OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2012 - * 22
Amendment No. (req. for Amendments *)

Proposed Rule Change by EDGA Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

19b-4(f)(1)	19b-4(f)(2)	19b-4(f)(3)	19b-4(f)(4)	19b-4(f)(5)	19b-4(f)(6)
☐	☐	☐	☐	☐	☑

Exhibit 2 Sent As Paper Document ☐
Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

EDGA Exchange, Inc. proposes to amend EDGA Rules to add the Mid-Point Discretionary Order.

Contact Information

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 * Jeffrey Last Name * Rosenstrock

Title * General Counsel

E-mail * jrosenstrock@directedge.com

Telephone * (201) 942-8295 Fax

Signature

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 06/08/2012

By Jeffrey Rosenstrock General Counsel

(Name *) (Title *)

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.

jrosenstrock@directedge.com,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required) Add Remove View	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) Add Remove View	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 Add Remove View Exhibit Sent As Paper Document ☐	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 Add Remove View Exhibit Sent As Paper Document ☐	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 Add Remove View	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 Add Remove View	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 Add Remove View	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 Changes

(a) EDGA Exchange, Inc. ("EDGA" or the "Exchange") proposes to amend Exchange Rule 11.5(c) to add a new order type, the Mid-Point Discretionary Order, to the rule. In addition, the Exchange proposes to amend Exchange Rule 11.8(a)(2)(C) to reflect the priority that a Mid-Point Discretionary Order would have under certain circumstances. The text of the proposed rule changes are attached as Exhibit 5 and are available on the Exchange's website at www.directedge.com, at the Exchange's principal office, and at the Public Reference Room of the Commission.

(b) The Exchange does not believe that the proposed rule changes 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 amendment to Rule 11.5(c) was approved by the Board of Directors of the Exchange on January 13, 2011. The proposed amendment to Rule 11.8(a)(2)(C) was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on April 27, 2010. No other action is necessary for the filing of the rule changes. Therefore, the Exchange's internal procedures with respect to the proposed changes are complete.

The person on the Exchange staff prepared to respond to questions and comments on the proposed rule changes is:

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 Changes

(a) Purpose

1. Proposed Amendment to Rule 11.5(c)

Exchange Rule 11.5(c) describes the Exchange's current order types. In order to provide additional flexibility and increased functionality to its System[1] and its

[1] As defined in Exchange Rule 1.5(cc)

Users,[2] the Exchange proposes to add a new order type, the Mid-Point Discretionary Order (the "MDO"), to Rule 11.5(c)(17). MDOs to buy would be displayed at and pegged to the national best bid (the "NBB[3]"), with discretion to execute at prices up to and including the mid-point of the National Best Bid and Offer (the "NBBO[4]"). MDOs to sell would be displayed at and pegged to the national best offer (the "NBO[5]"), with discretion to execute at prices down to and including the mid-point of the NBBO. The displayed prices of MDOs would move in tandem with changes in the NBB (for buy orders) or the NBO (for sell orders). Moreover, MDOs would not independently establish or maintain an NBB or NBO; rather, the displayed prices of MDOs would be derived from the then current NBB or NBO.

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

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

In addition, pursuant to Exchange Rule 11.8(a)(2), as with all discretionary order types, as described below, the discretionary portion of the order would be given lower time priority than the displayed portion and non-displayed size/reserve

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2 As defined in Exchange Rule 1.5(ee).

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

4 Id.

5 Id.

quantity of reserve orders. In addition, MDOs would not be eligible for routing pursuant to Exchange Rule 11.9(b)(2).

MDOs Entered Without Limit Prices

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

Example 1

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side market order or marketable limit order to sell 100 shares at 10.00 would execute against the MDO to buy at 10.00 for 100 shares.
- A contra side limit order to sell 100 shares at 10.01 would execute against the MDO to buy at 10.01 for 100 shares. As discussed below, only certain types of contra side order would be able to execute against MDOs at sub-penny prices.

