

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-88133; File No. SR-LTSE-2020-03)

February 6, 2020

Self-Regulatory Organizations; Long-Term Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Initial Listing Fee and Annual Listing Fee

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January 30, 2020, Long-Term Stock Exchange, Inc. (“LTSE” 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.<sup>3</sup>

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

LTSE proposes a rule change to establish a fee schedule of listing fees for issuers of primary equity securities.

The text of the proposed rule change is available at the Exchange’s website at <https://longtermstockexchange.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

<sup>3</sup> The Exchange originally filed to establish a fee schedule of listing fees for issuers of primary equity securities on January 22, 2020 (SR-LTSE-2020-02). On January 30, 2020, SR-LTSE-2020-02 was withdrawn and replaced by SR-LTSE-2020-03.

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 self-regulatory organization 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

1. Purpose

The Exchange is filing this proposed rule change to amend Rule 14.601 to establish a schedule of Initial Listing Fees and Annual Listing Fees for issuers’ Primary Equity Securities.<sup>4</sup> Both the Initial Listing Fee and Annual Listing Fee for an issuer’s Primary Equity Securities on the Exchange is proposed to be based on the company’s market capitalization of its Primary Equity Securities and is proposed to be calculated as described below.

(a) Initial Listing Fee

If a company has been a public reporting company continuously listed on a national securities exchange for at least 12 months prior to listing on the Exchange, then its market capitalization shall be an unweighted average based on data derived in part from its Form 10-Q and Form 10-K filings over the prior four quarters. Specifically, the Exchange proposes to multiply the basic weighted average shares outstanding as provided in a company’s Form 10-Q

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<sup>4</sup> “Primary Equity Security” means a Company’s first class of Common Stock, Ordinary Shares, Shares or Certificates of Beneficial Interest of Trust, Limited Partnership Interests or American Depositary Receipts (“ADRs”) or Shares (“ADSs”). See Rule 14.002(a)(24).

or Form 10-K for the end of the quarter times the closing price of the security on the final trading day of such quarter as determined from the primary listing market. For example, a company with 500 million basic weighted average shares outstanding in its most recent Form 10-Q and a closing price of \$20 per share on the last trading day of the quarter would have a market capitalization for that quarter of \$10 billion. The market capitalization for purposes of assessing a listing fee would be the unweighted average of the company's market capitalization as determined on the last trading day of each of the prior four quarters ("Reporting Company Market Capitalization").<sup>5</sup>

If a company has not been a public reporting company continuously listed on a national securities exchange for at least 12 months prior to listing on the Exchange, then the market capitalization for purposes of the Initial Listing Fee shall be the lesser of: (i) the number of shares of common stock to be outstanding after its initial public offering as provided in the final effective registration statement times the price per share at which the company's shares were sold to the underwriters pursuant to its initial public offering ("IPO Market Capitalization"),<sup>6</sup> or (ii) the Reporting Company Market Capitalization method for each available quarter (i.e., one, two, or three) for which the company has filed a Form 10-Q or 10-K.

If a company conducts an underwritten initial public offering and commences trading on the Exchange, then the Initial Listing Fee shall be based on the IPO Market Capitalization as

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<sup>5</sup> Because the deadline to file a Form 10-Q or Form 10-K occurs after the end of the quarter, it is possible that a company that has been a public reporting company continuously listed on a national securities exchange for at least 12 months prior to listing on the Exchange would have made only three such filings at the time of its initial listing on the Exchange. In such a scenario, the market capitalization shall be derived from its three most recent filings.

<sup>6</sup> In the case of a direct offering for which there are no underwritten securities, the price of the company's securities as of the commencement of trading on the primary listing market (i.e., opening cross) shall be used in lieu of an initial public offering price.

described above. The company would not be eligible to use the Reporting Company Market Capitalization method because it would not, by definition, have made any Form 10-Q or Form 10-K filings as a public reporting company while listed on a national securities exchange.

The Initial Listing Fee would be valid for the remainder of the calendar year and would be prorated based on the number of remaining trading days after listing on the Exchange.

