

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="40"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2011"/> - * <input type="text" value="29"/> Amendment No. (req. for Amendments *) <input type="text"/>
Proposed Rule Change by EDGA Exchange, Inc. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934		
Initial * <input checked="" type="checkbox"/> Amendment * <input type="checkbox"/> Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/> Section 19(b)(3)(A) * <input type="checkbox"/> Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Exhibit 2 Sent As Paper Document <input type="checkbox"/> Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *). <div style="border: 1px solid black; padding: 5px; min-height: 30px;">           EDGA Exchange, Inc proposes to amend its rules regarding the registration and obligations of Market Makers.         </div>		
<b>Contact Information</b> Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change. First Name * <input type="text" value="Thomas"/> Last Name * <input type="text" value="McManus"/> Title * <input type="text" value="Chief Regulatory Officer"/> E-mail * <input type="text" value="tmcmanus@directedge.com"/> Telephone * <input type="text" value="(201) 418-3471"/> Fax <input type="text"/>		
<b>Signature</b> Pursuant to the requirements of the Securities Exchange Act of 1934,  has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer. Date <input type="text" value="08/30/2011"/> By <input type="text" value="Thomas N. McManus"/> Chief Regulatory Officer <div style="text-align: center;"> <span>(Name *)</span> <span style="margin-left: 200px;">(Title *)</span> </div> <div style="text-align: center; margin-top: 10px;"> <div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">Thomas McManus,</div> </div> <p style="font-size: small; margin-top: 10px;">NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.</p>		

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information (required)**

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change (required)**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

- (a) EDGA Exchange, Inc. (“EDGA” or the “Exchange”), proposes to amend Chapter XI of the EDGA rulebook to add four new rules regarding the registration and obligations of market makers and amend Rule 1.5 to add definitions of “Market Maker” and “Market Maker Authorized Trader.” The Exchange also proposes to amend Rule 8.15, Interpretation .01 to expand the list of violations eligible for disposition under the Exchange’s Minor Rule Violation Plan (“MRVP”) by adding Rule 11.21(a)(1). The Exchange also proposes to amend EDGA Rule 14.1, entitled “Unlisted Trading Privileges,” to restrict trading activities of market makers, and impose a series of reporting and record-keeping requirements on market makers. 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:

Thomas N. McManus  
Chief Regulatory Officer  
EDGA Exchange, Inc.  
201-418-3471

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

- (a) Purpose

The purpose of the proposed rule change is to provide Members the ability to register as Market Makers and to provide for the regulation of Market Makers. Registration as a Market Maker will be purely optional. The process for registration as a Market Maker is contained in proposed Rule 11.18, which provides that applicants must file applications in such form as the Exchange may prescribe. Applicants will be reviewed by the Exchange, which will consider factors including the capital, operations, personnel, technical resources and disciplinary history of the applicant. Each Market Maker must have and maintain the minimum net capital of at least the amount required by Rule 15c3-1 under the Securities Exchange Act of 1934 (the “Act”).<sup>1</sup> Pursuant to the proposed Rule, an applicant’s registration as a Market Maker will become effective upon receipt by the Member of the Exchange’s notice of approval of registration. Under proposed Rule 11.18(f), registered Market Makers are designated as dealers on the Exchange for all purposes under the Act and the rules and regulations thereunder.

Proposed Rule 11.18 also provides that the registration of a Market Maker may be suspended or terminated by the Exchange if the Exchange determines that the Market Maker substantially or continually fails to engage in dealings in accordance with Exchange Rules, if the Market Maker fails to meet the minimum net capital conditions, if the Market Maker fails to maintain fair and orderly markets, or if the Market Maker does not have at least one registered Market Maker Authorized Trader (“MMAT”) qualified to perform market making activities as set forth in proposed Rule 11.19(b)(5).<sup>2</sup> Any Market Maker may also withdraw its registration under the proposed Rule. Subsection (d) of the proposed Rule provides that the Exchange may require a certain minimum prior notice period for withdrawal, and may place other conditions on withdrawal and re-registration following withdrawal, as it deems appropriate to maintain fair and orderly markets.

Proposed Rule 11.19 provides for the registration and obligations of MMATs. The Exchange can register a person as a MMAT upon receiving an application in the form prescribed by the Exchange, and MMATs are permitted to enter orders only for the account of the Market Maker for which they are registered. MMATs may be officers, partners, employees, or other associated persons of Members who are registered as Market Makers. To be eligible for registration as a MMAT, a person must complete the training and other programs required by the Exchange and successfully complete the General Securities Representative Examination (Series 7) or equivalent foreign examination module approved by the Exchange. Market Makers must ensure that their MMATs are properly qualified to perform market making activities. The Exchange may grant

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<sup>1</sup> 17 CFR 240.15c3-1.

<sup>2</sup> A MMAT whose registration is suspended pursuant to proposed Rule 11.18(c) shall not be deemed qualified within the meaning of Rule 11.18(c)(4).

a person conditional registration as a MMAT as appropriate in the interests of maintaining a fair and orderly market.

In addition, under proposed Rule 11.19, the Exchange may suspend or withdraw the registration of a MMAT if the Exchange determines that the person has caused the Market Maker to fail to comply with the securities laws or rules of the Exchange, if the person fails to perform his or her responsibilities properly, or fails to maintain fair and orderly markets. If a MMAT is suspended, the Market Maker may not allow the person to submit orders. A Member may also withdraw the registration of a MMAT by submitting to the Exchange a written request on a form prescribed by the Exchange.

Proposed Rule 11.20 provides for the registration of Market Makers in a security. A Market Maker may become registered in a newly authorized security or in a security already admitted to dealings on the Exchange by filing a security registration form with the Exchange. Registration in the security shall become effective on the same day that the Exchange approves the registration, unless otherwise provided by the Exchange. In considering the approval of the registration of the Market Maker in a security, the Exchange may consider the financial resources available to the Market Maker, the Market Maker's experience in making markets, the Market Maker's operational capability, the maintenance and enhancement of competition among Market Makers in each security in which they are registered, the existence of clearing arrangements for the Market Maker's transactions and the character of the market for the security. The proposed Rule also provides that a Market Maker may voluntarily terminate its registration in a security by providing the Exchange with a written notice of such termination. The Exchange may require a certain minimum prior notice period for such termination and may place other conditions on withdrawal and re-registration following withdrawal. The Exchange may suspend or terminate the registration of a Market Maker in any security whenever it determines that the Market Maker has not met one or more of its obligations, including if the Exchange determines that the Market Maker has failed to maintain fair and orderly markets.

The Exchange's determinations pursuant to proposed Rules 11.18 through 11.20 may be appealed by any person aggrieved by such determination. The procedures for appeal are established in Chapter X of the Exchange's rulebook.

Finally, Proposed Rule 11.21 sets out the obligations of Market Makers. In general, Market Makers must engage in a course of dealings for their own accounts to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets on the Exchange. The responsibilities of a Market Maker include, without limitation, remaining in good standing with the Exchange and in compliance with all applicable Exchange Rules; informing the Exchange of any

material change in its financial or operational condition or personnel;<sup>3</sup> maintaining a current list of MMATs and providing any updates to such list to the Exchange upon any change in MMATs; and clearing and settling transactions through the facilities of a registered clearing agency. The latter requirement may be satisfied by direct participation, use of direct clearing services, or by entering into a correspondent clearing arrangement with another Member that clears trades through such agency. Market Makers will be responsible for the acts and omissions of its MMATs. If the Exchange finds any substantial or continued failure by a Market Maker to engage in a course of dealing as specified in this Rule, such Market Maker will be subject to disciplinary action or suspension or revocation of its registration.

