

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78713; File No. SR-Nasdaq-2016-120)

August 29, 2016

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Adopt the Third Party Connectivity Service under Rules 7034(b) and 7051

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 August 16, 2016, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 the Substance of the Proposed Rule Change

The Exchange proposes to adopt the Third Party Connectivity Service under Rules 7034(b) and 7051.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 adopt the Third Party Connectivity Service under Rules 7034(b) and 7051, in light of increased capacity requirements, including recent changes to the Consolidated Tape Association (“CTA”) and Options Price Reporting Authority (“OPRA”) feeds³ as well as planned changes to the Unlisted Trading Privileges Plan (“UTP”) data feed requirements.⁴

Background

Under both Rules 7034 and 7051, the Exchange assesses fees for various means to connect to the Exchange. Under Rule 7034 the Exchange provides charges for co-location services, and subparagraph (b) of the rule provides the fees assessed for connectivity, which include capacity options ranging from 1 Gb copper connectivity to 10 Gb Ultra fiber connectivity. Co-location services are a suite of hardware, power, telecommunication, and other ancillary products and services that allow market participants and vendors to place their trading and communications equipment in close physical proximity to the quoting and execution facilities of the Exchange and other Nasdaq, Inc. markets.⁵ By contrast, under Rule 7051 the

³ See <https://www.nyse.com/publicdocs/ctaplan/notifications/trader-update/CTA%20SIP%201Q16%20Consolidated%20Data%20Operating%20Metrics%20Report.pdf>; see also, http://www.opradata.com/specs/opra_bandwidth_apr2016.pdf.

⁴ The Exchange is also making minor technical changes to Rules 7034(b) and 7051 to remove rule text concerning temporary waivers of fees that have since expired.

⁵ The Exchange provides co-location services and imposes fees through its wholly-owned subsidiary 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

Exchange provides fees for 10 Gb, 1 Gb and 1 Gb Ultra direct circuit connections, to customers who are not co-located at the Exchange's data center. Thus, direct connectivity subscribers are not located within the Exchange's data center, but rather connect to it through third-party direct connection carriers.⁶

Subscribers to the connectivity options provided under Rules 7034(b) and 7051 may use the connectivity provided to link them to the Exchange for order entry and to receive proprietary data feeds, to receive public quote feeds from Securities Information Processors ("SIPs"),⁷ and to connect to facilities of FINRA, such as the FINRA/Nasdaq TRF.⁸ The Exchange provides various co-location and direct connectivity options based on the capacity of the connection. A subscriber generally determines the capacity of the connection it needs based on the number of

and co-located customer equipment are housed. Users of co-location services include private extranet providers, data vendors, as well as Exchange members and non-members. The Exchange notes that co-location customers are not provided any separate or superior means of direct access to Exchange quoting and trading facilities in contrast to non-co-location customers. 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 in the datacenter. Likewise, the Exchange does not make available to co-located customers any market data or data feed product or service for data going into, or out of, Exchange systems that is not likewise available to all the Exchange members. Finally, all orders sent to the Exchange enter the market center through same central system quote and order gateway regardless of whether the sender is co-located in the Exchange data center or not.

⁶ See http://www.nasdaqtrader.com/content/ProductsServices/Trading/direct_connect_providers.pdf.

⁷ The SIPs link the U.S. markets by processing and consolidating all protected bid/ask quotes and trades from every registered exchange trading venue and FINRA into a single data feed, and they disseminate and calculate critical regulatory information, including the National Best Bid and Offer, Limit Up Limit Down price bands, short sale restrictions and regulatory halts.

⁸ See <http://www.nasdaqtrader.com/Trader.aspx?id=DPSpecs> for a list of proprietary feeds. See <http://www.nasdaqtrader.com/content/ProductsServices/trading/NasdaqThirdPartyServices.pdf> for a list of third party services and feeds.

data services it wishes to receive and its estimated usage for trading and trade reporting purposes; however, the Exchange will inform a subscriber that a certain connectivity option will not suffice for the use it proposes when the connection is clearly insufficient.