(b) Annual Listing Fee

The Annual Listing Fee for a company's Primary Equity Securities also is proposed to be based on the company's market capitalization. Specifically, the Annual Listing Fee for the upcoming calendar year would be calculated on December 1 (or such date of listing if after December 1), and would be based on the company's Form 10-Q and Form 10-K filings over the prior four fiscal quarters. Thus, the Annual Listing Fee would be calculated from filings covering the fourth quarter of the prior calendar year and the first three quarters of the current calendar year. Where a company does not have filings for the prior four fiscal quarters, its Annual Listing Fee would be calculated in the same manner as its Initial Listing Fee (but not at the prorated level).

The Annual Listing Fee would not be refunded if a company is delisted or elects to delist during the calendar year.

(c) Fee Schedule

The proposed Initial Listing Fee and Annual Listing Fee would be identical, though the former would be prorated as noted above.

The listing fees are proposed to be as follows:

<u>Market Capitalization</u>	<u>Amount of Fee</u>
Up to \$1 billion	\$150,000

More than \$1 billion and up to \$3 billion	\$200,000
More than \$3 billion and up to \$5 billion	\$250,000
More than \$5 billion and up to \$10 billion	\$300,000
More than \$10 billion and up to \$15 billion	\$350,000
More than \$15 billion and up to \$30 billion	\$400,000
More than \$30 billion and up to \$50 billion	\$450,000
More than \$50 billion	\$500,000

The Exchange believes that setting fees based on market capitalization is appropriate in that it would allow the Exchange to attract listings by both larger and smaller companies.

Tiering of listing fees based on the size of a company is a long-standing practice of the two primary equity listing exchanges. While these exchanges tier their fees based on the number of total shares outstanding, they do so as a means to differentiate between larger and smaller companies.<sup>7</sup> LTSE does not believe using total shares outstanding, a practice that dates back decades, is compelling in today’s markets where shares can trade in fractions<sup>8</sup> or where stock

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<sup>7</sup> See, e.g., Securities Exchange Act Release No. 34-68117 (October 26, 2012), 77 Fed. Reg. 66207, 66208 (November 2, 2012) (“Total shares outstanding provides a simple, objective, and efficient metric to take into account the relative size of issuers so that the Exchange can continue to incentivize listing by both large and small qualified companies . . . .”). Cf. “Equity Issuers on Nasdaq Stockholm (Prices in SEK exclusive of VAT),” Nasdaq (eff. July 1, 2019), [https://www.nasdaq.com/docs/Nasdaq\\_Main\\_Market\\_Stockholm\\_Pricelist\\_2019\\_1.pdf](https://www.nasdaq.com/docs/Nasdaq_Main_Market_Stockholm_Pricelist_2019_1.pdf) (setting listing fees based on market capitalization on Nasdaq’s foreign affiliate exchanges).

<sup>8</sup> LTSE does not believe that some of the previously stated rationales – such as companies with more shares outstanding “have a larger number of shareholders that benefit from the liquidity and transparency that the . . . listing offers” – are necessarily true today. See Securities Exchange Act Release No. 34-68117 (October 26, 2012), 77 Fed. Reg. 66207 (November 2, 2012). The shortcomings of using total shares outstanding were also noted by another national securities exchange. See Securities Exchange Act Release No. 34-81725 (September 26, 2017), 82 Fed. Reg. 45917 (October 2, 2017). See also Lisa Beilfuss, “Schwab, in Bid for Younger Clients, to Allow Investors to Buy and Sell

splits are far less common.<sup>9</sup> In addition, basing listing fees on total shares outstanding can create incentives for an issuer to maintain a higher price per share instead of offering more shares.<sup>10</sup> The use of market capitalization as compared to total shares outstanding also avoids potentially anomalous results from stock splits or reverse mergers.<sup>11</sup>

Finally, the Exchange does not presently contemplate proposing any other issuer fees with respect to a listing of Primary Equity Securities, such as listing application fees, entry fees, fees for the listing of additional shares, recordkeeping fees, substitution listing fees, fees for a written interpretation of the listing rules, or hearing fees, all of which are or have been charged by other national securities exchanges.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the requirements of Section 6(b) of the Act<sup>12</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>13</sup> in particular, because it provides for the equitable allocation of reasonable dues, fees, and other

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Fractions of Stocks,” Wall St. J. (October 17, 2019), <https://www.wsj.com/articles/schwab-in-bid-for-younger-clients-to-allow-investors-to-buy-and-sell-fractions-of-stocks-11571334424>.