Further, proposed Rule 11.21(d) provides that a Market Maker must maintain continuous, two-sided quotations within a designated percentage of the National Best Bid (“NBB”) and National Best Offer (“NBO”, and together with the NBB, the “NBBO”) (or, if there is no NBB or NBO, the last reported sale). These Market Maker quotation requirements are intended to eliminate trade executions against Market Maker quotations priced far away from the inside market, commonly known as “stub quotes”. They are also intended to augment and work in relation to the single stock pause standards already in place on a pilot basis for stocks in the S&P 500<sup>®</sup> Index<sup>4</sup> and the Russell 1000<sup>®</sup> Index, as well as a pilot list of Exchange Traded Products<sup>5</sup> (the “Original Circuit Breaker Securities”). Permissible quotes are determined by the individual character of the security, the time of day in which the quote is entered and other factors which are summarized below.

For issues subject to an individual stock trading pause under the applicable rules of a primary listing market, a permissible quote (also known as “Designated Percentage”) is as follows: (i) a Market Maker’s quotes in the Original Circuit Breaker Securities shall not be more than 8% away from the NBBO; (ii) a Market Maker’s quotes in National Market System (“NMS”) securities (as defined in

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<sup>3</sup> The Exchange proposes to include an interpretation that reminds Market Makers that, in addition to their obligation under Rule 11.21(a)(3) to “inform the Exchange of any material change in financial or operational condition”, they are also obligated to submit a copy of such notice with Securities and Exchange Commission (“SEC”) pursuant to Rule 17a-11 under the Act, 17 CFR 240.17a-11. The notice to the Exchange must be sent concurrently with the notice sent to the SEC. See EDGA Rule 4.2.

<sup>4</sup> See Securities Exchange Act Release No. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) (SR-EDGA-2010-01).

<sup>5</sup> See Securities Exchange Act Release No. 62884 (September 10, 2010), 75 FR 56618 (September 16, 2010) (SR-EDGA-2010-05).

Rule 600 of Regulation NMS)<sup>6</sup> that are not Original Circuit Breaker Securities with a price equal to or greater than \$1 shall not be more than 28% away from the NBBO; and (iii) a Market Maker's quotes in NMS securities that are not Original Circuit Breaker Securities with a price less than \$1 shall not be more than 30% away from the NBBO. For times during Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market (*e.g.*, before 9:45 a.m. and after 3:35 p.m. Eastern time), the Designated Percentage shall be 20% for Original Circuit Breaker Securities, 28% for all NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1, and 30% for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1.

Once a compliant quote is entered, it may rest without adjustment until such time as it moves to within 9.5% away from the NBBO for Original Circuit Breaker Securities, 29.5% away from the NBBO for NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1, and 31.5% away from the NBBO for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1, whereupon the Market Maker must immediately adjust its quote to at least the permissible default level of 8%, 28%, or 30%, respectively, away from the NBBO. During times when a stock pause trigger percentage is not applicable, a Market Maker must enter a quote no further than:

- (i) 20% away from the inside (*i.e.*, it may rest without adjustment until it reaches 21.5% away from the inside) for Original Circuit Breaker Securities;
- (ii) 28% away from the inside for all NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1 (*i.e.*, it may rest without adjustment until it reaches 29.5% away from the inside); and
- (iii) 30% away from the inside for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1 (*i.e.*, it may rest without adjustment until it reaches 31.5% away from the inside).

In the absence of a NBB or NBO, the above calculations will remain the same, but will use the national last sale instead of the absent bid or offer.

However, scenarios may occur in which pricing at the commencement of a trading day, or at the re-opening of trading in a security that has been halted, suspended, or paused pursuant to Rule 11.14(d), is significantly different from pricing for the security at the close of the previous trading day or immediately prior to the halt, suspension, or pause, respectively. These pricing differentials could be the result of corporate actions that occur after the close of the previous

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<sup>6</sup> 17 CFR 240.600.

trading day or the market's absorption of material information during the halt, suspension, or pause. Based on this concern, the Exchange believes that Market Makers should not be subject to the pricing obligations proposed herein when the last sale of the previous trading day, or immediately prior to a halt, is the only available reference price.

The Exchange therefore proposes that, for NMS stocks, a Market Maker shall adhere to the pricing obligations established by this Rule during Regular Trading Hours,<sup>7</sup> provided, however, that such pricing obligations: (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

Nothing in the above precludes a Market Maker from voluntarily quoting at price levels that are closer to the NBBO than required under the proposal.

The Exchange proposes to offer functionality to Market Makers to assist them with the quotation obligations proposed by this filing. The Exchange will comply with a Market Maker's instructions for the Exchange to enter a quote on the Market Maker's behalf consistent with proposed paragraph 11.21(d). Such instructions will be entered into the System<sup>8</sup> by the Market Maker prior to 9:00 a.m. in order to take effect on the same trading day. Under proposed Rule 11.21(e), the Exchange will refresh such two-sided quotations in each security in which a Market Maker is registered for a maximum of ten (10) executions per security per Market Maker. After such time, the Market Maker must contact the Exchange in order for the Exchange to continue such two-sided quotations for another ten (10) executions on behalf of the Market Maker. If the Market Maker does not contact the Exchange, the Exchange will not refresh such two-sided quotations in such securities. The Exchange proposes to enter the initial bid and offer at the Designated Percentage and to cancel and replace the bid or offer if it drifts away from the NBBO to the Defined Limit or away from the Designated Percentage towards the NBBO by a number of percentage points determined by the Exchange. The Exchange will determine and publish this percentage in a circular distributed to Members from time to time. The Exchange wishes to retain this flexibility in the event it wishes to modify the number periodically in the future, for instance, to mitigate the amount of quotation information resulting from Exchange-generated Market Maker quotes. If a bid or offer entered pursuant to proposed paragraph 11.21(e) is executed, the Exchange will enter a

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<sup>7</sup> Defined in EDGA Rule 1.5(y) (as proposed to be re-lettered) as 9:30 a.m. to 4:00 p.m. Eastern Time.

<sup>8</sup> See EDGA Rule 1.5(aa).

new bid or offer on behalf of a Market Maker. Bids and offers entered by the Exchange consistent with proposed paragraph (e) to replace a cancelled or executed quotation will be entered at the Designated Percentage away from the NBBO. Such orders will be posted by the Exchange as Post Only Orders,<sup>9</sup> and will be maintained on the Exchange during Regular Trading Hours unless cancelled by the Market Maker pursuant to the Exchange's Rules. In the event that a Market Maker cancels the quotations entered by the Exchange in accordance with proposed paragraph (e), such Market Maker remains responsible for compliance with the requirements of paragraph (d).

The Exchange proposes to cross-reference the above-described Market Maker quotation obligations found in paragraph (d) in paragraph (a)(1).

The Exchange believes that these proposed rules will benefit all Exchange participants, because Market Makers will assist in the maintenance of fair and orderly markets, provide additional liquidity to the Exchange, and assist in preventing excess volatility.

Rule 1.5 has been amended to add the definitions of "Market Maker" and "Market Maker Authorized Trader." As a result, the rest of Rule 1.5 has been re-lettered accordingly.

