Statement of Janusz Ordover and Gustavo Bamberger

I. INTRODUCTION.

1. I, Janusz Ordover, am a Professor of Economics at New York University and a former Director of the Masters in Economics Program. I served as the Deputy Assistant Attorney General for Economics in the Antitrust Division of the U.S. Department of Justice in 1991-1992. In that post, I was responsible for formulating and implementing the economic aspects of antitrust policy and enforcement of the United States Government, including co-drafting of the 1992 Agency Horizontal Merger Guidelines. I have also served as an advisor on competition and regulatory matters to the Department of Justice, the Federal Trade Commission, the governments of Poland, Russia, Hungary and Australia, as well as to the World Bank, the Organization for Economic Cooperation and Development, the Inter-American Development Bank, the Australian Competition and Consumer Commission and the New Zealand Commerce Commission. I have served on numerous American Bar Association and International Bar Association panels. I also am a Senior Consultant to Compass Lexecon, an economics consulting firm that specializes in the application of economic analysis to legal and regulatory issues.

2. I have authored and co-authored numerous articles on industrial organization economics, law and economics, antitrust, and intellectual property. In particular, I have authored or co-authored several articles dealing with market power and its abuse. In addition, I have written and testified on the issues of pricing of information as well as on the benefits and costs of regulatory interventions in markets. My curriculum vitae, which contains a complete list of my publications, is attached as Appendix A.

3. I, Gustavo Bamberger, am a Senior Vice President of Compass Lexecon. I received a B.A. degree from Southwestern at Memphis, and M.B.A. and Ph.D. degrees from the University of Chicago Graduate School of Business. I have provided expert testimony on a
variety of economic issues to federal courts, the U.S. Senate, the U.S. Federal Energy Regulatory Commission, the U.S. International Trade Commission, the U.S. Department of Transportation, U.S. state regulatory agencies, the Canadian Competition Tribunal, the New Zealand Commerce Commission and the High Court of New Zealand. A copy of my curriculum vitae is attached as Appendix B.

4. We have been asked by counsel for the NASDAQ Stock Market (“NASDAQ”) to evaluate the extent to which competitive forces constrain NASDAQ’s ability to set prices and terms for “proprietary” data products. We have also been asked to comment from an economic perspective on the proposed “Platform Pricing” schedule that offers discounts to non-institutional investors. Our submission builds upon and expands our earlier comments submitted in connection with a Notice of Proposed Order Approving Proposal by NYSE Arca, Inc. To Establish Fees for Certain Market Data and Request for Comment, Release No. 34-57917, June 4, 2008 released by the Securities and Exchange Commission (“the Commission”).

5. We conclude that NASDAQ is subject to significant competitive forces from other platforms. This means, in particular, that competition for orders constrains NASDAQ’s freedom in setting the prices and other terms of proprietary data products. Competition among trading platforms can be expected to constrain the aggregate return each platform earns from the sale of the array of its products, including the joint products at issue here, which are execution services and proprietary data. In particular, cross-platform competition and the adverse effects of increasing the price of proprietary information on the volume of trading on the platform constrain the pricing of proprietary information. Similarly, overpricing of execution services will reduce the volume of trading on the platform and reduce the production of proprietary information. By definition, information that is proprietary to an exchange cannot be obtained elsewhere, but this does not enable the owner of such information to exercise monopoly power

over that information vis-à-vis firms that purchase such information. Besides the fact that similar information can be obtained elsewhere, the feasibility of supra-competitive pricing is constrained by traders’ ability to shift their trades elsewhere, which lowers the activity on the exchange and, in the long run, reduces the quality of the information generated by the exchange. The presence of these potent economic forces facing NASDAQ strongly suggests that there is no need to regulate the pricing of proprietary data, including pricing schedules like the proposed “Platform Pricing.”

6. In our view, each platform should be free to determine how best to recover the costs – including a return on capital – of its joint products (i.e., execution of trades and proprietary information). This includes “bundling” of discounts across an array of products as contemplated in the “Platform Pricing” proposal being submitted by NASDAQ. Each platform will make its pricing and bundling decisions based on its individual circumstances and the business strategies of the platform. Moreover, these decisions can – and likely will – change over time as the forces of competition reveal whether these strategies are profitable or not. Regulatory forbearance is thus fully warranted in the absence of any showing that the pricing strategies will anti-competitively disadvantage rival platforms and some well-defined customer groups of the investing public.

7. The “Platform Pricing” proposal appears designed to benefit non-professional investors, a group which we understand is predominantly comprised of average (as measured by transaction volumes) individual investors. The discount is provided to NASDAQ members that receive the data and, acting as intermediaries, provide it to their non-professional brokerage customers generally as part of a service. By providing discounts to the intermediaries based on both order activity and qualifying data activity related to non-professional investors, the proposal should encourage the increased provision of data to that set of investors and stimulate their activity on the exchange.
8. As we discuss in this statement, the products at issue in this regulatory proceeding are produced under the conditions of high fixed costs, which are also joint and common to a range of products, and low (or zero) marginal or incremental costs of serving an additional customer. Economics amply demonstrates that marginal cost pricing in an industry with these cost characteristics is not feasible, and some deviations from marginal cost pricing are unavoidable. In general, economic efficiency in these circumstances requires that different customers pay different prices. Economists call this type of pricing structure “differential pricing” or “price discrimination.” Price differentiation in markets with high fixed costs and low incremental costs is common, efficient, and not anticompetitive.

9. One might object perhaps that such pricing is “unfair.” It is important to note that “fairness” is not a core concept of microeconomics or of industrial organization. In this submission, we discuss possible interpretations of a “fairness” standard and conclude that it most plausibly forbids cross subsidies among customers groups and capricious differential treatment that is unrelated to market fundamentals. We find that the rates proposed by NASDAQ in its “Platform Pricing” plan do not violate fairness standards as summarized above.

10. The remainder of our statement is organized as follows. In Section II, we show that competition between trading platforms constrains the price of market data sold by each platform. In Section III, we provide an economic analysis of NASDAQ’s “Platform Pricing” proposal. We summarize our conclusions in Section IV.

II. COMPETITION BETWEEN TRADING PLATFORMS CONSTRAINS THE PRICE OF MARKET INFORMATION.

A. Background Information.

11. Since the Securities Act Amendments of 1975, the volume of equity trading in the United States has increased dramatically. Between 1976 and 1986, for example, total trading in stocks listed on the New York Stock Exchange (“NYSE”) increased from 6.3 billion shares to
42.5 billion shares annually, an increase of about 575 percent. Annual trading in those shares further increased and reached 126.3 billion shares in 1996 and 1.43 trillion shares in 2009. Thus, between 1976 and 2009, trading in stocks listed on the NYSE increased by a factor of 227 (from 6.3 billion to 1.43 trillion shares per year).2

12. Along with the growth of volume, trading in exchange-listed stocks is increasingly occurring over a variety of platforms. In early 2002, for example, approximately 80 percent of trading volume in NYSE-listed stocks took place on the listing exchange (i.e., the NYSE). (For NASDAQ-listed stocks, this percentage was somewhat higher.) By October 2010, only 35.2 percent of trading on NYSE-listed stocks, in the aggregate, took place on the NYSE and NYSE Arca platforms.3 The NYSE accounted for 22.6 percent of trading in NYSE-listed shares, and NYSE Arca for 12.0 percent.4 In the same month, NASDAQ’s share of trading in NASDAQ-listed securities was 29.5 percent.5

13. Furthermore, an exchange’s share of trading in a given set of stocks overstates the share of information on total liquidity regarding these stocks that is generated by an exchange because trading platforms only hold a portion of the available liquidity on their books. Other liquidity exists on the trading desks of brokerage firms. We understand that such liquidity is readily available to those firms’ clients.