The Exchange has observed a steady increase in the capacity requirements of the various data services to which a member may connect through the connectivity options under Rules 7034(b) and 7051. The increased capacity requirements are reducing the number of data feeds that may be provided in any single connectivity option. In addition to increased capacity requirements of proprietary data feeds, the CTA and OPRA SIPs recently increased their capacity requirements. Moreover, the UTP SIP Operating Committee approved a migration plan for the UTP SIP to the Nasdaq, Inc.'s INET technology for the UTP data services. The new enhanced technology will significantly increase the data transmitted, handling a minimum peak rate of two million messages per second, per data feed. The initial capacity recommendation per multicast group is 1.7 Gb.⁹ In light of the increased data provided by the enhanced SIPs, current connectivity will not be adequate to support all SIP data through a connection less than 10 Gb. Customers currently using 1 Gb circuits to connect to the UTP feeds will need to upgrade to 10 Gb circuits due to the increase in bandwidth requirements for the new feeds. Migration of the UTP SIP to the Exchange's INET technology is scheduled to occur on October 10, 2016, and current subscribers receiving SIP data through a 1 Gb connection under Rules 7034(b) or 7051 would be compelled to upgrade to a 10 Gb connection to continue receiving UTP SIP data.

Proposed New Connectivity

To address the issue caused by the increased capacity requirements of data feeds, the Exchange is proposing to segregate connectivity to the Exchange and its proprietary data feeds

⁹ See <http://www.nasdaqtrader.com/TraderNews.aspx?id=utp2016-13>.

from connectivity to third party services and data feeds, including SIP data feeds. The Exchange is proposing to offer the new Third Party Connectivity Service to both non-co-location and co-location customers alike, which will enable customers to receive third party market data feeds, including SIP data, and other non-exchange services.¹⁰ The Exchange will offer this to customers in both 10 Gb Ultra and 1 Gb Ultra hand-offs.¹¹ To receive the SIP feeds, customers must subscribe to the 10 Gb Ultra connectivity options under Rules 7034(b) and 7051(b). The proposed 1 Gb Ultra Third Party Connectivity Service options under Rules 7034(b) and 7051(b) will support data feeds from other exchanges and markets only.¹² The Exchange notes that it is not offering 10 Gb connectivity under the proposed Third Party Connectivity Service because the current 10 Gb option uses older technology switches, which the Exchange would have to procure to [sic] in order to include in the proposed new service and which would not provide an adequate performance margin for future enhancements to the data feeds. Customers seeking connectivity to the Exchange and its proprietary data feeds may continue to do so through the existing connectivity options under Rules 7034(b) and Rule 7051(a).¹³

¹⁰ Third Party Services includes not only SIP data feeds, but also data feeds from other exchanges and markets. For example, Third Party Connectivity will support connectivity to the FINRA/Nasdaq Trade Reporting Facility, BATS Depth Feeds, and NYSE Feeds. See <http://www.nasdaqtrader.com/content/ProductsServices/trading/NasdaqThirdPartyService.s.pdf> for a list of third party services and feeds. A customer must separately subscribe to the third party services to which it connects with a Third Party Connectivity subscription.

¹¹ A hand-off includes either a 1 Gb Ultra or 10 Gb Ultra switch port and a cross connect.

¹² For example, a customer may use the 1 Gb Ultra Third Party Connectivity Service for connecting to facilities of FINRA, such as the FINRA/Nasdaq Trade Reporting Facility for trade reporting purposes. FINRA publishes bandwidth reports for its services and facilities. See, e.g., <http://www.finra.org/file/equity-data-feed-bandwidth-report>.

¹³ The Exchange is placing the current connectivity options of Rule 7051 under a new paragraph (a). The proposed Direct Connectivity to Third Party Services will fall under a new paragraph (b) of Rule 7051.

The Exchange notes that, as is the case with current connectivity options, customers that do not wish to subscribe to the Third Party Connectivity Service may alternatively connect through an extranet provider or a market data redistributor.