#### Amendments to Exchange Rule 14.1 (Unlisted Trading Privileges)

The Exchange proposes to add Rule 14.1(c)(5) to restrict trading activities of Market Makers and impose a series of reporting and record-keeping requirements on Market Makers. As a result, current EDGA Rule 14.1(c)(5) has been re-numbered as EDGA Rule 14.1(c)(6).

Proposed EDGA Rule 14.1(c)(5) provides for restrictions for any Member registered as a Market Maker on the Exchange ("Restricted Market Maker") in a derivative securities product ("UTP Derivative Security") that derives its value from one or more currencies or commodities, or from a derivative overlying one or more currencies or commodities, or is based on a basket or index comprised of currencies or commodities (collectively, "Reference Assets"). Specifically, proposed EDGA Rule 14.1(c)(5)(A) provides that a Restricted Market Maker in a UTP Derivative Security on the Exchange is prohibited from acting or registering as a Market Maker on any other exchange in any Reference Asset of that UTP Derivative Security, or any derivative instrument based on a Reference Asset of that UTP Derivative Security (collectively, with Reference Assets, "Related Instruments"). Proposed EDGA Rule 14.1(c)(5)(B) provides that a Restricted Market Maker shall, in a manner prescribed by the Exchange, file with the Exchange and keep current a list identifying any accounts ("Related Instrument

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<sup>9</sup> As defined in EDGA Rule 11.5(c)(5).

Trading Accounts”) for which Related Instruments are traded: (1) in which the Restricted Market Maker holds an interest; (2) over which it has investment discretion; or (3) in which it shares in the profits and/or losses. In addition, a Restricted Market Maker may not have an interest in, exercise investment discretion over, or share in the profits and/or losses of a Related Instrument Trading Account which has not been reported to the Exchange as required by this rule. Proposed EDGA Rule 14.1(c)(5)(C) provides that, in addition to the existing obligations under Exchange rules regarding the production of books and records, a Restricted Market Maker shall, upon request by the Exchange, make available to the Exchange any books, records, or other information pertaining to any Related Instrument Trading Account or to the account of any registered or non-registered employee affiliated with the Restricted Market Maker in which Related Instruments are traded. Proposed EDGA Rule 14.1(c)(5)(D) provides that a Restricted Market Maker shall not use any material, non-public information in connection with trading a Related Instrument.

Finally, existing Rule 14.1(c)(5) is proposed to be re-numbered as 14.1(c)(6). The Exchange also proposes to replace the term “components of the index or portfolio on which the UTP Derivative Security is based” with “Related Instruments” in that rule.

#### Amendment to the Exchange’s MRVP

The Exchange proposes to amend Rule 8.15, entitled “Imposition of Fines for Minor Violation(s) of Rules,” to add Proposed Rule 11.21(a)(1) to the list of rules which would be appropriate for disposition under the Exchange’s MRVP.

The proposed addition of Rule 11.21(a)(1), which provides that a Market Maker must maintain continuous, two-sided quotations consistent with the requirements of paragraph (d) (*i.e.*, within a designated percentage of the NBBO (or, if there is no NBB or NBO, the last reported sale)), would allow the Exchange to impose a \$100 fine for each violation of this rule. By promptly imposing a meaningful financial penalty for such violations, the MRVP focuses on correcting conduct before it gives rise to more serious enforcement action. The MRVP provides a reasonable means of addressing rule violations that do not necessarily rise to the level of requiring formal disciplinary proceedings, while also providing greater flexibility in handling certain violations. Adopting a provision that would allow the Exchange to sanction violators under the MRVP by no means minimizes the importance of compliance with Exchange Rule 11.21. The Exchange believes that the violation of any of its rules is a serious matter. The addition of a sanction under the MRVP simply serves to add an additional method for disciplining violators of Exchange Rule 11.21. The Exchange will continue to conduct surveillance with due diligence and make its determination, on a case by case basis, whether a violation of Exchange Rule 11.21 should be subject to formal disciplinary proceedings.

The Exchange proposes to implement this rule change, if approved by the Commission, on or about October 15, 2011.

(b) Statutory Basis

Approval of the rule changes 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>10</sup> In particular, the proposed changes are consistent with Section 6(b)(5) of the Act,<sup>11</sup> because they would promote just and equitable principles of trade, 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 by promoting greater liquidity in the Exchange market. The proposed rule change is also designed to support the principles of Section 11A(a)(1)<sup>12</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange believes that the proposed rule meets these requirements in that it promotes uniformity across markets concerning minimum market maker quotation requirements. The Exchange believes that the proposed optional functionality to assist Exchange Market Makers in maintaining continuous, two-sided quotations in the securities in which they are registered will encourage Market Makers to remain registered with and trade on the Exchange, thus providing valuable liquidity to the Exchange. At the same time, the Exchange believes that the proposed functionality will keep Exchange-generated quotations within reasonable reach of the NBBO. In addition, the proposed addition of Rule 11.21(a)(1) to the Exchange's MRVP will give the Exchange the ability to promptly impose a meaningful financial penalty for such violations before there is a need for more serious enforcement action.

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.

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<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> 15 U.S.C. 78k-1(a)(1).

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.

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)

Not applicable.

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

The Exchange's proposed rules regarding the registration and obligations of Market Makers are based on the rules of the BATS Exchange, Inc. ("BATS") and National Stock Exchange ("NSX") regarding the registration and obligations of market makers. Other SROs have also proposed and the Commission has approved similar requirements for market makers.<sup>13</sup>

The proposed addition of EDGA Rule 14.1(c)(5) is based on BATS Rule 14.1 and NSX Rule 15.9. There are no material differences between NSX Rule 15.9, BATS Rule 14.1, and the additional language that EDGA proposes to add to existing EDGA Rule 14.1.<sup>14</sup> The proposed rule change is also similar to rules of other self-regulatory organizations that have been approved by the Commission, in particular, Rule 803(o) of the Philadelphia Stock Exchange, Inc.<sup>15</sup> and Rule 2101 of the International Securities Exchange, LLC.<sup>16</sup>

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<sup>13</sup> See Securities Exchange Act Release No. 63255 (November 5, 2010) (approving File Nos. SR-BATS-2010-025; SR-BX-2010-66; SR-CBOE-2010-087; SR-CHX-2010-22; SR-FINRA-2010-049; SR-NASDAQ-2010-115; SR-NSX-2010-12; SR-NYSE-2010-69; SR-NYSE Amex-2010-96; and SR-NYSE Arca-2010-83).

<sup>14</sup> See Securities Exchange Act Release No. 57448 (March 6, 2008), 73 FR 13597 (March 13, 2008) (SR-NSX-2008-05) and Securities Exchange Act Release No. 58623 (September 23, 2008), 73 FR 57169 (October 1, 2008) (SR-BATS-2008-004).

<sup>15</sup> See Securities Exchange Act Release No. 57806 (May 9, 2008), 73 FR 28541 (May 16, 2008) (SR-Phlx-2008-34).

<sup>16</sup> See Securities Exchange Act Release No. 57387 (February 27, 2008), 73 FR

The Exchange's proposed addition to its MRVP is similar to, among others, NSX Rule 8.15, Interpretations and Policy .01, which includes the similar NSX Rule 11.8(a)(1) and BATS Rule 8.15, Interpretations and Policy.01, Section (e), both of which include similar rules relating to a market maker's duty to comply with quotation policies. The proposed rule change is also similar to NYSE Arca's Rule 10.12(g), entitled "Minor Rule Plan: Minor Trading Rule Violations", which includes in its list of rules eligible for disposition under the NYSE Arca Minor Rule Plan its Rule 7.23(a)(1), relating to a market maker's duty to maintain continuous, two-sided Q Orders in those securities in which the market maker is registered to trade.

9. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register.

Exhibit 5 – Text of Proposed Rule Change.

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-EDGA-2011-29)

[Date]

Self-Regulatory Organizations; EDGA Exchange, Inc.; Notice of Filing of Proposed Rule Change Relating to Amendments to EDGA Rules regarding the registration and obligations of Market Makers

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, 2011, 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 Exchange. 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 Chapter XI of the EDGA rulebook to add four new rules regarding the registration and obligations of market makers and amend Rule 1.5 to add definitions of "Market Maker" and "Market Maker Authorized Trader." The Exchange also proposes to amend Rule 8.15, Interpretation .01 to expand the list of violations eligible for disposition under the Exchange's Minor Rule Violation Plan ("MRVP") by adding Rule 11.21(a)(1). The Exchange also proposes to amend EDGA Rule 14.1, entitled "Unlisted Trading Privileges," to restrict trading activities of market makers, and impose a series of reporting and record-keeping requirements on market

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

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

makers. 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.

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 purpose of the proposed rule change is to provide Members the ability to register as Market Makers and to provide for the regulation of Market Makers. Registration as a Market Maker will be purely optional. The process for registration as a Market Maker is contained in proposed Rule 11.18, which provides that applicants must file applications in such form as the Exchange may prescribe. Applicants will be reviewed by the Exchange, which will consider factors including the capital, operations, personnel, technical resources and disciplinary history of the applicant. Each Market Maker must have and maintain the minimum net capital of at least the amount required by Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Act").<sup>3</sup> Pursuant to the proposed Rule, an applicant's registration as a Market Maker will become effective upon

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<sup>3</sup> 17 CFR 240.15c3-1.

receipt by the Member of the Exchange's notice of approval of registration. Under proposed Rule 11.18(f), registered Market Makers are designated as dealers on the Exchange for all purposes under the Act and the rules and regulations thereunder.

Proposed Rule 11.18 also provides that the registration of a Market Maker may be suspended or terminated by the Exchange if the Exchange determines that the Market Maker substantially or continually fails to engage in dealings in accordance with Exchange Rules, if the Market Maker fails to meet the minimum net capital conditions, if the Market Maker fails to maintain fair and orderly markets, or if the Market Maker does not have at least one registered Market Maker Authorized Trader ("MMAT") qualified to perform market making activities as set forth in proposed Rule 11.19(b)(5).<sup>4</sup>

Any Market Maker may also withdraw its registration under the proposed Rule. Subsection (d) of the proposed Rule provides that the Exchange may require a certain minimum prior notice period for withdrawal, and may place other conditions on withdrawal and re-registration following withdrawal, as it deems appropriate to maintain fair and orderly markets.

Proposed Rule 11.19 provides for the registration and obligations of MMATs. The Exchange can register a person as a MMAT upon receiving an application in the form prescribed by the Exchange, and MMATs are permitted to enter orders only for the account of the Market Maker for which they are registered. MMATs may be officers, partners, employees, or other associated persons of Members who are registered as Market Makers. To be eligible for registration as a MMAT, a person must complete the training and other programs required by the Exchange and successfully complete the General Securities Representative Examination (Series 7) or equivalent foreign

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<sup>4</sup> A MMAT whose registration is suspended pursuant to proposed Rule 11.18(c) shall not be deemed qualified within the meaning of Rule 11.18(c)(4).

examination module approved by the Exchange. Market Makers must ensure that their MMATs are properly qualified to perform market making activities. The Exchange may grant a person conditional registration as a MMAT as appropriate in the interests of maintaining a fair and orderly market.

In addition, under proposed Rule 11.19, the Exchange may suspend or withdraw the registration of a MMAT if the Exchange determines that the person has caused the Market Maker to fail to comply with the securities laws or rules of the Exchange, if the person fails to perform his or her responsibilities properly, or fails to maintain fair and orderly markets. If a MMAT is suspended, the Market Maker may not allow the person to submit orders. A Member may also withdraw the registration of a MMAT by submitting to the Exchange a written request on a form prescribed by the Exchange.

Proposed Rule 11.20 provides for the registration of Market Makers in a security. A Market Maker may become registered in a newly authorized security or in a security already admitted to dealings on the Exchange by filing a security registration form with the Exchange. Registration in the security shall become effective on the same day that the Exchange approves the registration, unless otherwise provided by the Exchange. In considering the approval of the registration of the Market Maker in a security, the Exchange may consider the financial resources available to the Market Maker, the Market Maker's experience in making markets, the Market Maker's operational capability, the maintenance and enhancement of competition among Market Makers in each security in which they are registered, the existence of clearing arrangements for the Market Maker's transactions and the character of the market for the security. The proposed Rule also provides that a Market Maker may voluntarily terminate its registration in a security by providing the Exchange with a written notice of such

termination. The Exchange may require a certain minimum prior notice period for such termination and may place other conditions on withdrawal and re-registration following withdrawal. The Exchange may suspend or terminate the registration of a Market Maker in any security whenever it determines that the Market Maker has not met one or more of its obligations, including if the Exchange determines that the Market Maker has failed to maintain fair and orderly markets.

The Exchange's determinations pursuant to proposed Rules 11.18 through 11.20 may be appealed by any person aggrieved by such determination. The procedures for appeal are established in Chapter X of the Exchange's rulebook.

Finally, Proposed Rule 11.21 sets out the obligations of Market Makers. In general, Market Makers must engage in a course of dealings for their own accounts to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets on the Exchange. The responsibilities of a Market Maker include, without limitation, remaining in good standing with the Exchange and in compliance with all applicable Exchange Rules; informing the Exchange of any material change in its financial or operational condition or personnel;<sup>5</sup> maintaining a current list of MMATs and providing any updates to such list to the Exchange upon any change in MMATs; and clearing and settling transactions through the facilities of a registered clearing agency. The latter requirement may be satisfied by direct participation, use of direct clearing services, or by entering into a correspondent clearing arrangement with another Member that clears

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<sup>5</sup> The Exchange proposes to include an interpretation that reminds Market Makers that, in addition to their obligation under Rule 11.21(a)(3) to "inform the Exchange of any material change in financial or operational condition", they are also obligated to submit a copy of such notice with Securities and Exchange Commission ("SEC") pursuant to Rule 17a-11 under the Act, 17 CFR 240.17a-11. The notice to the Exchange must be sent concurrently with the notice sent to the SEC. See EDGA Rule 4.2.

trades through such agency. Market Makers will be responsible for the acts and omissions of its MMATs. If the Exchange finds any substantial or continued failure by a Market Maker to engage in a course of dealing as specified in this Rule, such Market Maker will be subject to disciplinary action or suspension or revocation of its registration.

Further, proposed Rule 11.21(d) provides that a Market Maker must maintain continuous, two-sided quotations within a designated percentage of the National Best Bid (“NBB”) and National Best Offer (“NBO”, and together with the NBB, the “NBBO”) (or, if there is no NBB or NBO, the last reported sale). These Market Maker quotation requirements are intended to eliminate trade executions against Market Maker quotations priced far away from the inside market, commonly known as “stub quotes”. They are also intended to augment and work in relation to the single stock pause standards already in place on a pilot basis for stocks in the S&P 500<sup>®</sup> Index<sup>6</sup> and the Russell 1000<sup>®</sup> Index, as well as a pilot list of Exchange Traded Products<sup>7</sup> (the “Original Circuit Breaker Securities”). Permissible quotes are determined by the individual character of the security, the time of day in which the quote is entered and other factors which are summarized below.

