the same Unique Identifier, will remain on the EDGA book (“Book”).

AIQ Cancel Oldest (“CO”)

An incoming order marked with the CO modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The resting order marked with the AIQ modifier, which otherwise would have interacted with the incoming order by the same Unique Identifier, will be cancelled back to the originating User. The incoming order marked with the CO modifier will remain on the Book.

AIQ Decrement and Cancel (“DC”)

An incoming order marked with the DC modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User. If the orders are not equivalent in size, the smaller order will be cancelled back to the originating User and the larger order will be decremented by the size of the smaller order, with the balance remaining on the Book.

AIQ Cancel Both (“CB”)

An incoming order marked with the CB modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique

Identifier. The entire size of both orders will be cancelled back to the originating User.

#### AIQ Cancel Smallest (“CS”)

An incoming order marked with the CS modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User. If the orders are not equivalent in size, the smaller of the two orders will be cancelled back to the originating User and the larger order will remain on the Book.

#### Additional Discussion

AIQ modifiers are intended to prevent interaction between the same Unique Identifier. AIQ modifiers must be present on both the buy and the sell order in order to prevent a trade from occurring and to effect a cancel instruction. AIQ modifiers are available for orders entered in either an agency or principal capacity. An incoming AIQ order cannot cancel through resting orders that have price and/or time priority. When an order with an AIQ modifier is entered it will first interact with all available interest in accordance with the execution process described in Exchange Rules 11.8 and 11.9. If there is a remaining balance on the order after trading with all orders with higher priority, it may then interact with an opposite side AIQ order in accordance with the rules established above. Incoming AIQ orders that are priced through the price of a resting AIQ order may cancel the resting order as long as no other non-AIQ orders have priority.

The Exchange believes that adding this functionality will allow Exchange Users to better manage order flow and prevent undesirable executions with themselves or the potential for (or the appearance of) “wash sales” that may occur as a result of the velocity of trading in today’s high speed marketplace. Many Exchange Users have multiple

connections into the Exchange due to capacity and speed related demands. Orders routed by the same User via different connections may, in certain circumstances, trade against each other. The new AIQ modifiers provide Users the opportunity to prevent these potentially undesirable trades occurring under the same Unique Identifier on both the buy and sell side of the execution. The Exchange also believes that this functionality will allow firms to better internalize agency order flow which in turn may decrease the costs to its customers. The Exchange notes that the AIQ modifiers do not alleviate, or otherwise exempt, broker-dealers from their best execution obligations. As such, broker-dealers using the AIQ modifiers will be obligated to internally cross agency orders at the same price, or a better price than they would have received had the orders been executed on the Exchange. Additionally, the AIQ modifiers will assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. Finally, the Exchange notes that offering the AIQ modifiers will streamline certain regulatory functions by reducing false positive results that may occur on Exchange generated wash trading surveillance reports when orders are executed under the same Unique Identifier. For these reasons, the Exchange believes the AIQ modifiers offer users enhanced order processing functionality that may prevent potentially undesirable executions without negatively impacting broker-dealer best execution obligations.

#### Basis

The rule change proposed in this submission is consistent with the requirements of the Act, and the rules and regulations thereunder that are applicable to a national

securities exchange, and, in particular, with the requirements of Section 6(b)<sup>5</sup> of the Act. Specifically, the proposed change is consistent with Section 6(b)(5)<sup>6</sup> of the Act, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to, and perfect the mechanism of, a free and open market and a national market system. Specifically, the AIQ functionality allows firms to better manage order flow and prevent undesirable executions against themselves, and the proposed change described herein enhances the choices available to such firms in how they do so.

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 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 foregoing 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, it has become effective pursuant

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

to Section 19(b)(3)(A) of the Act<sup>7</sup> and Rule 19b-4(f)(6)(iii) thereunder.<sup>8</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>9</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>10</sup> the Commission may 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.

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](mailto:rule-comments@sec.gov). Please include File No. SR-EDGA-2010-19 on the subject line.

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<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(6).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

<sup>10</sup> 17 CFR 240.19b-4(f)(6)(iii).

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-EDGA-2010-19. 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 Commissions Internet Web site (<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 inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-EDGA-2010-19 and should be submitted by [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

Secretary

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

## Exhibit 5

Text of the proposed rule change (Additions are underlined; deletions are in [brackets].)

## Rule 11.9. Order Execution

(a) – (e) No change

(f) Anti-Internalization Qualifier (“AIQ”) Modifiers. Any incoming order designated with an AIQ modifier will be prevented from executing against a resting opposite side order also designated with an AIQ modifier and originating from the same market participant identifier (“MPID”), Exchange Member identifier or AIQ Group identifier (any such identifier, a “Unique Identifier”). The AIQ modifier on the incoming order controls the interaction between two orders marked with AIQ modifiers.

(1) AIQ Cancel Newest (“CN”). An incoming order marked with the “CN” modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The incoming order marked with the CN modifier will be cancelled back to the originating User(s). The resting order marked with an AIQ modifier will remain on the book.

(2) AIQ Cancel Oldest (“CO”). An incoming order marked with the “CO” modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The resting order marked with the AIQ modifier will be cancelled back to the originating User(s). The incoming order marked with the CO modifier will remain on the book.

(3) AIQ Decrement and Cancel (“DC”). An incoming order marked with the “DC” modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User(s). If the orders are not equivalent in size, the smaller order will be cancelled back to the originating User(s) and the larger order will be decremented by the size of the smaller order, with the balance remaining on the book.

(4) AIQ Cancel Both (“CB”). An incoming order marked with the “CB” modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. The entire size of both orders will be cancelled back to the originating User(s).

(5) AIQ Cancel Smallest (“CS”). An incoming order marked with the CS modifier will not execute against opposite side resting interest marked with any AIQ modifier originating from the same Unique Identifier. If both orders are equivalent in size, both orders will be cancelled back to the originating User(s). If the orders are not equivalent in size, the smaller of the two orders will be cancelled back to the originating User and the larger order will remain on the book.