Example 2

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

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

Example 3

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side market order to sell 200 shares would execute against the two buy orders with time priority over the MDO at 10.00, thereby leaving the MDO order to buy on the EDGA Book.

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

<u>MDOs Entered With Limit Prices</u>

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

Example 1

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side market order or marketable limit order to sell 100 shares at 10.00 would execute against the MDO to buy at 10.00 for 100 shares.
- A contra side limit order to sell 100 shares at 10.01 would execute against the MDO to buy at 10.01 for 100 shares.
- A contra side limit order to sell 100 shares at 10.02 would not execute against the MDO to buy, because the MDO had discretion to buy only up to the mid-point of the NBBO. The limit order to sell would thus be displayed at 10.02 and reduce the mid-point of the NBBO to 10.01.

Example 2

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.02.
- A contra side limit order to sell 100 shares at 10.02 would execute against the MDO to buy at 10.02 for 100 shares.

Example 3

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

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

Example 4

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

Example 5

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

- A contra side market order to sell 300 shares would execute first against the buy order on the book at 10.04, and then against the two buy orders on the book with time priority over the MDO at 10.03, thereby leaving the MDO to buy on the book.
- The MDO would then re-price to 10.02 because MDOs could not independently establish or maintain an NBB or NBO – rather, their displayed price(s) would be derived from the then current NBB and NBO. Therefore, the MDO would be displayed at 10.02 with discretion to trade up to 10.03 (assuming the NBO remained at 10.06), although the resting buy order at 10.02 would have time priority over the MDO.

<u>Sub-Penny Executions</u>

MDOs would only be able to execute at sub-penny prices in stocks priced at $1 or more against contra side orders that were by their terms eligible for NBBO mid-point executions regardless whether such mid-point is in a penny or sub-penny increment, namely, (1) other MDOs, and (2) Mid-Point Peg Orders (“MPOs”).[6] Nonetheless, despite being eligible to execute in sub-pennies to the extent that they executed at the NBBO mid-point, MDOs would not be displayed or ranked in sub-penny increments. MDOs would execute against all other order types solely in penny increments.

Example 1

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

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

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

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

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

Example 2

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

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

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

2. <u>Proposed Amendment to Rule 11.8(a)(2)(C)</u>

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

Example

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.02.
- A contra side limit order to sell 100 shares at 10.02 would execute against the non-displayed order, and not the MDO, since non-displayed orders would have priority over the discretionary range of MDOs in accordance with Rule 11.8(a)(2).

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

(b) Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[7] and further the objectives of Section 6(b)(5) of the Act,[8] because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule changes would provide Users with a greater selection of order types that may result in the efficient execution of such orders and provide additional flexibility and increased functionality to the Exchange's System and its Users. Specifically, the Exchange believes that Users may receive more efficient order executions by permitting them to have greater flexibility to be displayed at the NBBO with discretion to execute to the mid-point of the NBBO, resulting in the potential benefit of price improvement.

The MDO would be similar in nature to several existing order types of the Exchange. First, the MDO would be similar to the Pegged Order[9] and the MPO in that like these order types, an MDO's displayed price would be pegged to and automatically adjusted in tandem with changes in the then current NBB or NBO, a new timestamp would be created for the order each time it was automatically adjusted, and it would not be eligible for routing pursuant to Rule 11.9(b)(2). In addition, like the MPO, the MDO would be eligible to receive sub-penny executions at the mid-point of the NBBO. However, unlike the MPO, the MDO would provide the added benefit of transparency, since there would always be a displayed component to an MDO. In addition, the MDO would be similar to a Discretionary Order,[10] in that it would include a displayed order at a specified

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7 15 U.S.C. 78f(b).

8 15 U.S.C. 78f(b)(5).