For issues subject to an individual stock trading pause under the applicable rules of a primary listing market, a permissible quote (also known as “Designated Percentage”) is as follows: (i) a Market Maker’s quotes in the Original Circuit Breaker Securities shall not be more than 8% away from the NBBO; (ii) a Market Maker’s quotes in National

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<sup>6</sup> See Securities Exchange Act Release No. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) (SR-EDGA-2010-01).

<sup>7</sup> See Securities Exchange Act Release No. 62884 (September 10, 2010), 75 FR 56618 (September 16, 2010) (SR-EDGA-2010-05).

Market System (“NMS”) securities (as defined in Rule 600 of Regulation NMS)<sup>8</sup> that are not Original Circuit Breaker Securities with a price equal to or greater than \$1 shall not be more than 28% away from the NBBO; and (iii) a Market Maker’s quotes in NMS securities that are not Original Circuit Breaker Securities with a price less than \$1 shall not be more than 30% away from the NBBO. For times during Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market (*e.g.*, before 9:45 a.m. and after 3:35 p.m. Eastern time), the Designated Percentage shall be 20% for Original Circuit Breaker Securities, 28% for all NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1, and 30% for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1.

Once a compliant quote is entered, it may rest without adjustment until such time as it moves to within 9.5% away from the NBBO for Original Circuit Breaker Securities, 29.5% away from the NBBO for NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1, and 31.5% away from the NBBO for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1, whereupon the Market Maker must immediately adjust its quote to at least the permissible default level of 8%, 28%, or 30%, respectively, away from the NBBO. During times when a stock pause trigger percentage is not applicable, a Market Maker must enter a quote no further than:

(i) 20% away from the inside (*i.e.*, it may rest without adjustment until it reaches 21.5% away from the inside) for Original Circuit Breaker Securities;

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<sup>8</sup>

17 CFR 240.600.

(ii) 28% away from the inside for all NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1 (*i.e.*, it may rest without adjustment until it reaches 29.5% away from the inside); and

(iii) 30% away from the inside for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1 (*i.e.*, it may rest without adjustment until it reaches 31.5% away from the inside).

In the absence of a NBB or NBO, the above calculations will remain the same, but will use the national last sale instead of the absent bid or offer.

However, scenarios may occur in which pricing at the commencement of a trading day, or at the re-opening of trading in a security that has been halted, suspended, or paused pursuant to Rule 11.14(d), is significantly different from pricing for the security at the close of the previous trading day or immediately prior to the halt, suspension, or pause, respectively. These pricing differentials could be the result of corporate actions that occur after the close of the previous trading day or the market's absorption of material information during the halt, suspension, or pause. Based on this concern, the Exchange believes that Market Makers should not be subject to the pricing obligations proposed herein when the last sale of the previous trading day, or immediately prior to a halt, is the only available reference price.

The Exchange therefore proposes that, for NMS stocks, a Market Maker shall adhere to the pricing obligations established by this Rule during Regular Trading Hours,<sup>9</sup> provided, however, that such pricing obligations: (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in

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<sup>9</sup> Defined in EDGA Rule 1.5(y) (as proposed to be re-lettered) as 9:30 a.m. to 4:00 p.m. Eastern Time.

the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

Nothing in the above precludes a Market Maker from voluntarily quoting at price levels that are closer to the NBBO than required under the proposal.

The Exchange proposes to offer functionality to Market Makers to assist them with the quotation obligations proposed by this filing. The Exchange will comply with a Market Maker's instructions for the Exchange to enter a quote on the Market Maker's behalf consistent with proposed paragraph 11.21(d). Such instructions will be entered into the System<sup>10</sup> by the Market Maker prior to 9:00 a.m. in order to take effect on the same trading day. Under proposed Rule 11.21(e), the Exchange will refresh such two-sided quotations in each security in which a Market Maker is registered for a maximum of ten (10) executions per security per Market Maker. After such time, the Market Maker must contact the Exchange in order for the Exchange to continue such two-sided quotations for another ten (10) executions on behalf of the Market Maker. If the Market Maker does not contact the Exchange, the Exchange will not refresh such two-sided quotations in such securities. The Exchange proposes to enter the initial bid and offer at the Designated Percentage and to cancel and replace the bid or offer if it drifts away from the NBBO to the Defined Limit or away from the Designated Percentage towards the NBBO by a number of percentage points determined by the Exchange. The Exchange will determine and publish this percentage in a circular distributed to Members from time

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<sup>10</sup> See EDGA Rule 1.5(aa).

to time. The Exchange wishes to retain this flexibility in the event it wishes to modify the number periodically in the future, for instance, to mitigate the amount of quotation information resulting from Exchange-generated Market Maker quotes. If a bid or offer entered pursuant to proposed paragraph 11.21(e) is executed, the Exchange will enter a new bid or offer on behalf of a Market Maker. Bids and offers entered by the Exchange consistent with proposed paragraph (e) to replace a cancelled or executed quotation will be entered at the Designated Percentage away from the NBBO. Such orders will be posted by the Exchange as Post Only Orders,<sup>11</sup> and will be maintained on the Exchange during Regular Trading Hours unless cancelled by the Market Maker pursuant to the Exchange's Rules. In the event that a Market Maker cancels the quotations entered by the Exchange in accordance with proposed paragraph (e), such Market Maker remains responsible for compliance with the requirements of paragraph (d).

The Exchange proposes to cross-reference the above-described Market Maker quotation obligations found in paragraph (d) in paragraph (a)(1).

The Exchange believes that these proposed rules will benefit all Exchange participants, because Market Makers will assist in the maintenance of fair and orderly markets, provide additional liquidity to the Exchange, and assist in preventing excess volatility.

Rule 1.5 has been amended to add the definitions of "Market Maker" and "Market Maker Authorized Trader." As a result, the rest of Rule 1.5 has been re-lettered accordingly.

Amendments to Exchange Rule 14.1 (Unlisted Trading Privileges)

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<sup>11</sup> As defined in EDGA Rule 11.5(c)(5).

The Exchange proposes to add Rule 14.1(c)(5) to restrict trading activities of Market Makers and impose a series of reporting and record-keeping requirements on Market Makers. As a result, current EDGA Rule 14.1(c)(5) has been re-numbered as EDGA Rule 14.1(c)(6).