4. For October 2010, BATS Trading reports “consolidated volume” of 94.8 billion shares on “Tape A” (i.e., the NYSE). Of this amount, BATS Trading reports that the NYSE accounted for 21.4 billion shares (22.6 percent) and NYSE Arca accounted for 11.4 billion shares (12.0 percent). See http://www.batstrading.com/market_summary/ (and link to “Download last 30 days” of data). We understand that the NYSE and BATS Trading report trades on a somewhat different basis (e.g., the NYSE-reported consolidated volume for June 2010 for NYSE-listed stocks is about one percent larger than the amount reported by BATS Trading). For this reason, the shares derived from NYSE and BATS Trading data do not align exactly (e.g., the BATS Trading data imply that the aggregate share of the NYSE and NYSE Arca in October 2010 for NYSE-listed stocks was 34.6 percent, while the NYSE reports an aggregate share of 35.2 percent).
14. Rapid entry into the platform business is possible, which further constrains any incumbent’s ability to act in non-competitive manner. For example, BATS Trading began trading on January 27, 2006.6 By June 2008, it accounted for 7.5 percent of trading in NYSE-listed stocks and 10.3 percent of trading in NASDAQ-listed stocks.7

15. This evidence shows that no trading platform has a “monopoly” on generating market data on shares listed on that platform. As we discuss further later in this report, although any firm can be described as the “exclusive” seller of its branded product, it is not appropriate as a matter of economics to characterize every firm that sells such a product as a “monopolist” in any meaningful sense.

16. In the case of data jointly generated through trading on NASDAQ, the volume and quality of the information depends on the volume of orders and trades on the exchange. Here, by the “quality” of data we mean its informative value. For example, all else equal, the deeper is the “depth-of-book” information on an exchange, the more valuable it is. Consequently, exchanges compete for liquidity and thus for data quality, which, as we have seen, is linked to the volume of transactions.

17. As we discussed in our prior submission and will discuss again later in this statement, the volume of transactions on an exchange in a given stock and in the aggregate is determined in a competitive market for accessing liquidity on various platforms. Each platform's share of trades is not fixed but, rather, results from competition across a broad range of platforms on which the particular stock can be traded. From that perspective, therefore, the volume and quality of data relating to any particular stock is also determined by and as a result of the interplay of economic forces. As long as inter-platform competition is not impeded, NASDAQ neither has monopoly power in trading, even in a stock listed on NASDAQ, nor does it

---

7. Also see Edgar Ortega, “Yahoo Will Offer Free Real-Time Stock Quotes From Bats Trading,” Bloomberg, May 28, 2008 (BATS Trading “handles about 605 million shares a day, representing about 8.9 percent of the shares traded in the U.S.”).
have a monopoly over the information pertaining to the depth of book in a stock, because other exchanges also will have such information (albeit determined by the depth-of-book on that exchange). As competition for the execution of trades shifts in response to market signals, so will the quality of information available from the alternative platforms. Hence, competition for listings and trading also affects competitive conditions in the “market” for information.

18. In theory at least, “network” (or “liquidity”) effects could potentially lead to a situation where one platform captures a large share of all trades in one or more stocks or some other financial instrument. In such a case, the exchange would have a “monopoly” in trading in the stock as well over the information pertaining to that stock. Two points are worth making in this context. First, the demonstrated ability of platforms to capture a substantial percentage of trades of stocks listed on other exchanges indicates that such effects are generally mitigated in the market for equity trading, or that such effects have been offset by other forces (including the introduction of Regulation NMS), or that there is sufficient inter-platform product differentiation so that, given the large trading volumes, two or more exchanges can compete alongside each other. If anything, the empirical evidence on platform shares we have discussed indicates that there is no powerful trend towards concentration of trading in a given stock on a single exchange: quite the opposite. Second, at least from the competition (or antitrust) perspective, it is rather implausible that a single stock (or trading in a single stock) would constitute a relevant market. Hence, for the effects we have discussed to be a source of competitive concern, such effects would have to be powerful over a broad range of equities. Empirical evidence clearly shows that this is not the case.

B. Trading Platforms Produce “Joint Products.”

19. Execution services and market data are an example of “joint products.” This is because every execution of a trade automatically produces another potential product, namely information about that trade (such as the price and quantity traded). Similarly, depth-of-book
information is automatically produced when traders post limit orders on a platform. The production of joint products necessarily involves incurring “joint costs,” i.e., costs that are not uniquely incurred on behalf of any one of the services provided by the exchange. The total return that a trading platform earns reflects the revenues it receives from the sale of these joint products and other services, net of the joint cost and direct costs (i.e., costs that can be directly attributed to the relevant products) it incurs.

20. Trading platforms make simultaneous pricing decisions regarding liquidity rebates, execution fees, and market data fees. Liquidity rebates attract orders that create available liquidity by paying the order submitter a fee when the order executes; execution fees are incurred when an investor’s order interacts with available liquidity resulting in a trade; and market data fees pay for access to information about, for example, currently available liquidity and past trades. All of these decisions are made with the goal of maximizing profits, or fostering other legitimate business objectives, subject to competitive and regulatory constraints.

21. In general, there is no economic basis for placing some arbitrary regulatory caps on prices for one of the joint products in market situations where suppliers face competitive constraints across the range of their offerings. The simple reason is that, in general, an “excessive” price for one of the products will, ultimately, have to be reflected in lower prices for

8. It is widely accepted that there is no meaningful way to allocate “common” or “joint” costs across different joint products. For this reason, “cost-based” regulation of pricing of market data requires inherently arbitrary cost allocations. Furthermore, it is widely recognized that cost-based regulation can create significant inefficiencies and distortions. At least in part for this reason, such regulation has been widely abandoned or replaced with other forms of regulation in a variety of industries (e.g., telecommunications). For example, common costs are recovered from various services based on customers’ willingness to pay. For a succinct and elegant treatment see, e.g., J-J. Laffont and J. Tirole, *Competition in Telecommunications*, MIT Press, 2000, especially. chapters 1 and 2.

9. For example, regulation requires that some information, such as a platform’s best bid and offer, be provided at non-market determined rates.

other products sold by the firm or the firm will otherwise experience a loss in the volume of its sales that will be adverse to the overall profitability of the enterprise.

22. Exchanges compete with each other on a variety of dimensions. For example, U.S. exchanges compete with each other (and foreign exchanges) initially for new listings and subsequently for listing switches. With respect to a given stock, unless a stock is listed on an exchange, other platforms have nothing to produce, no market data and no executions. Once a stock has been listed on a particular exchange, rival exchanges and other trading platforms – such as electronic communications networks – compete to execute trades of shares in that stock. Thus, a listing exchange bestows a positive externality on its potential rivals.

23. Different platforms may choose different pricing strategies and ways of recovering total costs and earning a return on their investments. Some platforms may choose to pay rebates to attract orders, charge relatively low prices for market information (or provide market information “at no cost”) and charge relatively high prices for accessing posted liquidity. Other platforms may choose a strategy of not paying liquidity rebates to attract orders, setting relatively high prices for market information and relatively low prices for accessing posted liquidity. Others may choose to foster trading on a platform by establishing ownership interests among customers that provide liquidity and consume market data. These strategies can vary over time in response to changing market, life-cycle, and regulatory factors. BATS Trading, for example, has chosen an initial strategy of setting low (or zero) prices for market data, mid-range prices for executions, and relatively high liquidity rebates.11

24. The economic evidence shows that exchanges and other trading platforms compete with each other on pricing. To illustrate, in 2007, NYSE Euronext changed its prices to compete more effectively with rival trading platforms:

11. Pricing of services on an exchange may vary over the life of the exchange in response to its changing market position. For example, at the time of entry, pricing on an exchange may be motivated by the need to attract liquidity. At later stages, as the information flows from an exchange become richer and more relevant to consumers, the exchange may introduce fees for data, which help to recoup in part the initial up-front investments in the platform.
NYSE Euronext introduced new pricing on [September 12, 2007], including higher rebates for stock trades on its exchanges, to better compete with aggressive pricing set by electronic rivals such as BATS Trading.