9 As defined in Exchange Rule 11.5(c)(6).

10 As defined in Exchange Rule 11.5(c)(13).

price (in this case, an objectively determined price based on the prevailing NBB or NBO) and an undisplayed order at a specified price (in this case, an objectively determined price based on the mid-point of the NBBO and subject to any limits the User attaches the MDO). The Exchange believes that this proposed order type would benefit its Users by offering greater flexibility to display liquidity at the NBBO with discretion generally to execute to the NBBO mid-point, resulting in additional opportunities for price improvement for contra-side orders.

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

The Exchange does not believe that the proposed rule changes would impose any burden on competition that would not be necessary or appropriate in furtherance of the purposes of the Act.

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

The Exchange has not solicited, and does not intend to solicit, comments on the proposed rule changes. The Exchange has not received any unsolicited written comments from Members or other interested parties on the proposed rule changes.

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 changes have become effective pursuant to Section 19(b)(3)(A)[11] of the Act and Rule 19b-4(f)(6)[12] thereunder. The proposed rule changes effect changes that (A) do not significantly affect the protection of investors or the public interest; (B) do not impose any significant burden on competition; and (C) by their terms, do 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 changes, along with a brief description and text of the proposed rule changes, at least five business days prior to the date of filing of the proposed rule changes, or such shorter time as designated by the Commission.

The Exchange provided the Commission with written notice of its intent to file

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[11] 15 U.S.C. 78s(b)(3)(A).

[12] 17 CFR 240.19b-4(f)(6).

the proposed rule changes, along with a brief description and text of the proposed rule changes, at least five business days prior to the date of filing.[13] The Exchange has satisfied this requirement.

The rule changes are non-controversial because, as noted supra, they are substantially similar in nature to existing order types previously approved by the Commission. The MDO has two discrete components – a displayed portion that is pegged to the NBB or NBO, and a non-displayed portion which gives discretion to execute to the mid-point of the NBBO, subject to certain limits. The displayed, pegged portion of the MDO is conceptually similar to the Exchange's Pegged Order. The non-displayed portion of the MDO is conceptually similar to the Exchange's MPO (insofar as it would be eligible to execute in ½ cent increments at the mid-point of the NBBO). And the MDO as a whole is conceptually similar to the Exchange's Discretionary Order (insofar as it would have displayed and undisplayed components, in both cases set to objectively determined parameters).

The MDO is also conceptually similar to order types of other exchanges. For example, NYSE Arca, Inc.'s ("Arca") Rule 7.31(cc) describes a Pegged Order, which is a "limit order to buy or sell a stated amount of a security at a displayed price set to track the current bid or ask of the NBBO in an amount specified by the User. . . . A Pegged Order may be designated as a . . . Discretionary Order." NYSE Arca Rule 7.31(h)(2), in turn, defines a Discretionary Order to be "[a]n order to buy or sell a stated amount of a security at a specified, undisplayed price (the 'discretionary price'), in addition to at a specified, displayed price ('displayed price')." The MDO is similar to Arca's Pegged Order designated as a Discretionary Order insofar as the displayed components of both are designed to track the prevailing NBB and NBO. While the undisplayed component of the MDO presents a variation on the undisplayed component of Arca's order type, insofar as the former sets a more specific parameter on the discretionary aspect of the order (i.e., to execute to the mid-point of the NBBO), the Exchange does not believe that such variation presents unique issues with respect to the consistency of the MDO with the requirements of the Act.

The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. Waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to begin offering the MDO immediately to its Members and to be competitive with other market centers that are already offering similar functionality.

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[13] 17 CFR 240.19b-4(f)(6)(iii).

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

The MDO is based on similar order types of NYSE Arca, specifically the Pegged Order and Discretionary Order.[14]

9. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Changes for Publication in the Federal Register.

Exhibit 5 – Text of the Proposed Rule Changes.

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[14] See NYSE Arca Rule 7.31(cc) and (h)(2), respectively.