Last, the Exchange is proposing to offer services currently available to Direct Connectivity subscribers under Rule 7051 to subscribers to Third Party Services. Specifically, the Exchange currently offers Optional Cable Router and Per U of Cabinet Space services for its direct connectivity options under Rule 7051. The Exchange provides customers who are not co-located in the Exchange's data center, but require shared cabinet space and power for optional routers, switches, or modems to support their direct circuit connections. The Exchange assesses an install fee of \$925 per router, switch or modem, and monthly fees of \$150 for space based on a unit height of approximately 1.75 inches, commonly called a "U" space, and a maximum power of 125 Watts per U space. The Exchange is proposing to also offer these services to customers of the Third Party Connectivity Service because they may have the same connectivity needs as customers of the existing Direct Connectivity service.

Proposed New Fees

The Exchange is proposing to assess fees for Third Party Connectivity Service under Rules 7034(b) and 7051(b). Under Rules 7034(b) and 7051(b), the Exchange is proposing to assess an installation fee of \$1,500 for installation of either a 10 Gb Ultra or 1 Gb Ultra Third Party Services co-location or direct connectivity subscription, as applicable. The Exchange is proposing to assess an ongoing monthly fee of \$5,000 for a 10 Gb Ultra connection and \$2,000 for a 1 Gb Ultra connection, under each of the rules. The Exchange is proposing to waive all of these fees through October 31, 2016.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁵ in particular, 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, and is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 are [sic] not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposal facilitates transactions in securities, removes impediments to and perfects the mechanism of a free and open market and a national market system, and, in general, protects investors and the public interest by ensuring that market participants are provided with adequate capacity to receive data feeds, and to access trading and trade reporting venues in times of high demand. As noted above, the ever-increasing demand for capacity has strained current connectivity options. As an example, the UTP SIP data feeds will require significantly greater capacity than current UTP SIP data feeds. The Exchange is segregating the various services and data feeds that may be connected to between existing and proposed connectivity options based on whether the service or data feed is provided by the Exchange or by a third party. The Exchange notes that there is no difference in the connectivity provided under the current analogous connectivity options and the proposed connectivity. Thus,

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(4) and (5).

a subscriber to an Exchange service or data feed over a 10 Gb Ultra co-location connectivity option under Rule 7051(a), for example, will have the same connectivity that a subscriber to a third party data feed over a 10 Gb Ultra co-location connectivity option under Rule 7051(b) [sic]. The Exchange determined to segregate the services and data feeds as proposed because it is the most efficient means to allocate the services and it will assist subscribers with risk management, since Exchange connectivity will be separated from third party services and data feeds.

The Exchange believes that [sic] proposed fees are reasonable because they are comparable to the fees currently assessed for analogous connectivity under Rules 7034(b) and 7051. In terms of the installation fees, the proposed fees are identical to the installation fees assessed for analogous connectivity under Rules 7034(b) and 7051. The proposed monthly fees are less than the monthly fees assessed for analogous connectivity under Rules 7034(b) and 7051. Specifically, a subscriber to a 1 Gb Ultra Third Party Connectivity Service option under the proposed rules will pay \$500 less than a subscriber to the analogous 1 Gb Ultra connectivity options under Rules 7034(b) and 7051. The Exchange believes that the installation fees are reasonable because they cover the costs the Exchange incurs in installing the hardware necessary to connect the subscriber, and they are identical to the fees assessed for installation of the same equipment for the analogous co-location and direct connectivity options under current Rules 7034(b) and 7051. The Exchange believes that the proposed monthly fees are reasonable because they are set at a level high enough for the Exchange to cover the ongoing expenses it incurs in offering the connectivity options and to make a profit, while also reducing the economic burden placed on subscribers that will be compelled to subscribe to new Third Party Connectivity Service offerings under Rules 7034(b) and 7051(b). In this regard, the Exchange notes that, to the extent a market participant subscribes to an Exchange connectivity option under

Rules 7034(b) and 7051 for connectivity to the market for trading and/or proprietary data feeds, it will invariably need to subscribe to one of the existing co-location or direct connectivity options under those rules. Because the capacity requirements are increasing, subscribers will be compelled to subscribe to new connectivity to meet the increased capacity requirements. The Exchange is proposing to assess a lower monthly fee for third party connectivity because many current subscribers will be compelled to subscribe to a new connectivity option under the proposed new rules. The Exchange believes that the proposed installation fee waiver is reasonable because it will reduce the burden on customers that will be compelled to subscribe to new connectivity due to the increased demands of the data feeds.