Proposed EDGA Rule 14.1(c)(5) provides for restrictions for any Member registered as a Market Maker on the Exchange (“Restricted Market Maker”) in a derivative securities product (“UTP Derivative Security”) that derives its value from one or more currencies or commodities, or from a derivative overlying one or more currencies or commodities, or is based on a basket or index comprised of currencies or commodities (collectively, “Reference Assets”). Specifically, proposed EDGA Rule 14.1(c)(5)(A) provides that a Restricted Market Maker in a UTP Derivative Security on the Exchange is prohibited from acting or registering as a Market Maker on any other exchange in any Reference Asset of that UTP Derivative Security, or any derivative instrument based on a Reference Asset of that UTP Derivative Security (collectively, with Reference Assets, “Related Instruments”). Proposed EDGA Rule 14.1(c)(5)(B) provides that a Restricted Market Maker shall, in a manner prescribed by the Exchange, file with the Exchange and keep current a list identifying any accounts (“Related Instrument Trading Accounts”) for which Related Instruments are traded: (1) in which the Restricted Market Maker holds an interest; (2) over which it has investment discretion; or (3) in which it shares in the profits and/or losses. In addition, a Restricted Market Maker may not have an interest in, exercise investment discretion over, or share in the profits and/or losses of a Related Instrument Trading Account which has not been reported to the Exchange as required by this rule. Proposed EDGA Rule 14.1(c)(5)(C) provides that, in addition to the existing obligations under Exchange rules regarding the production of books and records, a

Restricted Market Maker shall, upon request by the Exchange, make available to the Exchange any books, records, or other information pertaining to any Related Instrument Trading Account or to the account of any registered or non-registered employee affiliated with the Restricted Market Maker in which Related Instruments are traded. Proposed EDGA Rule 14.1(c)(5)(D) provides that a Restricted Market Maker shall not use any material, non-public information in connection with trading a Related Instrument.

Finally, existing Rule 14.1(c)(5) is proposed to be re-numbered as 14.1(c)(6). The Exchange also proposes to replace the term “components of the index or portfolio on which the UTP Derivative Security is based” with “Related Instruments” in that rule.

#### Amendment to the Exchange’s MRVP

The Exchange proposes to amend Rule 8.15, entitled “Imposition of Fines for Minor Violation(s) of Rules,” to add Proposed Rule 11.21(a)(1) to the list of rules which would be appropriate for disposition under the Exchange’s MRVP.

The proposed addition of Rule 11.21(a)(1), which provides that a Market Maker must maintain continuous, two-sided quotations consistent with the requirements of paragraph (d) (*i.e.*, within a designated percentage of the NBBO (or, if there is no NBB or NBO, the last reported sale)), would allow the Exchange to impose a \$100 fine for each violation of this rule. By promptly imposing a meaningful financial penalty for such violations, the MRVP focuses on correcting conduct before it gives rise to more serious enforcement action. The MRVP provides a reasonable means of addressing rule violations that do not necessarily rise to the level of requiring formal disciplinary proceedings, while also providing greater flexibility in handling certain violations. Adopting a provision that would allow the Exchange to sanction violators under the MRVP by no means minimizes the importance of compliance with Exchange Rule 11.21.

The Exchange believes that the violation of any of its rules is a serious matter. The addition of a sanction under the MRVP simply serves to add an additional method for disciplining violators of Exchange Rule 11.21. The Exchange will continue to conduct surveillance with due diligence and make its determination, on a case by case basis, whether a violation of Exchange Rule 11.21 should be subject to formal disciplinary proceedings.

The Exchange proposes to implement this rule change, if approved by the Commission, on or about October 15, 2011.

#### Basis

Approval of the rule changes 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>12</sup> In particular, the proposed changes are consistent with Section 6(b)(5) of the Act,<sup>13</sup> because they would promote just and equitable principles of trade, 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 by promoting greater liquidity in the Exchange market. The proposed rule change is also designed to support the principles of Section 11A(a)(1)<sup>14</sup> of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange believes that the proposed rule meets these requirements in that it promotes uniformity across markets concerning minimum market maker quotation requirements. The Exchange believes that

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<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> 15 U.S.C. 78k-1(a)(1).

the proposed optional functionality to assist Exchange Market Makers in maintaining continuous, two-sided quotations in the securities in which they are registered will encourage Market Makers to remain registered with and trade on the Exchange, thus providing valuable liquidity to the Exchange. At the same time, the Exchange believes that the proposed functionality will keep Exchange-generated quotations within reasonable reach of the NBBO. In addition, the proposed addition of Rule 11.21(a)(1) to the Exchange's MRVP will give the Exchange the ability to promptly impose a meaningful financial penalty for such violations before there is a need for more serious enforcement action.

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

Within 45 days of the date of publication of this notice in the *Federal Register* or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (a) by order approve such proposed rule change; or

(b) institute proceedings to determine whether the proposed rule change should be disapproved.

#### 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-2011-29 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-EDGA-2011-29. 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-2011-29 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 Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).

## Exhibit 5

Additions: Underlined

Deletions: [Bracketed]

## Rule 1.5. Definitions (No change in text.)

(a) – (k) (No change in text.)

(l) Market MakerThe term “Market Maker” shall mean a Member that acts as a Market Maker pursuant to Chapter XI.(m) Market Maker Authorized TraderThe term “Market Maker Authorized Trader” or “MMAT” shall mean an authorized trader who performs market making activities pursuant to Chapter XI on behalf of a Market Maker.

[(l)] (n) Member

(No change in text.)

[(m)] (o) NBB, NBO and NBBO

(No change in text.)

[(n)] (p) Person

(No change in text.)

[(o)] (q) Person Associated with a Member

(No change in text.)

[(p)] (r) Post-Closing Session

(No change in text.)

[(q)] (s) Pre-Opening Session

(No change in text.)

[(r)] (t) Principal

(No change in text.)

[(s)] (u) Protected NBB, Protected NBO and Protected NBBO

(No change in text.)

[(t)] (v) Protected Bid, Protected Offer and Protected Quotation

(No change in text.)

[(u)] (w) Qualified Clearing Agency

(No change in text.)

[(v)] (x) Registered Broker or Dealer

(No change in text.)

[(w)] (y) Regular Trading Hours

(No change in text.)

[(x)] (z) Sponsored Participant

(No change in text.)

[(y)] (aa) Sponsoring Member

(No change in text.)

[(z)] (bb) Statutory Disqualification

(No change in text.)

[(aa)] (cc) System

(No change in text.)

[(bb)] (dd) Top of Book

(No change in text.)

[(cc)] (ee) User

(No change in text.)

[(dd)] (ff) UTP Security

(No change in text.)

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## Rule 8.15. Imposition of Fines for Minor Violation(s) of Rules

(a) – (e) (No change in text.)

*Interpretations and Policies*

.01 List of Exchange Rule Violations and Recommended Fine Schedule Pursuant to Rule 8.15: (No change in text.)

(a) – (f) (No change in text.)

*Recommended Fine Amount for 8.15.01(g)-(h) : \$100 per violation*

(g) (No change in text.)

(h) Rule 11.21(a)(1) requirement for Market Makers to maintain continuous, two-sided quotations

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Rule 11.17 (Reserved)

Rule 11.18. Registration of Market Makers(a) An applicant for registration as a Market Maker shall file an application in writing on such form as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider such factors including, but not limited to, capital, operations, personnel, technical resources and disciplinary history. Each Market Maker must have and maintain minimum net capital of at least the amount required under Rule 15c3-1 under the Exchange Act.(b) An applicant's registration as a Market Maker shall become effective upon receipt by the Member of notice of an approval of registration by the Exchange.(c) The registration of a Market Maker may be suspended or terminated by the Exchange if the Exchange determines that:(1) The Market Maker has substantially or continually failed to engage in dealings in accordance with Rule 11.21 or elsewhere in these Rules;(2) The Market Maker has failed to meet the minimum net capital conditions set forth under paragraph (a) above;(3) The Market Maker has failed to maintain fair and orderly markets; or

(4) The Market Maker does not have at least one registered Market Maker Authorized Trader (“MMAT”) qualified to perform market making activities as set forth in Rule 11.19(b)(5). A MMAT whose registration is suspended pursuant to this paragraph (c) shall not be deemed qualified within the meaning of this subsection.