Under the new pricing system effective Oct. 1, customers trading on the Big Board’s all-electronic NYSE Arca platform will get a rebate of 25 cents for every 100 shares of NYSE-listed stocks traded, 5 cents more than the current rebate.

The exchange also lowered the charge for customers taking liquidity in Nasdaq-listed stocks out of its market by 5 cents, from 30 cents to 25 cents. Liquidity providers in Nasdaq-listed stocks will continue to get a rebate of 20 cents.

Upstart electronic platform BATS Trading recently introduced a pricing structure providing a rebate of 34 cents per 100 shares for customers providing liquidity in NYSE-listed stocks, and a charge of 24 cents per 100 shares for customers taking liquidity in NYSE-listed stocks away from BATS.

“We’re pleased at this reaction to BATS’s consistently aggressive pricing,” said Randy Williams, a spokesman [for BATS].

Some trading platforms pay substantial sums in the form of liquidity rebates to induce customers to “post orders” on their platform. For example, in 2009, NASDAQ paid $1.394 billion in liquidity rebates. These posted orders allow NASDAQ to attract additional “order flow” that interacts with the posted orders by taking available liquidity and results in trades executing on its exchange. Posted orders, the liquidity-taking order flow, and the executed trades produce information that is valuable to investors. Other platforms do not offer

13. In 2008, the National Stock Exchange (“NSX”) introduced a new pricing structure that included “market data rebates embedded in liquidity rebates” (http://www.nsx.com/content/news/story/91#January312008). That is, NSX uses revenue it receives from selling market data to increase the rebates it pays for liquidity.
15. Some commentors suggest that fees for proprietary data must be set “at cost.” As we explain in this submission, there is no need to impose a cost-based pricing standard for such data and there is no unique cost basis that could be used for such a purpose. As we have discussed, the latter conclusion follows from the fact that the information at issue is a joint product and since the incremental cost of providing such information to an additional customer is small (or zero), marginal cost pricing is not feasible. Additionally, those commenters ignore that NASDAQ paid over a billion dollars in liquidity rebates in 2009 to
rebates to liquidity providers but instead offer lower fees or even free executions to liquidity-taking order flow. We understand that some exchanges, including the National Stock Exchange and the American Stock Exchange, offer equity ownership as an incentive/reward for active trading on their platforms.

26. Platforms also compete on data fees. For example, in June 2008, NASDAQ launched two proprietary “Last Sale” products. In each case, the terms included subscription rates and an “enterprise cap” rate designed for Web portals. The enterprise cap rates for the two products were $100,000 per month and $50,000 per month for the two products (i.e., a cap of $150,000 per month for customers who purchased both products). The majority of NASDAQ’s sales were at the cap level. We understand that in early 2009 BATS offered an alternative product (BATS PITCH data) as a “free” alternative to the NASDAQ Last Sale products. Also in early 2009, NYSE Arca announced the launch of a competitive product with an enterprise price of $30,000 per month. In response, in April 2009, NASDAQ combined the two Last Sale products into one and reduced the enterprise cap to $50,000 per month (i.e., a reduction of $100,000 per month).

27. The fact that different exchanges adopt dissimilar pricing strategies suggests that customers have different preferences over the services provided by the exchanges as well as different willingness (or ability) to pay for these services. Thus, pricing heterogeneity partly reflects customer heterogeneity and adds to customer value as well as profitability.

28. Information on trading volumes further confirms that platforms compete actively for trading in listed stocks. For example, as we have noted, the NYSE accounted for about 80 percent of trading in NYSE-listed stocks in 2006; by October 2010, NYSE’s share of trading in those stocks has fallen to as low as 22.6 percent, and the NYSE Group’s share—i.e., the NYSE (...continued)

(induce trading on its platform and thereby generate the information that such commenters apparently want to obtain at a price that reflects only the cost of creating the proprietary data products (i.e., ignoring the costs of rebates and other joint costs).
and NYSE Arca – has fallen to 35.2 percent. Such large shifts in trading volumes across platforms indicate that traders can, and do, quickly move their orders from one exchange to another in response to market signals, which is clear evidence that platforms compete with each other. This intense competition among trading platforms can be expected to constrain the aggregate return each platform earns from its sale of all of its products.

29. Further increases in the price of proprietary data by a platform can be expected to reduce the volume of trading on that platform, which reduces the profitability of such a price increase and thus constrains the pricing of proprietary information. Conversely, a platform might reduce prices for proprietary information in order to maintain or increase the volume of trading on that platform. For example, we understand that in late 2009, a member notified NASDAQ that in the absence of a fee reduction for “non-displayed use” of depth data, the member would move order flow from NASDAQ to a competing platform. After meeting with the member and analyzing the potential loss of trading volume, NASDAQ sought and obtained SEC approval for an Enterprise License for non-displayed use of certain depth data.\(^{16}\) NASDAQ’s decision linked data revenue to transactions revenue, reflecting platform-based pricing and the nature of joint products.

C. The Role of Market Information in Trading Platform Competition.

30. Prior Commission rules mandate that certain types of market information must be made available to all customers. For example, in 1978, the Commission implemented the “Display Rule” which required information vendors and broker-dealers “to display a consolidated array of information for each stock including the single best quotation available in the reporting markets or a montage of all markets’ best quotations, and the last sale data including price,

place and volume.”17 Exchanges and other trading platforms are required to provide their trade (or “core”) information to a “securities information processor” (“SIP”) which consolidates data from all platforms to produce the mandated information.18

31. In addition to the information that trading platforms are required to provide to SIPs, exchanges and other platforms can, but are not required to, individually make available additional market data – sometimes referred to as non-core, or “proprietary”, information. As we have discussed, the posting of trades on a platform, the execution of those trades, and market information about order flow to the platform and trades on the platform, are joint products.

32. There is no question that core data are valuable, which is reflected in the Commission’s requirement that this base information be provided at reasonable fees to all parties. There is, of course, value in additional information flowing from the exchange. But there is no evidence that this additional information is of the same fundamental value to the financial markets as the information that exchanges are required to provide. Whether or not a customer purchases the incremental information depends on the cost/benefit analysis of the individual customer. Moreover, the decision of an individual customer not to purchase this incremental information is not likely to create a material negative externality on the trading public and thus a decision to buy or not is best left to individual customers while ensuring that competition among exchanges creates effective constraints on the pricing of proprietary data.

33. Market information is useful in a number of ways, including as an input into trading activities, for valuing securities and portfolios, and for evaluating the performance of a broker or trader.19 Depth-of-book market information can help investors make better trading

18. Trade information is consolidated into three data streams – referred to as Tape A (for NYSE-listed shares); Tape B (for shares listed on the AMEX and regional exchanges); and Tape C (for NASDAQ-listed shares). One SIP compiles Tape A and Tape B information; a different SIP compiles Tape C information.
19. Market information can be useful to firms that act as intermediaries between trading
decisions. The decision to post an order that would be disseminated by a depth-of-book feed reflects a trade-off between the cost of offering a “free option” to the market and the benefit of attracting a taking order and thereby creating an execution.20 The costs and benefits of posting an order will depend on the attributes of the platform where the order can be posted, including the platform fees, data quality and price and distribution of its data products. Without the prospect of a taking order seeing and reacting to a posted order on a platform with a depth-of-book feed, there would be little incentive to post a displayed order. Independent of trading, depth-of-book data also may be useful as a barometer of market sentiment. For example, a “deep” book with many orders at numerous prices near the current price may be considered to be a sign of investor confidence; conversely, a “thin” book with few orders may be considered a sign of investor uncertainty. Whether depth-of-book data are used for trading or not, a platform must attract orders, both posting and taking, to generate depth-of-book information.

34. It is important to keep in mind that a trader can participate in trading even without proprietary information from a particular platform regarding a particular stock or array of stocks. That is, while it is conceivable that proprietary information generated by NASDAQ could be potentially quite valuable to certain traders who wish to trade on NASDAQ, the key point is that a trader is not compelled to trade on NASDAQ in NASDAQ-listed stocks. Such a trader, while potentially benefiting from information generated by traders who trade on NASDAQ, contributes nothing to the recovery of joint costs incurred by NASDAQ.

