

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71036; File No. SR-Phlx-2013-116)

December 11, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Establish Fees under the PHLX Pricing Schedule for Use of the Carteret Testing Facility Test Environment

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 27, 2013, NASDAQ OMX PHLX LLC (“Phlx” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a 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 the Substance of the Proposed Rule Change

The Exchange proposes to establish fees under the Pricing Schedule for use of the Testing Facility (“NTF”) test environment located in Carteret, New Jersey, which will provide a virtual equities trading environment for testing. The Exchange will begin assessing the fees immediately; however, the installation fee will be waived for subscriptions ordered through March 31, 2014.

The text of the proposed rule change is below. Proposed new language is underscored.

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¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

NASDAQ OMX PHLX LLC¹ PRICING SCHEDULE

ALL BILLING DISPUTES MUST BE SUBMITTED TO THE EXCHANGE IN WRITING AND MUST BE ACCOMPANIED BY SUPPORTING DOCUMENTATION. ALL DISPUTES MUST BE SUBMITTED NO LATER THAN SIXTY (60) DAYS AFTER RECEIPT OF A BILLING INVOICE, EXCEPT FOR DISPUTES CONCERNING NASDAQ OMX PSX FEES, PROPRIETARY DATA FEED FEES AND CO-LOCATION SERVICES FEES. AS OF JANUARY 3, 2011, THE EXCHANGE WILL CALCULATE FEES ON A TRADE DATE BASIS.

¹ PHLX® is a registered trademark of The NASDAQ OMX Group, Inc.

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VIII. NASDAQ OMX PSX FEES

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Testing Facilities[y]†

The Exchange operates two test environments. One is located in Ashburn, Virginia and the other in Carteret, New Jersey. Unless otherwise noted, reference to the “Testing Facility” applies to both environments.

(a) – (c) No change.

(d) Subscribers to the Testing Facility located in Carteret, New Jersey shall pay a fee of \$1,000 per hand-off, per month for connection to the Testing Facility. The hand-off fee includes either a 1Gb or 10Gb switch port and a cross connect to the Testing Facility. Subscribers shall also pay a

one-time installation fee of \$1,000 per hand-off, which is waived for all installations ordered prior to March 31, 2014.

† Testing Facility fees will be waived for the period ending on the sixth full calendar month following the launch of NASDAQ OMX PSX.

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

In its filing with the Commission, NASDAQ 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 those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange is proposing to amend the Pricing Schedule to establish fees for connection to a test environment. Specifically, the Exchange proposes a one-time, per hand-off installation fee and a per hand-off monthly fee assessed for direct connectivity to the Testing Facility³ test environment located in Carteret, New Jersey ("Carteret"), which is also the location of the Exchange's primary trading System.⁴ The Testing Facility provides subscribers with a

³ See <http://www.nasdaqtrader.com/Trader.aspx?id=TestingFacility> for a description of the Testing Facility.

⁴ As defined by Rule 3301(a). The Exchange's System is mirrored at other locations as well.

virtual Exchange System test environment that closely approximates the production environment and on which they may test their automated systems that integrate with the Exchange. For example, the Testing Facility provides subscribers a virtual System environment for testing upcoming Exchange releases and product enhancements, as well as testing firm software prior to implementation.

The Testing Facility is currently housed solely in the Exchange's Ashburn, Virginia facility ("Ashburn"). In addition to housing the Testing Facility, Ashburn is also an Exchange disaster recovery facility and, as such, some member firms connect to Ashburn for disaster recovery purposes in addition to trading system testing. The Exchange currently assesses fees on members for physical connectivity to Ashburn.⁵ In addition, member firms pay fees to third party connectivity providers to provide connection from the member firm to Ashburn. The relatively large distance to between the Ashburn Testing Facility and the majority of NASDAQ OMX firms results in expensive connectivity costs for customers that connect via telecommunication providers. As a consequence, a large majority of member firms do not connect to Ashburn for Testing Facility connectivity. In an effort to improve the utility of the Testing Facility, the Exchange is developing a test environment located in Carteret that will provide the same functionality as the equity trading testing functionality of Ashburn, yet more closely approximate the live PSX⁶ trading environment due to its proximity to the System and upgraded hardware. In particular, the Carteret test environment will take advantage of technology upgrades the Exchange is making to its trading-related systems. Unlike the Ashburn test environment, the Carteret test environment will provide dedicated connectivity to the facility

⁵ The Exchange assesses fees for direct connection to Ashburn and fees for co-location connectivity. See Chapters XI and X(b), respectively.

⁶ PSX is the Exchange's equity trading platform.

via a cross-connection to either a member firm's direct connection router in Carteret or its co-location cabinet.⁷ This connectivity will also provide connectivity to the trading test environments of the Phlx's sister exchanges, The NASDAQ Stock Market LLC and NASDAQ OMX BX, Inc., also located in Carteret, New Jersey.⁸ The Exchange will ultimately sunset the trading testing functionality at Ashburn, yet retain post trade reporting and ACES functionality at that location.⁹

The Exchange notes that, because the Carteret facility also houses the System, subscribers to the Carteret test environment will no longer need to pay for third party connectivity to Ashburn if the sole purpose for connecting to Ashburn is for trading testing. Such member firms may use an existing connection to Carteret to access the Testing Facility through the use of a dedicated switch port and cross connect within the facility. The Exchange is proposing to assess a fee for connection to the test environment within the Carteret facility. Specifically, the Exchange proposes assessing a \$1,000 per hand-off, per month fee assessed for connectivity to the Carteret test environment for either 1Gb or 10Gb, and a one-time per hand-off installation fee of \$1,000, which will cover the Exchange's costs incurred in setting up a subscriber in the Carteret facility. The Exchange is proposing to waive the installation fee

⁷ Member firms currently use their connectivity to the Ashburn test environment for both testing and disaster recovery purposes.