(d) Any registered Market Maker may withdraw its registration by giving written notice to the Exchange. The Exchange may require a certain minimum prior notice period for withdrawal, and may place such other conditions on withdrawal and re-registration following withdrawal, as it deems appropriate in the interest of maintaining fair and orderly markets.

(e) Any person aggrieved by any determination under this Rule 11.18 or Rules 11.19 or 11.20 below may seek review under Chapter X of Exchange Rules governing adverse action.

(f) Registered Market Makers are designated as dealers on the Exchange for all purposes under the Exchange Act and the rules and regulations thereunder.

#### Rule 11.19. Obligations of Market Maker Authorized Traders

(a) General. MMATs are permitted to enter orders only for the account of the Market Maker for which they are registered.

(b) Registration of Market Maker Authorized Traders. The Exchange may, upon receiving an application in writing from a Market Maker on a form prescribed by the Exchange, register a person as a MMAT.

(1) MMATs may be officers, partners, employees or other associated persons of Members that are registered with the Exchange as Market Makers.

(2) To be eligible for registration as a MMAT, a person must successfully complete the General Securities Representative Examination (Series 7) or equivalent foreign examination module approved by the Exchange and any other training and/or certification programs as may be required by the Exchange.

(3) The Exchange may require a Market Maker to provide any and all additional information the Exchange deems necessary to establish whether registration should be granted.

(4) The Exchange may grant a person conditional registration as a MMAT subject to any conditions it considers appropriate in the interest of maintaining a fair and orderly market.

(5) A Market Maker must ensure that a MMAT is properly qualified to perform market making activities, including, but not limited to, ensuring the MMAT has met the requirements set forth in paragraph (b)(2) of this Rule.

(c) Suspension or Withdrawal of Registration.

(1) The Exchange may suspend or withdraw the registration previously given to a person to be a MMAT if the Exchange determines that:

(A) the person has caused the Market Maker to fail to comply with the securities laws, rules and regulations or the By-Laws, Rules and procedures of the Exchange;

(B) the person is not properly performing the responsibilities of a MMAT;

(C) the person has failed to meet the conditions set forth under Paragraph (b) above; or

(D) the MMAT has failed to maintain fair and orderly markets.

(2) If the Exchange suspends the registration of a person as a MMAT, the Market Maker must not allow the person to submit orders into the System.

(3) The registration of a MMAT will be withdrawn upon the written request of the Member for which the MMAT is registered. Such written request shall be submitted on a form prescribed by the Exchange.

#### Rule 11.20. Registration of Market Makers in a Security

(a) A Market Maker may become registered in a newly authorized security or in a security already admitted to dealings on the Exchange by filing a security registration form with the Exchange. Registration in the security shall become effective on the same day as the Exchange's approval of the registration, unless otherwise provided by the Exchange. In considering the approval of the registration of the Market Maker in a security, the Exchange may consider:

(1) the financial resources available to the Market Maker;

(2) the Market Maker's experience, expertise and past performance in making markets, including the Market Maker's performance in other securities;

(3) the Market Maker's operational capability;

(4) the maintenance and enhancement of competition among Market Makers in each security in which the Market Maker is registered;

(5) the existence of satisfactory arrangements for clearing the Market Maker's transactions; and

(6) the character of the market for the security, e.g., price, volatility and relative liquidity.

(b) Voluntary Termination of Security Registration. A Market Maker may voluntarily terminate its registration in a security by providing the Exchange with a written notice of such termination. The Exchange may require a certain minimum, prior notice period for such termination, and may place such other conditions on withdrawal and re-registration following withdrawal, as it deems appropriate in the interest of maintaining fair and orderly markets. A Market Maker that fails to give advanced written notice of termination to the Exchange may be subject to formal disciplinary action pursuant to Chapter VIII of these Rules.

(c) The Exchange may suspend or terminate any registration of a Market Maker in a security or securities under this Rule 11.20 whenever the Exchange determines that:

(1) The Market Maker has not met any of its obligations as set forth in these Rules; or

(2) The Market Maker has failed to maintain fair and orderly markets. A Market Maker whose registration is suspended or terminated pursuant to this Rule 11.20(c) may seek review under Chapter X of Exchange Rules governing adverse action.

(d) Nothing in this Rule 11.20 will limit any other power of the Exchange under the By-Laws, Rules or procedures of the Exchange with respect to the registration of a Market Maker or in respect of any violation by a Market Maker of the provisions of this Rule 11.20.

#### Rule 11.21. Obligations of Market Makers

(a) General. Members who are registered as Market Makers in one or more securities traded on the Exchange must engage in a course of dealings for their own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets on the Exchange in accordance with these Rules. The responsibilities and duties of a Market Maker specifically include, but are not limited to, the following:

(1) Maintain continuous, two-sided quotations consistent with the requirements of paragraph (d) below;

(2) Remain in good standing with the Exchange and in compliance with all Exchange Rules applicable to it;

(3) Inform the Exchange of any material change in financial or operational condition or in personnel;

(4) Maintain a current list of MMATs who are permitted to enter orders on behalf of the Market Maker and provide an updated version of this list to the Exchange upon any change in MMATs; and

(5) Clear and settle transactions through the facilities of a registered clearing agency. This requirement may be satisfied by direct participation, use of direct clearing services or by entering into a correspondent clearing arrangement with another Member that clears trades through such agency.

(b) A Market Maker shall be responsible for the acts and omissions of its MMATs.

(c) If the Exchange finds any substantial or continued failure by a Market Maker to engage in a course of dealings as specified in paragraph (a) of this Rule, such Market Maker will be subject to disciplinary action, including, without limitation, suspension or revocation of its registration by the Exchange in one or more of the securities in which the Market Maker is registered. Nothing in this Rule 11.21 limits any powers of the Exchange under the By-Laws, Rules or procedures of the Exchange with respect to the registration of a Market Maker or in respect of any violation by a Market Maker of the provisions of this Rule 11.21. Any Member aggrieved by any determination under this Rule 11.21 may seek review under Chapter X of the Exchange Rules governing adverse action.

(d) Quotation Requirements and Obligations

(1) Continuous, Two-Sided Quote Obligation. For each security in which a Member is registered as a Market Maker, the Member shall be willing to buy and sell such security for its own account on a continuous basis during Regular Trading Hours and shall enter and maintain a two-sided trading interest ("Two-Sided Obligation") that is displayed in the Exchange's System at all times. Interest eligible to be considered as part of a Market Maker's Two-Sided Obligation shall have a displayed quotation size of at least one normal unit of trading (or a larger multiple thereof); provided, however, that a Market Maker may augment its Two-Sided Obligation size to display limit orders priced at the same price as the Two-Sided Obligation. Unless otherwise designated, a "normal unit of trading" shall be 100 shares. After an execution against its Two-Sided Obligation, a Market Maker must ensure that additional trading interest exists in the System to satisfy its Two-Sided Obligation by immediately entering new interest to comply with this obligation to maintain continuous, two-sided quotations.

(2) Pricing Obligations. For NMS stocks (as defined in Rule 600 of Regulation NMS), a Market Maker shall adhere to the pricing obligations established by this Rule during Regular Trading Hours; provided, however, that such pricing obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension or pause, as reported by the responsible single plan processor.