(...continued)

platforms and the trading public but do not trade themselves. For example, web sites like Google and Yahoo! benefit in a variety of ways from attracting more visitors because such visitors are likely to “stick” to the website and generate other business and thus incremental revenues. Such web sites would not have an incentive to buy non-core data products if they were of no value to ultimate consumers. These web sites are thus engaged in joint production and have devised sophisticated pricing mechanisms to monetize their investments in the production of content.

35. Ubiquitous access to core data (e.g., National Best Bid and Offer, or NBBO, information) is perceived by the regulatory authorities as essential to the efficient functioning of the equity markets.\textsuperscript{21} This conclusion does not, however, apply to proprietary products which are valuable to some traders but are not required to ensure baseline efficiency of the trading system. This being the case, and given that all costs of an exchange have to be recovered on a forward-looking basis, it makes economic sense that the beneficiaries of such proprietary information help to defray some portion of the joint and common costs incurred by the exchange.

36. Although proprietary data are jointly produced with trading activity on the exchange, such raw data needs to be further processed and stored in order to be usable to customers. Exchanges would have little or no economic incentive to expend resources on developing, processing, and maintaining proprietary data unless it were valuable to at least some customers and could generate income for the exchange directly or indirectly. For example, an exchange that offered for sale additional information – beyond what is mandated by regulatory fiat – must incur the costs of collecting, preparing and marketing that data, but would gain no commensurate revenues unless at least some customers considered it valuable and were willing to pay for it either directly or through fees on trades.\textsuperscript{22}

37. Thus, even if certain information is generated every time customers post buy/sell orders or execute trades, that information has to be maintained and continuously updated on databases, processed using software packages, and disseminated out to the public, all at substantial cost. This alone suggests that such proprietary data should not be made available

\textsuperscript{21} We understand that NASDAQ receives a share of the revenue generated from the sale of core data at regulated rates.

\textsuperscript{22} As we have discussed, different trading platforms may choose different pricing strategies. For example, a platform owner may choose to distribute non-core market information “at no cost” to increase demand for trade execution services on that platform. All else equal, that owner will thus be able to charge more for trade execution services than a platform owner that sells market information.
for free. Even more importantly, proprietary data are generated by the exchange using an expensive software and hardware infrastructure. These costs, together with the costs of executing trades, have to be recovered. As we shall explain in more detail later, sale of proprietary data should be called upon to contribute to the recovery of all the costs incurred by the exchange on behalf of all its products.23

38. Even if a trading platform had some unique information that is potentially valuable to (some) consumers, the total price of trading on that platform – which includes the price of market data available from the platform that the trader elects to purchase – is constrained by the total price of trading on rival platforms. Therefore, it is incorrect as a matter of economics to focus on whether any given information can only be obtained from a particular platform in order to gauge that platform's "market power." Proper economic assessment focuses on inter-platform competition which is driven by a variety of factors, including the availability and quality of platform-generated data and the extent to which that competition constrains pricing.

39. Because customers can choose between competing trading platforms, the competitive constraints faced by sellers of market data differ from the constraints faced by the sellers of regulated "monopoly" inputs. For example, consider the case of a Regional Bell Operating Company ("RBOC") that sold access to its "local loop" for residential customers (i.e., the connection to a customer's home). Beginning in the 1980s, residential customers could choose among long-distance operators, but typically had no choice of providers for local-loop service because each home was reached by only one "wire." Thus, a firm that wanted to offer

23. This point was recognized over a century ago by the British economist Alfred Marshall who noted that the total cost of raising and maintaining a sheep should be recovered from wool and mutton and not from either one alone, even though it is unavoidable that a sheep will produce both, unless there is no demand for mutton, for example. See, Alfred Marshall, Principles of Economics, Cambridge University Press, 1890. There is no danger in the instant case that there will be no demand for either execution or proprietary data on NASDAQ. The whole point is that there is demand for such data, but those who have such demand have balked (apparently) at paying for it.
long-distance service to a consumer had to buy “access” to that local-loop service from the monopoly provider in that area (i.e., the only way into a customer's home was through the wire owned by the local phone company).  

40. In contrast to the case of RBOCs selling local-loop access, individuals who want market data can obtain it from a variety of platforms, some of it even at no cost. Even though market information from one platform may not be a perfect substitute for market information from other platform(s), the existence of alternative sources of information can be expected to constrain the prices platforms charge for market data, especially when reinforced by inter-platform competition.

41. For competitive concerns to conceivably arise in a setting like this, the quality (breadth and depth) of information from other platforms would have to be so inferior (and the incremental benefit from proprietary information so overwhelming), that the competitive viability of the alternative platforms would be undermined if traders had to pay market prices for the “dominant” platform’s proprietary information. In such a case, these other platforms would not be in a position to offer attractive opportunities for traders and would not exercise a meaningful constraint on the dominant platform. This was precisely the market situation facing carriers that wished to connect to an RBOC’s network. In essence, these carriers had to either pay the monopoly price or invest in costly and inefficient by-pass technologies. Regulatory constraint on pricing of access at the time may have been the most effective solution to the RBOCs’ monopoly power. However, this concern is not present here because, as we have seen, other exchanges have been able to enter, flourish, and divert business from NASDAQ.

---
24. More recently, cable firms started providing a competitive alternative to RBOC local-loop access in some areas.

25. Competition among platforms is similar to “source competition” that keeps railroad rates down – if an electric utility can get coal from two sources, each of which is served by a “monopoly” railroad then both apparent railroad monopolies are undermined. Similarly, if a customer can purchase power from two different generators, each served by a single railroad, both apparent railroad monopolies are undermined.
IV. ECONOMIC ANALYSIS OF NASDAQ’S “PLATFORM PRICING” PROPOSAL.

A. Summary of NASDAQ’s “Platform Pricing.”

42. We understand that the “Platform Pricing” program introduces tiered pricing that reflects customers’ joint activity on the exchange through trading volumes and purchases of proprietary data. A customer who is an active trader and an active consumer of data receives an aggregated discount relative to the fees paid by other customers. NASDAQ already offers volume discounts on trades and proprietary data spend. Hence, the only novel element of this proposal is the discounting based on the customer’s aggregate activity. As such, in general, it should not trigger any regulatory concerns. However, below we comment on the possible situation in which such concerns could arise and find that these are not present in the instant case.

43. NASDAQ is introducing a discount of its proprietary depth-of-book products (TotalView, OpenView and Level2) sold to “non-professional” investors. “Non-professional” investors include traditional retail brokers such as AG Edwards, Raymond James and Merrill Lynch and online brokers such as Scottrade, Schwab, Fidelity, TD Ameritrade and E*Trade. Such investors can purchase depth-of-book information that will be used by their clients (i.e., retail investors) to make trading and other decisions. That is, customers who could qualify for “Platform Pricing” discounts purchase information on behalf of retail investors and will attempt to recover the costs of these valuable purchases from the ultimate consumer whether directly or indirectly (e.g., through increased trading). The likely effect of the volume discounts in the “Platform Pricing” proposal will be to “pass through” lower fees to the ultimate non-professional investors on whose behalf NASDAQ’s customers purchase proprietary data.26

26. We understand that non-professional proprietary spending includes expenditures associated with the distribution of the following products: TotalView, OpenView and Level2. This calculation includes the monthly usage, distributor fees and enterprise license fees for the firm. Members must meet both the volume requirement and the proprietary data
44. The “Platform Pricing” discounts are not available to “Professional” investors, which include trading firms that can connect directly to the NASDAQ trading platform (e.g., high frequency traders). Even prior to the introduction of “Platform Pricing,” NASDAQ charged different fees for its depth-of-book products to “professional” and “non-professional” investors. In particular, “professionals” pay substantially higher fees than “non-professionals.” For example, we understand that NASDAQ currently charges $15 per terminal for its TotalView product to non-professionals, while professional investors pay roughly five times the non-professional rate. Such pricing reflects the value of the service in a manner that is consistent with pricing rules advocated by economists in the presence of large joint and common costs and low incremental costs, as we discuss next.