The Exchange believes that the proposed new fees are an equitable allocation and are not unfairly discriminatory because the Exchange will apply the same fees to all subscribers to the same connectivity option. The Exchange notes that, although the ongoing monthly fees are less than the comparable connectivity offered to subscribers to the Exchange services and data feeds, these fees are not unfairly discriminatory because the lower fees are designed to account for the fact that most members will be required to acquire a new connectivity subscription due to the change. In this regard, the Exchange has assessed the impact of the new fees and found that the majority of current subscribers will need to subscribe to a Third Party Connectivity Service subscription; however, the Exchange notes that in the absence of the new service, the same current subscribers would be compelled to subscribe to a new connectivity option under the current rules, with certain subscribers that do not currently have a 10 Gb Ultra connection and that receive a SIP feed through a 1 Gb subscription being compelled to subscribe to a 10 Gb Ultra co-location subscription under Rule 7034(b) at \$15,000 per month or a 10 Gb direct connectivity option under Rule 7051 at \$7,500 per month. Both of these options would represent

a significant premium over the proposed Third Party Connectivity Service 10 Gb Ultra offerings under Rules 7034(b) and 7051(b) at \$5,000 per month each. Existing clients that currently have multiple connections to the Exchange subscribed to under Rules 7034(b) and 7051 may realize a fee decrease by segregating its [sic] data feeds under the proposal. For example, a client that has four 10 Gb connections under Rule 7051 is currently assessed a total monthly fee of \$30,000. If that client subscribes to two 10 Gb Ultra Third Party Services Direct Connections under new Rule 7051(b) in lieu of two existing 10 Gb connections, the client would be assessed a total monthly fee of \$25,000.¹⁶ The Exchange notes that a client currently subscribing to a single 10 Gb option under Rules 7034(b) or 7051(a) will have to additionally subscribe to a new 10 Gb Ultra Third Party Service option under the proposed rules at a cost of \$5,000 per month in addition to its existing 10 Gb connectivity, if the client wanted to continue receiving connectivity to Nasdaq and its proprietary data feeds. This client will pay \$5,000 in additional monthly fees, but will be receiving an additional / separate 10G connection, which enables for additional capacity growth and separation of data feeds flow and access to Third Party services. This additional connection would have cost \$7,500 to \$15,000 more per month, if not for the proposed change. Last, the Exchange believes that waiving the installation fees of the new service through October 31, 2016 is an equitable allocation and is not unfairly discriminatory because the Exchange will apply the waiver to all subscribers to the new service, and the waiver is limited to a reasonable time for customers to act to addresses [sic] the issues caused by the increased capacity requirements of the SIP feeds.

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

¹⁶ The client would not be assessed a fee of \$1,500 per installation if it subscribes before October 31, 2016.

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. Moreover, market participants have many other options to choose from to connect to the Exchange, other than the proposed connectivity of this filing. In such an environment, the Exchange must act cautiously when increasing or implementing a new fee because market participants may easily unsubscribe to the Exchange's connectivity options and instead contract with a third-party connectivity provider. As discussed above, the capacity requirements of the data feeds and services to [sic] which the current connectivity options under Rules 7034(b) and 7051 provide have grown significantly, leaving the Exchange with the option of decreasing the number of services and data feeds that may be linked with any given connectivity option, which would in turn require subscribers to have more connectivity subscriptions to maintain the status quo in terms of data feeds and services, or, alternatively, dividing the services itself in a manner it deems best and offering a lower monthly price based on that division. Here, the Exchange has selected the latter, and determined that the most efficient and logical divide is to distinguish between Exchange data feeds and services and those of third parties. For these reasons, the Exchange does not believe that any of the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets. Because there are numerous competitive alternatives to Exchange's connectivity options, it is likely that the Exchange will lose market share as a result of the changes if they are unattractive to market participants.

C. 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.

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 up to 90 days (i) as the Commission may designate 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 or disapprove 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. Please include File Number SR-Nasdaq-2016-120 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-Nasdaq-2016-120. 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, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also 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-Nasdaq-2016-120, 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

Robert W. Errett
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).