⁸ Similar to colocation connectivity under Chapter X(b) of the Pricing Schedule, firm that is a member of multiple NASDAQ OMX exchanges may access the testing environments of the exchanges of which it is a member through a single connectivity subscription.

⁹ The Exchange is not upgrading the hardware used for post trade reporting and ACES testing at this time, but may do so in the future. As noted, the new hardware implemented in the Carteret test environment is part of the larger technology upgrade to the System's hardware also located in Carteret.

through March 31, 2014, after which the Exchange will begin phasing out trading testing at the Ashburn test environment.

The Exchange is also making a minor clarifying change to the rule in light of the operation of dual Testing Facility test environments.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹⁰ in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,¹¹ in particular. The Exchange believes that proposal is with Section 6(b)(4) of the Act¹² in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which the Exchange operates or controls. The new fees are equitably allocated because all member firms receive connectivity to the Carteret test environment for the same fee. The Exchange believes that offering subscribers the option to subscribe to either 1Gb or 10Gb for the same fee is an equitable allocation because, unlike the live trading environment, there is no competitive advantage to possessing a higher capacity switch port in the test environment. The test environment is designed to closely mirror the live equity trading environment for PSX participants, including matching the capacity of each participant's live environment switch port. In the absence of any competitive advantage, charging a uniform fee for both 1Gb and 10Gb switch ports is an equitable allocation of fees. The Exchange believes that charging a uniform fee rather than mirroring the fees for the live trading environment¹³ will encourage member firms

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4) and (5).

¹² 15 U.S.C. 78f(b)(4).

¹³ Members are assessed a monthly fees of \$5,000 for 10 Gb and \$1,000 for 1 Gb direct connectivity to PSX. See Chapter XI of the Pricing Schedule.

to subscribe to Carteret, and further encourage those that subscribe to use the same hardware as is used by them for connectivity to the live trading environment. The Exchange also believes that waiver of the installation fee for all installations ordered prior to March 31, 2014 is an equitable allocation as it is available to all member firms during the time frame; thus any member firm may avail itself of the free period if it so chooses.

The new fees are reasonable because they are designed to cover the costs the Exchange has incurred in developing and offering the new test environment. The proposed fee should allow the Exchange to recoup these costs and make a profit, while providing member firms with a superior test environment that more closely mirrors that of the live trading environment on the Exchange. The Exchange believes that offering both 1Gb and 10Gb connectivity for the same fee is reasonable as the increased incremental cost it incurs by offering the 10Gb switch port at the lower fee is outweighed by the benefit all subscribers will receive if Carteret participants use hardware identical to what they use in the live trading environment, hence furthering the goal of creating a test environment that closely mirrors the live trading environment. Waiver of the installation fee for a limited period is reasonable because the Exchange believes such a waiver will attract new users to the test environment, thus ensuring a certain minimum level of monthly revenue to support the facility initially.

The Exchange also believes the proposal furthers the objectives of Section 6(b)(5) of the Act¹⁴ in that it is 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, and, in general to protect investors and the public interest and is not designed to permit unfair discrimination between customer, issuers, brokers and dealers. The Exchange does not

¹⁴ 15 U.S.C. 78f(b)(5).

believe that the proposed fees are unfairly discriminatory to subscribers to 10Gb live trading environment connectivity because, unlike the live trading environment where the capacity of connectivity to the Exchange may confer a competitive advantage to a market participant and therefore price differentiation is appropriate for the benefit conferred, there is no such benefit conferred in the trade test environment. The Exchange does not believe that the proposed fees are unfairly discriminatory among subscribers to the Carteret test facility because all member firms that subscribe to the service will be assessed the same fees. Because the proposed fees do not discriminate between 1Gb and 10Gb connectivity options, member firms are able to subscribe to Carteret without regard to the cost of their switch port capacity election. The Exchange believes that by not discriminating on this basis it will encourage participants to connect to the Carteret test environment in the same manner as they do to the live trading environment, and thereby help Carteret more closely mirror the live trading environment, as discussed above. Providing a more useful and accurate testing environment will serve to improve live trading on the Exchange and the national market system by permitting member firms the ability to accurately test changes prior to implementing them in the live trading environment, thereby reducing the likelihood of a potentially disruptive system failure in the live trading environment, which has the potential to affect all market participants. Last, the Exchange does not believe that waiver of the installation fee is unfairly discriminatory as it is uniformly applied for a limited time, during which any member firm may subscribe.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Because the new test environment more closely approximates the live trading

environment, subscribing member firms will be able to more accurately test their trading systems and avoid potentially disruptive system failures in the live trading environment.

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

Written comments were neither solicited nor received.

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

The foregoing change has become effective pursuant to Section 19(b)(3)(A) of the Act,¹⁵ and paragraph (f)¹⁶ of Rule 19b-4, thereunder.

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2013-116 on the subject line.

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2013-116. This file number should be included on the subject line if e-mail is used.

To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-Phlx-2013-116, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).