B. The Economics of Pricing Products in the Presence of Scale Economies Stemming from Large Joint and Common Costs and Low Marginal Costs.

45. The products at issue in this regulatory proceeding are produced under the conditions of high fixed costs, which are also joint and common to a range of products, and low (or zero) marginal or incremental costs of serving an additional customer. In addition, other incremental costs (such as developing information on the depth of book of an additional security) are also low when compared to the volume of costs associated with operating an exchange, including the underlying information technology. Indeed, state-of-the art information technology is at the heart of a competitive and efficiently operated financial market (such as an exchange).

46. This cost structure characterizes content production and distribution industries. For example, in the software industry, developing new software typically requires a large initial investment (and continuing large investments to “upgrade” the software), but once the software is developed, the incremental cost of providing that software to an additional user is typically (...continued)

requirement to be eligible for the discount.
small, or even zero (e.g., if the software can be downloaded over the internet after being purchased).\(^\text{27}\) The same is true of newspapers, motion pictures, books, and so forth.

47. In the case of NASDAQ, the production process at the heart of this regulatory matter is even more complicated. In particular, besides being characterized by low incremental costs and high fixed costs, the products produced by NASDAQ (e.g., trade execution services and market data) are produced “jointly.” There is no question that it is costly to build and maintain data bases that are needed to produce proprietary data, but providing that information to an additional customer involves little or no additional costs. Similarly, the incremental cost of trading an additional share of stock on an existing platform is likely to be low once the platform has been developed. The relevant products are produced jointly in the sense that the activities of trading and placing orders are the source of information that can be (and is) distributed to the interested parties and are subject to significant scale economies.\(^\text{28}\)

48. There is a substantial economic literature that addresses the pricing principles for products and services in industries with this type of cost structure: i.e., scale economies and joint and common costs.\(^\text{29}\) Economic analysis shows that charging prices equal to marginal cost is the most efficient pricing rule. However, given the cost structures noted above, marginal cost pricing is not economically feasible. That is, marginal cost pricing is not feasible when there are increasing returns to scale because if all sales were priced at marginal cost, the vendor would be unable to defray the forward-looking costs of providing the service and would (ultimately) go


\(\text{28. This is not the case with Marshall’s sheep farming. Sheep are likely produced with constant or increasing marginal cost and the pricing complication is confined to the most efficient recovery of the marginal cost of a sheep.}\)

bankrupt and would have to exit the industry. Stated simply, pricing services at marginal cost in an industry with a cost structure like that of NASDAQ is a prescription for bankruptcy.³⁰

49. For this reason, the services provided by a trading platform cannot be priced at marginal cost. Moreover, as we have discussed, execution services and market data are joint products. This does not mean that if one product is regarded as simply a by-product of another activity, it should be priced at a zero. Far from it: insofar as there is demand for that product at a positive price, the price for that product should be positive. Thus, even if information could be produced at zero marginal cost, economic principles mandate that it nevertheless be priced to the willing buyers at a price higher than the associated marginal cost.³¹ That is, it is economically appropriate for such information to carry a positive price.

50. It is economically appropriate for information to carry a positive price in this context because if the platform incurs joint and common costs, “giving away” one product means that the other product(s) must cover all the joint and common costs.³² This is potentially inefficient because it requires that the price of these services be raised above their respective marginal costs by more than would be necessary if the “free” product or service made some contribution to the recovery of the joint and common costs. Of course, as we have discussed, different platforms may choose different cost recovery strategies and may price one joint product at marginal cost (e.g., a platform may provide market data at “no cost”) but will have to price another joint product (e.g., execution services) significantly above the appropriate marginal cost in order to remain viable.

---

³⁰ The marginal cost that we are focusing on is the additional cost incurred by the exchange in providing the information to an additional customer.
³² It is uncontroverted that in the absence of a platform for trading, there would be no information regarding the depth-of-book or information about prices at which trades occur. Thus, a trading platform is a “cost center” for both trade execution services and market data.
C. “Price Differentiation” in Markets with High Fixed Costs and Low Incremental Costs is Common, Efficient, and not Anticompetitive.

51. Given that marginal cost pricing is generally not feasible in high fixed cost industries, some deviations from marginal cost pricing are unavoidable. One alternative might be to charge all customers a price equal to average total cost (including a return to capital). It is, however, well known that uniform average cost pricing – that is, charging the same price equal to average cost to all customers – is not socially efficient. In general, economic efficiency in these circumstances requires that customers whose demand is more responsive to price changes pay prices closer to marginal cost as opposed to customers who are less responsive to price changes. By offering a lower price to customers whose demand is more responsive to price, the seller stimulates demand, increases overall revenue, and in fact can offer a discount off the starting price (set at an average cost) even to the less responsive customers. Economists call this type of pricing structure “differential pricing” or “price discrimination.” Incidentally, this type of pricing reflects the underlying values that different consumers place on the product. To illustrate, a buyer whose demand is very responsive to price changes likely does not value the product very much above the available alternatives. Hence, this type of differentiated pricing is really a “value-driven” pricing. There is nothing problematic with such pricing once it is realized that neither marginal cost pricing nor uniform pricing are desirable from efficiency principles; and there is a great deal to recommend it.

52. Another form of differential pricing entails quantity (volume) discounts. In this pricing scenario, the incremental price (that is, the price for incremental units) falls with volume. This makes business and efficiency sense as long as the incremental price exceeds the incremental cost of the additional sales. In this case, the total volume of sales expands, which
is socially efficient, and consumers and the firm benefit. In fact, volume discounts are ubiquitous in industries characterized by high fixed costs and low marginal costs.

53. Differential pricing (price discrimination) can benefit all groups of customers, provided it is implemented within some limits. In particular, when competition constrains the overall profits earned by a supplier, such as is the case with trading platforms, differential pricing will, on balance, tend to benefit all customers as compared to, for example, uniform pricing. As we have discussed, competition in the provision of trading platform services is fierce. Hence, in the industry discussed here, differential pricing involving volume discounts should be encouraged rather than discouraged.

54. Differential pricing allows a provider to recover more of its fixed costs from some customers than from others and more on some units of sale than on others. For example, as we have discussed, professional investors’ fees for market data generally are many times larger than fees paid by non-professional investors for the same product. That is, with this type of pricing structure both types of investors contribute to fixed costs but, all else equal, professional investors contribute more than non-professional investors on each unit purchased.

55. As we have discussed, NASDAQ’s “Platform Pricing” differentiation strategy is based on two distinct criteria: (1) trading volume and (2) purchases of market information. The current proposal envisages that the marginal price (which is the increment that the customer has to pay for additional data and access to liquidity) falls with the volume of the activity and with the total volume of the trader’s dealings with NASDAQ. That is, the proposed schedule exhibits effective volume discounts and also certain “bundling” of discounts. As we have discussed, volume discounts are generally procompetitive and efficiency enhancing, especially in situations like here where the marginal cost of the activity (e.g., providing market information

33. It is also possible to combine price differentiation across customer groups with volume discounts. That is, it is possible to have different discount schedules for different customer categories.
34. This has been shown by R. D. Willig, “Pareto-Superior Non-linear Price Schedules,” *Bell Journal of Economics* (1978).
to an additional consumer) is likely to be low or zero while the fixed costs are substantial. The reason is that with marginal costs low (or even zero), any price above this low marginal cost (say, equal to the average cost), suppresses output and thus lowers economic welfare. Hence, it is desirable to stimulate demand by offering volume discounts.