EXHIBIT 1

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

[Date]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on June 8, 2012, the EDGA Exchange, Inc. (the "Exchange" or the "EDGA") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, 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

EDGA Exchange, Inc. ("EDGA" or the "Exchange") proposes to amend Exchange Rule 11.5(c) to add a new order type, the Mid-Point Discretionary Order, to the rule. In addition, the Exchange proposes to amend Exchange Rule 11.8(a)(2)(C) to reflect the priority that a Mid-Point Discretionary Order would have under certain circumstances. The text of the proposed rule changes are attached as Exhibit 5 and are available on the Exchange's website at www.directedge.com, at the Exchange's principal office, and at the Public Reference Room of the Commission.

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

2 17 CFR 240.19b-4.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B and C below, of the most significant aspects of such statements.

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

Purpose

1. Proposed Amendment to Rule 11.5(c)

Exchange Rule 11.5(c) describes the Exchange's current order types. In order to provide additional flexibility and increased functionality to its System[3] and its Users,[4] the Exchange proposes to add a new order type, the Mid-Point Discretionary Order (the "MDO"), to Rule 11.5(c)(17). MDOs to buy would be displayed at and pegged to the national best bid (the "NBB[5]"), with discretion to execute at prices up to and including the mid-point of the National Best Bid and Offer (the "NBBO[6]"). MDOs to sell would be

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[3] As defined in Exchange Rule 1.5(cc)

[4] As defined in Exchange Rule 1.5(ee).

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

[6] Id.

displayed at and pegged to the national best offer (the "NBO[7]"), with discretion to execute at prices down to and including the mid-point of the NBBO. The displayed prices of MDOs would move in tandem with changes in the NBB (for buy orders) or the NBO (for sell orders). Moreover, MDOs would not independently establish or maintain an NBB or NBO; rather, the displayed prices of MDOs would be derived from the then current NBB or NBO.

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

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

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7 Id.

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

MDOs Entered Without Limit Prices

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

Example 1

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side market order or marketable limit order to sell 100 shares at 10.00 would execute against the MDO to buy at 10.00 for 100 shares.
- A contra side limit order to sell 100 shares at 10.01 would execute against the MDO to buy at 10.01 for 100 shares. As discussed below, only certain types of contra side order would be able to execute against MDOs at sub-penny prices.

Example 2

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

10.05 (so the NBBO mid-point is now 10.04), the displayed price of the MDO would be adjusted to 10.03, with discretion to buy up to 10.04.

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

Example 3

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side market order to sell 200 shares would execute against the two buy orders with time priority over the MDO at 10.00, thereby leaving the MDO order to buy on the EDGA Book.
- The MDO would then re-price to 9.99 because MDOs could not independently establish or maintain an NBB or NBO – rather, their displayed prices would be derived from the NBB and NBO. Therefore, the MDO would be displayed at 9.99 with discretion to trade up to 10.01 (assuming the NBO remained at 10.03), although the resting buy order at 9.99 would have time priority over the MDO.

<u>MDOs Entered With Limit Prices</u>

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

Example 1

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.015.
- A contra side market order or marketable limit order to sell 100 shares at 10.00 would execute against the MDO to buy at 10.00 for 100 shares.
- A contra side limit order to sell 100 shares at 10.01 would execute against the MDO to buy at 10.01 for 100 shares.
- A contra side limit order to sell 100 shares at 10.02 would not execute against the MDO to buy, because the MDO had discretion to buy only up to the mid-point of the NBBO. The limit order to sell would thus be displayed at 10.02 and reduce the mid-point of the NBBO to 10.01.

Example 2

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.02.
- A contra side limit order to sell 100 shares at 10.02 would execute against the MDO to buy at 10.02 for 100 shares.