<sup>9</sup> See Lu Wang, “Stock Split Is All But Dead and a New Study Says Save Your Tears,” Bloomberg (Aug. 23, 2017), <https://www.bloomberg.com/news/articles/2017-08-23/stock-split-is-all-but-dead-and-a-new-study-says-save-your-tears?sref=CDdNJ6yd>; Steven Russolillo, “The Average Stock Price Is Expensive; Get Used to It,” Wall St. J. (Jun 4, 2013), [https://blogs.wsj.com/moneybeat/2013/06/04/the-average-stock-price-is-expensive-get-used-to-it/?mod=article\\_inline](https://blogs.wsj.com/moneybeat/2013/06/04/the-average-stock-price-is-expensive-get-used-to-it/?mod=article_inline).

<sup>10</sup> See Alexander Osipovich, “Tiny ‘Odd Lot’ Trades Reach Record Share of U.S. Stock Market,” Wall St. J. (October 23, 2019), <https://www.wsj.com/articles/tiny-odd-lot-trades-reach-record-share-of-u-s-stock-market-11571745600>.

<sup>11</sup> See, e.g., Securities Exchange Act Release No. 34-85252 (March 6, 2019), 84 Fed. Reg. 8919, 8919-20 (March 12, 2019); Securities Exchange Act Release No. 34-81725 (September 26, 2017), 82 Fed. Reg. 45917, 45918 (October 2, 2017).

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

<sup>13</sup> 15 U.S.C. 78f(b)(4).

charges among its members, issuers, and other persons using its facilities. The Exchange also believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act<sup>14</sup> because it is designed 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 is not designed to permit unfair discrimination between customers, issuers, brokers and dealers.

The Exchange believes that the proposed Initial Listing Fees and Annual Listing Fees are reasonable in view of the value and benefits that an LTSE listing would provide to a listed company in terms of enabling the company to demonstrate its commitment to long-termism and the Long-Term Policies set forth in Rule 14.425. The benefits to a company, its shareholders and stakeholders from pursuing long-term value creation were discussed extensively in the background and rationale for LTSE's Long-Term Policies.<sup>15</sup> The Exchange believes companies will find these listing expenses, whether through a sole listing or a dual listing on LTSE, as reasonable and likely offering significant value in relation to the types of expenses a public company might otherwise incur to demonstrate its commitment to long-termism and creating lasting shareholder value. The Exchange also believes that it is reasonable to charge higher fees to companies with larger market capitalizations because a larger company has more potential for realizing even greater value from listing with LTSE. Conversely, companies with smaller market capitalizations may find the higher listing fees proposed to be charged for larger

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<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> See Securities Exchange Act Release No. 34-86327 (July 8, 2019), 84 Fed. Reg. 33293 (July 12, 2019).

companies to be a greater burden, and thus the Exchange proposes to offer a fee that starts low but increases as a company's market capitalization increases.

The proposed fees are also reasonable insofar as they fall generally within the range of listing fees charged by other national securities exchanges.<sup>16</sup> Moreover, the proposed Initial Listing Fees and Annual Listing Fees reflect the “all-in” costs of listing on the Exchange; that is, the Exchange does not currently contemplate having listing application fees, entry fees, fees for the listing of additional shares, stock splits, recordkeeping fees, substitution listing fees, fees for a written interpretation of the listing rules, or hearing fees.

Additionally, the Exchange operates in a highly competitive marketplace for the listing of primary equity securities. The Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets.