56. Volume discounts can improve a firm's profits and consumers' welfare. The firm's profit increases because additional purchases at any price above marginal cost help the firm recoup high fixed costs. Consumers' welfare increases where the policy causes consumers to purchase incremental units, which reveals that consumers obtain a net benefit from incremental purchases. This is true because the purchase of incremental units is voluntary, as is the case for depth-of-book data.

D. “Bundling” is Common and Generally Procompetitive.

57. The proposed NASDAQ price schedule provides for discounts that depend not only on volume but also on the combined spend on providing liquidity as well as the use of data. This type of pricing structure is sometimes referred to as “bundled” discounts.

58. It is not unusual for firms to offer discounts that are linked to total spend across a number of products. These types of pricing plans often reflect the fact that customers are differentiated on more than one dimension in terms of their willingness to spend on any given product. Here such differences might be differences in the willingness to pay for data and for accessing liquidity. In such a case, combining different products into one package makes it easier to design a plan that will appeal to a broader group of potential customers and stimulate overall sales than would a plan that offered discounts based only on the volume of one kind of activity or another. For example, some customers purchase substantial amounts of data but are not active in the market (e.g., market data vendors, independent software vendors, service bureaus, internet portals). Other customers may be active in the market but purchase little or no proprietary data (e.g., a small firm whose primary focus is trading at high frequencies).
conditioning the discount on both activities, the “Platform Pricing” plan can achieve improved participation from both categories of users as compared to disaggregated plans.

59. Competitive concerns from a practice of bundling discounts across a range of products may potentially arise when such bundling-cum-discounting is used to foreclose entry (expansion) of rival firms which may not be able to offer an array of products as broad as that offered by the incumbent. In the instant case it is not likely that the combined offer will induce rival exchanges to exit (or become less competitively potent due to a reduction in volume). It is also not likely that the combined offer will have the effect of creating significant barriers to entry or expansion for new exchanges.

E. Price Differentiation is Consistent with “Fairness.”

60. “Fairness” is a concept that is often referenced in regulatory settings; however, it does not have a clear meaning in economics. Various definitions of what “fair” means have been provided in the economics literature but they are, in the end, arbitrary. The underlying idea is to propose a definition of “fairness” and then test its implications for public policy. In the current context, because we are dealing with pricing of services to different customers, the concept of fairness could be related to the permissible price differences for the same products charged to different customers (or customer groups).

61. From this perspective, one highly restrictive interpretation of the concept of fairness would be a requirement that all customers pay the same price for the same service, unless there are differences in the costs of serving them (i.e., fairness would be equated to the absence of price discrimination). In this interpretation of the fairness concept, the only permissible source of different treatment is the difference in the marginal (or incremental) cost of providing the product (service) to a customer. This view is consistent with the purely theoretical benchmark of perfect competition where all buyers pay the “marginal cost” of the good.
62. However, as we have discussed, marginal cost pricing is not feasible in a variety of realistic market settings and thus this pricing rule is not appropriate in situations like those considered in this submission. In the alternative, if all consumers have to pay the same price, non-discriminatory might mean pricing all services at an average cost.\textsuperscript{35} There are two problems with this prescription. First, when there are joint and common costs, all calculations of average cost are arbitrary because the allocation of joint costs to different products is arbitrary. Second, such pricing is inefficient in the sense that it represses output and economic welfare relative to what could be realized with more complex pricing rules. From this brief discussion it follows that some differential treatment of different customers or customer classes should be allowed in order to promote overall economic efficiency which conduces to overall economic well-being and also serves to improve the profitability of firms.

63. So the question arises as to how far such differentiation should be allowed to go without violating some principle of fairness. Professor Gerald Faulhaber proposed that fair prices are those that are free of “cross-subsidy” of one customer group by another.\textsuperscript{36} Cross-subsidy can be defined as a situation in which a customer (or customer group) pays more for what it purchases from a firm than what it would pay if it were not part of a broader customer group buying from that firm. In theory, the simplest benchmark for the absence of cross-subsidy is whether the price the buyer pays is below the marginal cost. If one customer pays less than the marginal cost of being served, another customer has to make up the difference by paying more than would be required if every customer covered (at least) the relevant marginal cost. In the current context, the marginal cost of serving an additional customer – be it accessing liquidity (transaction), posting offers, or obtaining information – are likely to be low, or perhaps even zero. Consequently, the rates proposed by NASDAQ in the “Platform Pricing” plan do not

\textsuperscript{35} Since average cost depends on the volume of sales, which in turn depends on prices, the average cost is calculated at the volume at which the market clears, when the price is set at average cost. There is always such an equilibrium price.

violate a fairness standard defined as systematically pricing below marginal cost to some customers on some purchases.

64. Professor Faulhaber also advanced a somewhat stricter definition of cross-subsidy which has been elaborated by William Baumol and Greg Sidak. These authors propose that fairness requires that no group of customers should pay more for the service obtained than the incremental cost of serving them. This standard has been successfully applied for years in railroad regulation (following the passage of the Staggers Act) under the rubric of the “stand-alone cost test.” Under such a test, prices to some customer groups could be conceivably quite high but even these high-paying customers obtain some benefits from sharing the facilities (such as the platform and the services it provides) with other customers. Consequently, a plausible standard of fair pricing is that all customers of the vendor (such as NASDAQ) share in the benefits from participating on the platform, even if the sharing in the benefits may not be necessarily equal.

65. In sum, fairness is not a core concept of microeconomics or of industrial organization. It can perhaps be best interpreted as forbidding cross subsidies among customers groups. After all is said and done, the metric of what is fair or unfair has to be imported from elsewhere from outside of the model.

66. More importantly, perhaps, differential pricing and bundled discounts should not be assessed against some abstract concept of fairness as long as these pricing practices arise

38. In the railroad setting, shippers who are the least responsive to price – those that buy coal, for example – pay the most. Here the large buyers pay the least which is reasonable since they are likely to be relatively price-responsive demanders.
39. Some potential purchasers of depth-of-book data are distributors (e.g., Google). These customers “consume” (i.e., purchase) data without trading. However, such distributors purchase data on behalf of retail investors who can be expected to trade (i.e., a distributor would have no incentive to purchase data unless it were valued by at least some of its customers).
in a market in which there is effective competition and the practices at issue are unlikely to lead
to the diminution of competition and exclusion of more or equally efficient rivals. Because there
is no plausible worry that the “Platform Pricing” plan will so disadvantage some customers of
NASDAQ as to distort the workings of competition in the downstream market, the proposed
pricing plan raises no competition concerns.

IV. CONCLUSIONS.

67. Significant competitive forces constrain the prices charged for non-core products
by NASDAQ and other platforms. At least two types of competitive forces constrain the prices
that platforms can charge for non-core market information. First, a trading platform cannot
generate market information unless it receives trade orders. For this reason, a platform can be
expected to use its market data product as a tool for attracting liquidity and trading to its
exchange. Second, even though market information from one platform may not be a perfect
substitute for market information from one or more other platforms, the existence of alternative
sources of information can be expected to constrain the prices platforms charge for market data.

68. There are high fixed costs of supplying the products at issue in this regulatory
proceeding. Moreover, these fixed costs are also joint and common to a range of products
provided by the exchanges (such as NASDAQ). Finally, the marginal or incremental costs of
serving an additional customer are low or close to zero. In industries with these cost
characteristics, charging all customers the same price is not economically efficient. Instead,
differential pricing which includes volume discounts and “bundling” can lead to improved
economic welfare and market performance.

69. NASDAQ’s “Platform Pricing” is an example of this type of “differential pricing”
and “bundling.” Differential pricing in markets with high fixed costs and low incremental costs is
common, efficient, and not anticompetitive. “Bundling” also is common and generally
procompetitive. Finally, differential pricing is consistent with “fairness”.