Example 3

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

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

Example 4

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

Example 5

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

- A contra side market order to sell 300 shares would execute first against the buy order on the book at 10.04, and then against the two buy orders on the book with time priority over the MDO at 10.03, thereby leaving the MDO to buy on the book.
- The MDO would then re-price to 10.02 because MDOs could not independently establish or maintain an NBB or NBO – rather, their displayed price(s) would be derived from the then current NBB and NBO. Therefore, the MDO would be displayed at 10.02 with discretion to trade up to 10.03 (assuming the NBO remained at 10.06), although the resting buy order at 10.02 would have time priority over the MDO.

Sub-Penny Executions

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

Example 1

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

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

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

- A contra side MPO to sell 100 shares would execute against the MDO to buy at the NBBO mid-point of 10.015.

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

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

Example 2

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

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

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

2. <u>Proposed Amendment to Rule 11.8(a)(2)(C)</u>

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

Example

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

- The MDO would be displayed at 10.00 with discretion to buy up to 10.02.
- A contra side limit order to sell 100 shares at 10.02 would execute against the non-displayed order, and not the MDO, since non-displayed orders would have priority over the discretionary range of MDOs in accordance with Rule 11.8(a)(2).

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

<u>Basis</u>

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act[9] and further the objectives of Section 6(b)(5) of the Act,[10] because they are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and, in general, to protect investors and the public interest. The proposed rule

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

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

changes would provide Users with a greater selection of order types that may result in the efficient execution of such orders and provide additional flexibility and increased functionality to the Exchange's System and its Users. Specifically, the Exchange believes that Users may receive more efficient order executions by permitting them to have greater flexibility to be displayed at the NBBO with discretion to execute to the mid-point of the NBBO, resulting in the potential benefit of price improvement.

The MDO would be similar in nature to several existing order types of the Exchange. First, the MDO would be similar to the Pegged Order[11] and the MPO in that like these order types, an MDO's displayed price would be pegged to and automatically adjusted in tandem with changes in the then current NBB or NBO, a new timestamp would be created for the order each time it was automatically adjusted, and it would not be eligible for routing pursuant to Rule 11.9(b)(2). In addition, like the MPO, the MDO would be eligible to receive sub-penny executions at the mid-point of the NBBO. However, unlike the MPO, the MDO would provide the added benefit of transparency, since there would always be a displayed component to an MDO. In addition, the MDO would be similar to a Discretionary Order,[12] in that it would include a displayed order at a specified price (in this case, an objectively determined price based on the prevailing NBB or NBO) and an undisplayed order at a specified price (in this case, an objectively determined price based on the mid-point of the NBBO and subject to any limits the User attaches the MDO). The Exchange believes that this proposed order type would benefit its Users by offering greater flexibility to display liquidity at the NBBO with discretion

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

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

generally to execute to the NBBO mid-point, resulting in additional opportunities for price improvement for contra-side orders.

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

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

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule changes have become effective pursuant to Section 19(b)(3)(A)[13] of the Act and Rule 19b-4(f)(6)[14] thereunder. The proposed rule changes effect changes that (A) do not significantly affect the protection of investors or the public interest; (B) do not impose any significant burden on competition; and (C) by their terms, do 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 changes, along with a brief description and text of the proposed rule changes, at least five business days prior to the date of filing of the proposed rule changes, or such shorter time as designated by the Commission.

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

14 17 CFR 240.19b-4(f)(6).

The Exchange provided the Commission with written notice of its intent to file the proposed rule changes, along with a brief description and text of the proposed rule changes, at least five business days prior to the date of filing.[15] The Exchange has satisfied this requirement.

The rule changes are non-controversial because, as noted supra, they are substantially similar in nature to existing order types previously approved by the Commission. The MDO has two discrete components – a displayed portion that is pegged to the NBB or NBO, and a non-displayed portion which gives discretion to execute to the mid-point of the NBBO, subject to certain limits. The displayed, pegged portion of the MDO is conceptually similar to the Exchange's Pegged Order. The non-displayed portion of the MDO is conceptually similar to the Exchange's MPO (insofar as it would be eligible to execute in ½ cent increments at the mid-point of the NBBO). And the MDO as a whole is conceptually similar to the Exchange's Discretionary Order (insofar as it would have displayed and undisplayed components, in both cases set to objectively determined parameters).