(A) Bid Quotations. At the time of entry of bid interest satisfying the Two-Sided Obligation, the price of the bid interest shall be not more than the Designated Percentage away from the then current NBB, or if no NBB, not more than the Designated Percentage away from the last reported sale as reported by the responsible single plan processor. In the event that the NBB (or if no NBB, the last reported sale) increases to a level that would cause the bid interest of the Two-Sided Obligation to be more than the Defined Limit away from the NBB (or if no NBB, the last reported sale), or if the bid is executed or cancelled, the Market Maker shall enter new bid interest at a price not more

than the Designated Percentage away from the then current NBB (or if no NBB, the last reported sale).

(B) Offer Quotations. At the time of entry of offer interest satisfying the Two-Sided Obligation, the price of the offer interest shall be not more than the Designated Percentage away from the then current NBO, or if no NBO, not more than the Designated Percentage away from the last reported sale reported by the responsible single plan processor. In the event that the NBO (or if no NBO, the last reported sale) decreases to a level that would cause the offer interest of the Two-Sided Obligation to be more than the Defined Limit away from the NBO (or if no NBO, the last reported sale), or if the offer is executed or cancelled, the Market Maker shall enter new offer interest at a price not more than the Designated Percentage away from the then current NBO (or if no NBO, the last reported sale).

(C) The NBB and NBO, as defined in Rule 1.5, shall be determined by the Exchange in accordance with its procedures for determining Protected Quotations under Rule 600 of Regulation NMS.

(D) For purposes of this Rule, the term "Designated Percentage" shall mean 8% with respect to securities included in the S&P 500<sup>®</sup> Index and the Russell 1000<sup>®</sup> Index, as well as a pilot list of Exchange Traded Products for securities subject to an individual stock pause trigger under the applicable rules of a primary listing market ("Original Circuit Breaker Securities"). For times during Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market, the Designated Percentage shall be 20% for Original Circuit Breaker Securities.

(E) The Designated Percentage shall be 28% for all NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1, and 30% for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1.

(F) For purposes of this Rule, the term "Defined Limit" shall mean 9.5% for Original Circuit Breaker Securities. For times during Regular Trading Hours when stock pause triggers are not in effect under the rules of the primary listing market, the Defined Limit shall be 21.5% for Original Circuit Breaker Securities.

(G) The Defined Limit shall be 29.5% for all NMS securities that are not Original Circuit Breaker Securities with a price equal to or greater than \$1, and 31.5% for all NMS securities that are not Original Circuit Breaker Securities with a price less than \$1.

(H) Nothing in this Rule shall preclude a Market Maker from quoting at price levels that are closer to the NBBO than the levels required by this Rule.

(I) The minimum quotation increment for quotations in the system of \$1.00 or above shall be \$0.01. The minimum quotation increment in the System for quotations below \$1.00 shall be \$0.0001.

(e) The Exchange will, upon request of a Market Maker received prior to 9:00 a.m. (Eastern Time) on a day in which the Exchange is open for business, enter on behalf of such Market Maker a two-sided quotation in each security to which the request applies. The Exchange will refresh such two-sided quotations in each security in which a Market Maker is registered for a maximum of ten (10) executions per security per Market Maker. After such time, the Market Maker must contact the Exchange in order for the Exchange to continue such two-sided quotations for another ten (10) executions on behalf of the Market Maker. If the Market Maker does not contact the Exchange, the Exchange will not refresh such two-sided quotations. Such bids and offers will be entered at the Designated Percentage away from the then current NBB and NBO, or if there is no NBB or NBO, at the Designated Percentage away from the last reported sale as reported by the responsible single plan processor. Upon reaching the Defined Limit, a bid or offer entered pursuant to this paragraph will be cancelled and re-entered at the Designated Percentage away from the then current NBB and NBO, or if there is no NBB or NBO, at the Designated Percentage away from the last sale reported by the responsible single plan processor. If a bid or offer entered pursuant to this paragraph moves a specified number of percentage points away from the Designated Percentage towards the then current NBB or NBO, which number of percentage points will be determined and published in a circular distributed to Members from time to time, such bid or offer will be cancelled and re-entered at the Designated Percentage away from the then current NBB and NBO, or if there is no NBB or NBO, at the Designated Percentage away from the last sale reported by the responsible single plan processor. If a bid or offer entered pursuant to this paragraph is executed, the Exchange will re-enter a new bid or offer at the Designated Percentage away from the then current NBB and NBO, or if there is no NBB or NBO, at the Designated Percentage away from the last sale reported by the responsible single plan processor. Bids and offers entered by the Exchange pursuant to this paragraph will be designated as Post Only Orders pursuant to Rule 11.5(c)(5), will each be in the amount of one normal unit of trading, and will be posted in the EDGA Book during Regular Trading Hours unless cancelled by the Market Maker. In the event that a Market Maker cancels the quotations entered by the Exchange in accordance with this paragraph, such Market Maker remains responsible for compliance with the requirements of paragraph (d).

#### Interpretation and Policies

.01 The obligation of a Market Maker pursuant to Rule 11.21(a)(3) to “inform the Exchange of any material change in financial or operational condition” includes the requirement to submit a copy to the Exchange of a notice sent to the Securities and Exchange Commission (“SEC”) pursuant to Rule 17a-11 under the Exchange Act. The notice to the Exchange must be sent concurrently with the notice sent to the SEC. See also, EDGA Rule 4.2.

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## CHAPTER XIV. SECURITIES TRADED

## Rule 14.1. Unlisted Trading Privileges

(a) (No change in text.)

(b) (No change in text.)

(c) (No change in text.)

(1)-(4) (No change in text.)

(5) Market Maker Restrictions. The following restrictions shall apply to each Member registered as a Market Maker on the Exchange ("Restricted Market Maker") in a UTP Derivative Security that derives its value from one or more currencies, or commodities, or derivatives based on one or more currencies, or commodities, or is based on a basket or index comprised of currencies or commodities (collectively, "Reference Assets"):

(A) A Restricted Market Maker in a UTP Derivative Security is prohibited from acting or registering as a market maker on another exchange in any Reference Asset of that UTP Derivative Security, or any derivative instrument based on a Reference Asset of that UTP Derivative Security (collectively, with Reference Assets, "Related Instruments").

(B) A Restricted Market Maker shall, in a manner prescribed by the Exchange, file with the Exchange and keep current a list identifying any accounts ("Related Instrument Trading Accounts") for which Related Instruments are traded:

- (i) in which the Restricted Market Maker holds an interest;
- (ii) over which it has investment discretion; or
- (iii) in which it shares in the profits and/or losses.

A Restricted Market Maker may not have an interest in, exercise investment discretion over, or share in the profits and/or losses of a Related Instrument Trading Account which has not been reported to the Exchange as required by this Rule.

(C) In addition to the existing obligations under Exchange rules regarding the production of books and records, a Restricted Market Maker shall, upon request by the Exchange, make available to the Exchange any books, records or other information pertaining to any Related Instrument Trading Account or to the account of any registered or non-registered employee affiliated with the Restricted Market Maker for which Related Instruments are traded.

(D) A Restricted Market Maker shall not use any material, non-public information in connection with trading a Related Instrument.

[(5)] (6) Surveillance. The Exchange shall enter into a comprehensive surveillance sharing agreement with other markets that offer trading [components of the index or portfolio on which the UTP Derivative Security is based]in Related Instruments to the same extent as the

listing exchange's rules require the listing exchange to enter into a comprehensive surveillance sharing agreement with such markets.

#### Interpretations and Policies

.01 (No change in text.)

(a)-(b) (No change in text.)

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