EXHIBIT 3

January 29, 2010

Janusz Ordover

Gustavo Bamberger

December 29, 2010
Appendix A
EDUCATION

Graduate Department of Economics and European Institute of the School of International Affairs

1967-1968 McGill University, Montreal, Canada
Departments of Economics and Political Science

1963-1966 Warsaw University, Warsaw, Poland

HONORS

1973 Columbia University: Highest distinction for the doctoral dissertation

1971-1972 Columbia University: Honorary President's Fellow

1969-1971 Columbia University: President's Fellow

1967-1968 McGill University: Honors Student

1964, 1965 Warsaw University: Award for Academic Achievement, Department of Political Economy

Who's Who in the World
Who's Who in America
Who's Who in the East

PROFESSIONAL EXPERIENCE

June 1982 - present Professor of Economics
Department of Economics, New York University, New York, New York

Sept. 1996 - Aug. 2001 Director of Masters in Economics Program
Department of Economics, New York University, New York, New York
Summer 1996-2000  Lecturer
              International Program on Privatization and Reform
              Institute for International Development, Harvard University, Cambridge, Massachusetts

                        Antitrust Division
                        United States Department of Justice, Washington, D.C.

Sept. 1989 - July 1990  Visiting Professor of Economics
                        School of Management, Yale University, New Haven, Connecticut
                        Lecturer in Law
                        Yale Law School

Mar. 1984 - June 1988  Visiting Professor of Economics
                        Universita Commerciale "Luigi Bocconi", Milan, Italy

June 1982 - Feb. 1985  Director of Graduate Studies
                        Department of Economics, New York University

Sept. 1982 - June 1986  Adjunct Professor of Law (part-time)
                        Columbia University Law School, New York, New York

Feb. 1982 - June 1982  Acting Director of Graduate Studies
                        Department of Economics, New York University

June 1978 - June 1982  Associate Professor of Economics
                        Department of Economics, New York University

Sept. 1979 - May 1990  Lecturer in Economics and Antitrust
                        New York University Law School

Sept. 1977 - June 1978  Member, Technical Staff
                        Bell Laboratories, Holmdel, New Jersey
                        Associate Professor of Economics
                        Columbia University
                        Visiting Research Scholar
                        Center for Law and Economics, University of Miami, Miami, Florida

Sept. 1973 - Aug. 1977  Assistant Professor of Economics
                        New York University

Summer 1976  Fellow, Legal Institute for Economists,
              Center for Law and Economics, University of Miami

Summer 1976  Visiting Researcher Bell Laboratories, Holmdel, New Jersey
OTHER PROFESSIONAL ACTIVITIES

2010 – present  Member, ABA Section of Antitrust Law, Economics Task Force
2006 - present  Special Consultant, Compass Lexecon (formerly Compass)/FTI Company, Washington, D.C.
2003 - 2006  Director, Competition Policy Associates, Inc. ("Compass"), Washington, D.C.
1997 – present  Board of Editors, Antitrust Report
1998 – 2004  Senior Consultant
               Applied Economic Solutions, Inc., San Francisco, California
1995 - 2000  Senior Affiliate
               Cornerstone Research, Inc., Palo Alto, California
various  Testimony at Hearings of the Federal Trade Commission
1994 - 1996  Senior Affiliate
               Law and Economics Consulting Group, Emoryville, California
1994 - 2000  Senior Affiliate
               Consultants in Industry Economics, LLC, Princeton, New Jersey
1993 - 1994  Director
               Consultants in Industry Economics, Inc., Princeton, New Jersey
1992 - 1993  Vice-Chair (pro tempore)
               Economics Committee, American Bar Association, Chicago, Illinois
1990 - 1991  Senior Consultant
1991  Member
               Ad hoc Working Group on Bulgaria's Draft Antitrust Law
               The Central and East European Law Initiative
               American Bar Association
1990 - 1991  Advisor
               Polish Ministry of Finance and Anti-Monopoly Office
               Warsaw, Poland
1990 - 1991  Member
               Special Committee on Antitrust
               Section of Antitrust Law, American Bar Association
1990 - 1991  Director and Senior Advisor
               Putnam, Hayes & Bartlett, Inc., Washington, D.C.
1990 - 1996  Member
Predatory Pricing Monograph Task Force
Section of Antitrust Law, American Bar Association

1989  Hearings on Competitive Issues in the Cable TV Industry
Subcommittee on Monopolies and Business Rights of the Senate Judiciary Committee
Washington, D.C.

1989  Member
EEC Merger Control Task Force, American Bar Association

1988 - present  Associate Member
American Bar Association

1987 - 1989  Adjunct Member
Antitrust and Trade Regulation Committee, The Association of the Bar of the City of New York

1984  Speaker, "Industrial and Intellectual Property: The Antitrust Interface"
National Institutes, American Bar Association, Philadelphia, Pennsylvania

1983 - 1990  Director
Consultants in Industry Economics, Inc

1982  Member
Organizing Committee
Tenth Annual Telecommunications Policy Research Conference, Annapolis, Maryland

1981  Member
Section 7 Clayton Act Committee, Project on Revising Merger Guidelines
American Bar Association

1980  Organizer
Invited Session on Law and Economics
American Economic Association Meetings, Denver, Colorado

1978 - 1979  Member
Department of Commerce Technical Advisory Board
Scientific and Technical Information Economics and Pricing Subgroup

1978 – present  Referee for numerous scholarly journals, publishers, and the National Science Foundation

**MEMBERSHIPS IN PROFESSIONAL SOCIETIES**

American Economic Association
American Bar Association
EXHIBIT 3

PUBLICATIONS

A. Journal Articles


"Redistributing Incomes: Ex Ante or Ex Post," Economic Inquiry, April 1981, 333-349.


B. Books and Monographs


Predatory Pricing, with William Green, et al., American Bar Association, Section of Antitrust Law, Monograph 22, 1996.

C. Book Chapters


**D. Other Publications**


"Poland: The First 1,000 Days and Beyond," Economic Times, vol. 3, no. 9, October 1992, 6-7.


"Herfindahl Concentration Index," with R.D. Willig, Memorandum for ABA Section 7 Clayton Act Committee, Project on Revising the Merger Guidelines, March 1981.


**UNPUBLISHED PAPERS**


**GRANTS RECEIVED**


Regulation of Economic Activity Program, National Science Foundation, Microeconomic Analysis of Antitrust Policy, Principal Investigator, April 1, 1983 - March 31, 1984.

Economics Division of the National Science Foundation, "Political Economy of Taxation," Principal Investigator, Summer 1982.
Sloan Workshop in Applied Microeconomics (coordinator), with W.J. Baumol (Principal Coordinator), September 1977 - August 1982.

Economics Division of the National Science Foundation, "Collaborative Research on the Theory of Optimal Taxation and Tax Reform," July 1979 to September 1980, with E.S. Phelps.


National Science Foundation Institutional Grant to New York University for Research on Taxation and Distribution of Income, Summer 1974.
Appendix B
GUSTAVO E. BAMBERGER
Economist

September 2010

Business Address: Compass Lexecon
332 S. Michigan Ave.
Suite 1300
Chicago, IL 60604
(312) 322-0276

Home Address: 5134 S. Woodlawn Ave.
Chicago, IL 60615
(773) 955-5836

EDUCATION

Ph.D., UNIVERSITY OF CHICAGO, 1987, GRADUATE SCHOOL OF BUSINESS

M.B.A., UNIVERSITY OF CHICAGO, 1984, GRADUATE SCHOOL OF BUSINESS

B.A., SOUTHWESTERN AT MEMPHIS, 1981

EMPLOYMENT

COMPASS LEXECON (formerly Lexecon), Chicago, Illinois (3/87-Present): Senior Vice President


GOVERNORS STATE UNIVERSITY, (1986): Community Professor

UNIVERSITY OF CHICAGO, (1982-1986): Teaching Assistant

UNIVERSITY OF CHICAGO, (1982-1986): Research Assistant

ACADEMIC HONORS AND FELLOWSHIPS

University of Chicago Fellowship, 1981-1984

H.B. Earhart Fellowship, 1985-1986

RESEARCH PAPERS


**TESTIMONIAL EXPERIENCE**

Direct, Rebuttal and Cross-Examination Testimony of Gustavo E. Bamberger on behalf of Producer - Marketers Transportation Group, before the Illinois Commerce Commission in Docket No. 90-0007, April 24, 1990 (Direct); July 6, 1990 (Rebuttal); and May 30, 1990 and August 3, 1990 (Cross-Examination).