The MDO is also conceptually similar to order types of other exchanges. For example, NYSE Arca, Inc.'s ("Arca") Rule 7.31(cc) describes a Pegged Order, which is a "limit order to buy or sell a stated amount of a security at a displayed price set to track the current bid or ask of the NBBO in an amount specified by the User. . . . A Pegged Order may be designated as a . . . Discretionary Order." NYSE Arca Rule 7.31(h)(2), in turn, defines a Discretionary Order to be "[a]n order to buy or sell a stated amount of a security at a specified, undisplayed price (the 'discretionary price'), in addition to at a specified, displayed price ('displayed price')." The MDO is similar to Arca's Pegged

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

Order designated as a Discretionary Order insofar as the displayed components of both are designed to track the prevailing NBB and NBO. While the undisplayed component of the MDO presents a variation on the undisplayed component of Arca's order type, insofar as the former sets a more specific parameter on the discretionary aspect of the order (i.e., to execute to the mid-point of the NBBO), the Exchange does not believe that such variation presents unique issues with respect to the consistency of the MDO with the requirements of the Act.

The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. Waiver of the operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to begin offering the MDO immediately to its Members and to be competitive with other market centers that are already offering similar functionality.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form http://www.sec.gov/rules/sro.shtml); or

- Send an E-mail to rule-comments@sec.gov. Please include File No. SR-EDGA-2012-22 on the subject line.

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-2012-22. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the 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-2012-22 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.[16]

Secretary

[16] 17 CFR 200.30-3(a)(12).

Exhibit 5

Additions underlined
Deletions [bracketed]

Rule 11.5. Orders and Modifiers
Users may enter into the System the types of orders listed in this Rule 11.5, subject to the limitations set forth in this Rule or elsewhere in these Rules.

(a) No change.

(b) No change.

(c) No change.

(c)(1) – (13) No change.

(14) – (16) Reserved.

(17) *Mid-Point Discretionary Order.* A limit order to buy that is displayed at and pegged to the NBB, with discretion to execute at prices up to and including the mid-point of the NBBO, and a limit order to sell that is displayed at and pegged to the NBO, with discretion to execute at prices down to and including the mid-point of the NBBO. Notwithstanding the foregoing, if a Mid-Point Discretionary Order is entered with a limit price, then its displayed price, and discretion to the mid-point of the NBBO, is bound by such limit price. A Mid-Point Discretionary Order to buy or sell with a limit price that is less than the prevailing NBB or higher than the prevailing NBO, respectively, is posted to the EDGA Book at its limit price. The displayed prices of Mid-Point Discretionary Orders are derived from the NBB or NBO, and cannot independently establish or maintain the NBB or NBO. Mid-Point Discretionary Orders in stocks priced at $1.00 or more can only be executed in sub-penny increments when they execute at the mid-point of the NBBO against contra side Mid-Point Peg Orders, as defined in paragraph (c)(7) hereof, and against other Mid-Point Discretionary Orders. A new time stamp is created for a Mid-Point Discretionary Order to buy or sell each time its displayed price is automatically adjusted based on a change in the NBB or NBO, respectively. Mid-Point Discretionary Orders are not eligible for routing pursuant to Rule 11.9(b)(2).

(d) – (e) No change.

Rule 11.8. Priority of Orders

(a) No change.

(a)(1) – (2)(B) No change.

(C) Mid-Point Discretionary Orders as set forth in Rule 11.5(c)(17) and [D]discretionary range of Discretionary Orders as set forth in Rule 11.5(c)(13).

(a)(3) – (6) No change.

(b) No change.