

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62396; File No. SR-BX-2010-012)

June 28, 2010

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Order Approving a Proposed Rule Change to Codify Prices for Co-Location Services

I. Introduction

On January 29, 2010, NASDAQ OMX BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change relating to co-location services and related fees. The proposed rule change was published for comment in the Federal Register on February 10, 2010.³ The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description

As described in the Notice, the Exchange is proposing to codify fees for its existing co-location services. Co-location services are a suite of hardware, power, telecommunication, and other ancillary products and services that allows market participants and vendors to place their trading and communications equipment in close physical proximity to the quoting and execution facilities of the Exchange. BX provides co-location services and imposes fees through Nasdaq Technology Services LLC and pursuant to agreements with the owner/operator of its data center where both the Exchange’s quoting and trading facilities and co-located customer equipment are

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 61487 (February 3, 2010), 75 FR 6746 (“Notice”).

housed.⁴ Users of co-location services include private extranet providers, data vendors, as well as the Exchange members and non-members. The use of co-location services is entirely voluntary.

As detailed in its fee schedule, the Exchange imposes a uniform set of fees for various co-location services, including: fees for cabinet space usage, or options for future space usage; installation and related power provision for hosted equipment; connectivity among multiple cabinets being used by the same customer as well as customer connectivity to the Exchange and telecommunications providers;⁵ and related maintenance and consulting services. Fees related to cabinet and power usage are incremental, with additional charges being imposed based on higher levels of cabinet and/or power usage, the use of non-standard cabinet sizes or special cabinet cooling equipment, or the re-selling of cabinet space.

NASDAQ OMX BX is implementing a Cabinet Proximity Option program where, for a monthly fee, customers can obtain an option for future use on available currently-unused cabinet floor space in proximity to their existing equipment. Under the program, customers can reserve up to maximum of 20 cabinets that the Exchange will endeavor to provide as close as reasonably possible to the customer's existing cabinet space, taking into consideration power availability within segments of the datacenter and the overall efficiency of use of datacenter resources as determined by the Exchange. Should reserved datacenter space be needed for use, the reserving customer will have three business days to formally contract with the Exchange for full payment for the reserved cabinet space in contention or it will be reassigned. In making

⁴ Currently, NASDAQ OMX BX provides its co-location services through data centers located in the New York City and Mid-Atlantic areas.

⁵ The Exchange states that these fees are for telecommunications connectivity only. Market data fees are charged independently by NASDAQ OMX BX and other exchanges.

determinations to require exercise or relinquishment of reserved space as among numerous customers, the Exchange will take into consideration several factors, including: proximity between available reserved cabinet space and the existing space of a customer seeking additional space for actual cabinet usage; a customer's ratio of cabinets in use to those reserved; the length of time that a particular reservation(s) has been in place; and any other factor that the Exchange deems relevant to ensure overall efficiency in use of the datacenter space.

In the Notice, the Exchange made certain representations regarding its co-location services. First, the Exchange represents that co-location customers are not provided any separate or superior means of direct access to the Exchange quoting and trading facilities, nor does the Exchange offer any separate or superior means of access to the Exchange quoting and trading facilities as among co-location customers themselves within the datacenter. Second, BX represents that it does not make available to co-located customers any market data or data feed product or service for data going into, or out of, the Exchange systems that is not likewise available to all the Exchange members.⁶ Finally, the Exchange represents that all orders sent to the Exchange market enter the marketplace through the same central system quote and order gateway regardless of whether the sender is co-located in the Exchange data center or not. In short, according to the Exchange, it has created no special market technology or programming that is available only to co-located customers and has organized its systems to minimize, to the greatest extent possible, any advantage for one customer versus another.

⁶ The Exchange made a 10Gb fiber connection available to co-located customers early in the first quarter of 2010. On March 26, 2010, the Exchange filed a proposed rule change that would, among other things, establish pricing for 10Gb fiber connections for customers who are not co-located in BX's datacenter. See SR-BX-2010-043.

The Exchange also has represented that co-location services are generally available to all qualified market participants who desire them. With the exception of customers participating in the Cabinet Proximity Option program, the Exchange allocates cabinets and power on a first-come/first-serve basis. Should available cabinet inventory shrink to 40 cabinets or less, the Exchange will limit new cabinet orders to a maximum of 4 cabinets each, and all new cabinets will be limited to a maximum power level of 5kW. Should available cabinet inventory shrink to zero, the Exchange will place firms seeking services on a waiting list based on that date the Exchange receives signed orders for the services from the firm. In order to be placed on the waiting list, a firm must have utilized all existing cabinets they already have in the datacenter. Once on the list, the firms, on a rolling basis, will be allocated a single 5kW cabinet each time one becomes available. After receiving a cabinet, the firm will move to the bottom of the waiting list.

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁷ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(4) of the Act,⁸ which requires that the rules of a national securities exchange provide for the equitable allocation of reasonable dues, fees and other charges among its members and issuers and other persons using its facilities, and with Section 6(b)(5) of the Act,⁹ which requires, among other things, that that the rules of a national securities exchange be

⁷ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78f(b)(4).

⁹ 15 U.S.C. 78f(b)(5).

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 not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission believes that the proposed co-location fees are reasonable and equitably allocated insofar as they are applied on the same terms to similarly-situated market participants. The Commission notes that charges may vary depending on the use of cabinet space and/or power usage. In addition, the Commission believes that the co-location services described in the proposed rule change are not unfairly discriminatory because: 1) co-location services are offered to all interested market participants who request them and pay the appropriate fees; 2) as represented by BX, the Exchange has architected its systems so as to, as much as possible, reduce or eliminate differences among users of its systems, whether co-located or not; and 3) the Exchange has stated that it has sufficient space to accommodate new co-locaters has set forth in the proposed rule change objective procedures to allocate space should it become limited in the future.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-BX-2010-012) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

Florence E. Harmon
Deputy Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).