The Exchange believes that the ever-shifting market share among the exchanges with respect to new listings and the transfer of existing listings between competitor exchanges demonstrates that issuers can choose different listing markets in response to fee changes.<sup>17</sup>

Every company considering whether to list on LTSE has at least two established alternatives in

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<sup>16</sup> See NYSE Listed Company Manual at § 902.03 (Fees for Listed Equity Securities) (fee per share of primary class of common shares is \$0.00113 as of January 1, 2020, subject to a minimum of \$71,000); *Id.* at § 902.02 (General Information on Fees) (“The total fees that may be billed to an issuer in a calendar year are capped at \$500,000 . . . .”); Nasdaq Rule 5910(b) (All-Inclusive Annual Listing Fee) (ranges from \$45,000 to \$155,000 for equity securities). See also Nasdaq Rule 5901 (Preamble to Company Listing Fees) (“With certain exceptions, a Company that submits an application to list any class of its securities must pay a non-refundable application fee, and an entry fee as described in Rule 5910(a), which is based on the number of shares being listed. Listed Companies must also pay an All-Inclusive Annual Listing Fee.”); Nasdaq Rule 5910(a) (Entry Fee) (ranges from \$150,000 to \$295,000 for equity securities in 2020).

<sup>17</sup> See Securities Exchange Act Release No. 34–87832 (December 20, 2019), 84 Fed. Reg. 72047 (December 30, 2019).



NYSE and Nasdaq. Accordingly, competitive forces constrain exchange listing fees. Stated otherwise, changes to exchange listing fees can have a direct effect on the ability of an exchange to compete for new listings and retain existing listings.

LTSE, as the newest entrant into the listing business, has no pricing power. If a company does not believe that LTSE's proposed listing fees are reasonable, then there is no reason for it to list on the Exchange; there are no regulatory requirements or pressures for any company to list on a particular exchange. A company only needs to list on a single exchange to fall within the scope and protections of being part of the SEC's national market system. Given this competitive environment, the Exchange believes that its proposed fees are reasonable while at the same time provide revenue to support the Exchange's listings program and other regulatory requirements.

The Exchange also believes its proposed tiered fee structure, where issuers with a larger market capitalization pay relatively higher Initial Listing Fees and Annual Listing Fees, is equitable and not unfairly discriminatory because setting fees based on market capitalization would allow the Exchange to attract listings by both larger and smaller companies. The Exchange notes that other national securities exchanges similarly have tiered listing fees.<sup>18</sup> While these exchanges tier their fees based on the number of total shares outstanding, they do so as a means to differentiate between larger and smaller companies.<sup>19</sup> LTSE does not believe using total shares outstanding, a practice that dates back decades, is compelling in today's world where shares commonly trade in fractions<sup>20</sup> or where stock splits are far less common.<sup>21</sup> In addition, basing listing fees based on total shares outstanding can create incentives for an issuer

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<sup>18</sup> See supra note 16.

<sup>19</sup> See supra note 7.

<sup>20</sup> See supra note 8.

<sup>21</sup> See supra note 9.

to maintain a higher price per share instead of offering more shares.<sup>22</sup> The use of market capitalization as compared to total shares outstanding also avoids potentially anomalous results from stock splits or reverse mergers.<sup>23</sup>

The Exchange further believes that the proposed fees would be an equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and are not unfairly discriminatory. As the Commission noted in its Concept Release Concerning Self-Regulation:

The Commission to date has not issued detailed rules specifying proper funding levels of [self-regulatory organization (“SRO”)] regulatory programs, or how costs should be allocated among the various SRO constituencies. Rather, the Commission has examined the SROs to determine whether they are complying with their statutory responsibilities. This approach was developed in response to the diverse characteristics and roles of the various SROs and the markets they operate. The mechanics of SRO funding, including the amount of revenue that is spent on regulation and how that amount is allocated among various regulatory operations, is related to the type of market that an SRO is operating. . . . Thus, each SRO and its financial structure is, to a certain extent, unique. While this uniqueness can result in different levels of SRO funding across markets, it also is a reflection of one of the primary underpinnings of the National Market System. Specifically, by fostering an environment in which diverse markets with diverse

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<sup>22</sup> See supra note 10.

<sup>23</sup> See supra note 11.

business models compete within a unified National Market System, investors and market participants benefit.<sup>24</sup>

The portion of an exchange's revenue derived from each of these constituencies can vary widely and is highly-dependent on an exchange's business model. An exchange that does not operate a listings program naturally derives no revenue from issuers. On the other hand, an exchange that intends to operate without trading fees or a proprietary market data feed, as is presently the case with LTSE, will be more reliant upon revenue from listings and/or membership fees.<sup>25</sup>

The LTSE business focuses on uniting bold ideas with patient capital, companies, and investors who measure success over years and decades, not financial quarters. As such, LTSE does not aim to compete with other exchanges for market share or trading volume, and, thus, many of the fees commonly imposed by other exchanges – such as transaction fees or market data fees – are not germane to the LTSE business model.<sup>26</sup> The proposed rule change recognizes the value that LTSE brings to companies. Its proposed fee structure is expected to be more reliant on companies than broker-dealers, which the Exchange believes is reasonable for an exchange that sees its strength in listings rather than principally as an execution venue.

Effective regulation is central to the proper functioning of the securities markets.

Recognizing the importance of such efforts, Congress decided to require national securities

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<sup>24</sup> 69 Fed. Reg. 71255, 71267-68 (December 8, 2004).

<sup>25</sup> The Exchange believes that the Commission has not historically set limits on the percentage of revenues from various lines of business, noting for example, that listing fees constituted 40% and the largest single source of revenues for the NYSE in 1998. See Jonathan R. Macey and Maureen O'Hara, "The Economics of Stock Exchange Listing Fees and Listing Requirements," 11 J. of Fin. Intermediation 297-319 (2002).

<sup>26</sup> The Exchange intends to establish an annual membership fee in a forthcoming proposed rule change.

exchanges to register with the Commission as self-regulatory organizations to carry out the purposes of the Act. The Exchange therefore believes that it is critical to ensure that regulation is appropriately funded. The Initial Listing Fees and Annual Listing Fees are expected to represent a key element of funding for the Exchange's total regulatory costs. Unlike other national securities exchanges with a listings program, the Exchange does not presently contemplate imposing trading fees, proprietary market data fees, co-location, or connectivity fees.

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

LTSE 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. The proposed rule change would establish a schedule of Initial Listing Fees and Annual Listing Fees that falls generally within the range of listing fees charged by other national securities exchanges.<sup>27</sup>

The market for listing services is highly competitive. Each listing exchange has a different fee schedule that applies to issuers seeking to list securities on its exchange. Issuers have the option to list their securities on these alternative venues based on the fees charged and the value provided by each listing. Because issuers have a choice to list their securities on a different national securities exchange, the Exchange does not believe that the proposed rule change imposes a burden on competition.

Intramarket Competition. The proposed rule change would establish listing fees that will be charged to all listed issuers on the same basis. The Exchange does not believe that the

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<sup>27</sup> See supra text accompanying note 16.

proposed fees will have any meaningful effect on the competition among issuers listed on the Exchange.

Intermarket Competition. The Exchange operates in a highly competitive market in which issuers can readily choose to list securities on other exchanges and transfer listings to other exchanges if they deem fee levels at those other venues to be more favorable. Because competitors are free to modify their own fees in response, and because issuers may change their chosen listing venue, the Exchange does not believe the proposed rule change will impose any burden on intermarket competition.

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 proposal has become effective pursuant to section 19(b)(3)(A) of the Act,<sup>28</sup> and Rule 19b-4(f)(2)<sup>29</sup> thereunder. At any time within 60 days of the filing of such 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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>29</sup> 17 CFR 240.19b-4(f)(2).

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-LTSE-2020-03 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-LTSE-2020-03. 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 the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without

change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LTSE-2020-03, 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.<sup>30</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>30</sup> 17 CFR 200.30-3(a)(12).