Deposition and Testimony of Gustavo E. Bamberger in the Matter of: Michael R. Sparks, Debtor: In the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division, No. 92 B 21692, May 9, 1994 (Deposition and Testimony).


EXHIBIT 3

Statement and Supplemental Statement of Alan O. Sykes and Gustavo E. Bamberger in Re: Fresh Tomatoes and Bell Peppers, Investigation No. TA-201-66, United States International Trade Commission, June 3, 1996 (Statement); and June 10, 1996 (Supplemental Statement).


Pre-Filed Direct, Rebuttal and Re-Direct Testimony of Gustavo E. Bamberger in Re: Disapproval of Rate Filings for American Casualty Company of Reading, Pennsylvania, and Continental Casualty Company, Before the State Office of Administrative Hearings (Texas), SOAH Docket No. 454-96-0800, September 10, 1996 (Direct); September 16, 1996 (Rebuttal); and September 27, 1996 (Re-Direct).

Affidavit of Gustavo E. Bamberger in Re: Summit Family Restaurants Inc., a Delaware Corporation; HTB Restaurants Inc., a Delaware Corporation; and CKE Restaurants Inc., a Delaware Corporation vs. HomeTown Buffet, Inc., a Delaware Corporation; and Buffets, Inc., a Minnesota Corporation: In the U.S. District Court for the District of Utah, Central Division, No. 96 CV 0688B, September 17, 1996.


EXHIBIT 3

Deposition, Testimony and Surrebuttal Testimony of Gustavo E. Bamberger in Re: Deltic Farm & Timber, Co., Inc. vs. Great Lakes Chemical Corporation: In the U.S. District Court for the Western District of Arkansas, El Dorado Division, No. 95-1090, November 13, 1997 (Deposition); December 9, 1997 (Testimony); and December 10, 1997 (Surrebuttal Testimony).


Rebuttal Report of Dennis W. Carlton and Gustavo E. Bamberger; Reply Report of Dennis W. Carlton and Gustavo E. Bamberger; Rebuttal Report of Dennis W. Carlton and Gustavo E. Bamberger to Professor Michael Ward; Testimony of Dennis W. Carlton and Gustavo E. Bamberger; Critique of the Memorandum of Fact and Law of the Commissioner of Competition by Gustavo E. Bamberger in Re: The Commissioner of Competition and Superior Propane Inc. and ICG Propane Inc.: Before The Competition Tribunal, No. CT-98/2, September 14, 1999 (Rebuttal Report); September 19, 1999 (Reply Report); September 27, 1999 (Rebuttal Report to Professor Michael Ward); December 13-14, 1999 (Testimony); and January 31, 2000 (Critique).


Report and Deposition of Gustavo E. Bamberger In Re: Northwest Airlines Corp. et al., Antitrust Litigation: In the U.S. District Court for the Eastern District of Michigan, Master File No. 96-74711, March 31, 2000 (Report); and July 21, 2000 (Deposition).


Joint Reply Declaration, Joint Supplemental Declaration and Joint Supplemental Reply Declaration of Robert H. Gertner and Gustavo E. Bamberger in the Matter of: Application by Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), and Verizon Global Networks Inc., for Authorization To Provide In-Region, InterLATA Services in Massachusetts: Before the Federal Communications Commission, CC Docket No. 00-176 and CC Docket No. 01-9, November 3, 2000 (Reply Declaration); January 16, 2001 (Supplemental Declaration); and February 28, 2001 (Supplemental Reply Declaration).


Direct, Supplemental and Cross-Examination Testimony of Gustavo E. Bamberger in Re: Petition for Approval of a Statement of Generally Available Terms and Conditions Pursuant to §252(f) of the Telecommunications Act of 1996 and Notification of Intention to File a Petition for In-region InterLATA Authority With the FCC Pursuant to §271 of the Telecommunications Act of 1996: Before the Alabama Public Service Commission, Docket No. 25835, May 16, 2001 (Direct); June 19, 2001 (Supplemental); and June 27, 2001 (Cross-Examination).


Direct, Rebuttal and Cross-Examination Testimony of Gustavo E. Bamberger in Re: Application of BellSouth Telecommunications, Inc. to Provide In-Region InterLATA Services Pursuant to Section 271 of the Telecommunications Act of 1996: Before the Public Service Commission of South Carolina, Docket No. 2001-209-C, June 18, 2001 (Direct); July 16, 2001 (Rebuttal); and July 26-27, 2001 (Cross-Examination).
EXHIBIT 3

Affidavit of Robert H. Gertner and Gustavo E. Bamberger in Re: Consideration and review of BellSouth Telecommunication, Inc.’s pre-application compliance with Section 271 of the Telecommunications Act of 1996, including but not limited to, the fourteen requirements set forth in Section 271(c)(2)(B) in order to verify compliance with Section 271 and provide a recommendation to the Federal Communications Commission regarding BellSouth Telecommunications, Inc.’s application to provide InterLATA services originating in-region: Before the Louisiana Public Service Commission, Docket No. U-22252-E, June 21, 2001.


EXHIBIT 3

Expert Report, Reply Expert Report and Declaration of William Landes, Hal Sider and Gustavo Bamberger, and Declaration, Deposition and Supplemental Declaration of Gustavo E. Bamberger in Re: Vitamin Antitrust Litigation: In the U.S. District Court for the District of Columbia, M.D.L. No. 1285, May 23, 2002 (Report); July 17, 2002 (Reply Report); August 1, 2002 (Declaration with Landes and Sider); August 5, 2002 (Declaration); August 9, 2002 (Deposition); and September 27, 2002 (Supplemental Declaration).


Affidavit, Expert Report and Deposition of Gustavo E. Bamberger in Re: National Association for the Advancement of Colored People (NAACP) and National Spinal Cord Injury Association (NSCIA) v. Acusport Corporation; Ellet Brothers, Inc., RSR Management Company, and RSR Group, Inc., individually and on behalf of similarly situated entities; and National Association for the Advancement of Colored People (NAACP) et al., v. American Arms, Inc., et al., In the U.S. District Court for the Eastern District of New York, CV 99-7037 and CV 99-3999, August 20, 2002 (Affidavit); February 19, 2003 (Report); and March 6, 2003 (Deposition).


Deposition of Gustavo E. Bamberger in Re: Firearm Cases: In Superior Court of the State of California, County of San Diego, Judicial Council Coordination Proceeding No. 4095, November 6, 2002.


EXHIBIT 3

Expert Report, Deposition, Declaration and Testimony of Gustavo Bamberger in Re: Western Asbestos Company; Western MacArthur Company; and Mac Arthur Company, Debtors: In United States Bankruptcy Court, Northern District of California, Oakland Division, Nos. 02-46284, 02-46285, 02-46286, September 15, 2003 (Expert Report); October 21, 2003 (Deposition); November 17, 2003 (Declaration); and November 21, 2003 (Testimony).


EXHIBIT 3


Declaration, Deposition, Affidavit, Reply Declaration and Reply Report on Remand of Gustavo Bamberger in Re: Issuer Plaintiff Initial Public Offering Antitrust Litigation and Public Offering Fee Antitrust Litigation: In the U.S. District Court for the Southern District of New York, 00 Civ. 7804 (LMM) (DFE) and 98 Civ. 7890 (LMM), September 16, 2004 (Declaration); January 27, 2005 (Deposition); October 24, 2005 (Affidavit); October 17, 2007 (Reply Declaration); and March 6, 2008 (Reply Report on Remand).


Declaration of Gustavo Bamberger in Re: Gas Plus, a California Corporation; and Gas Plus San Marcos, Inc., a California Corporation vs. Exxon Mobil Corporation, a Corporation; Mark McEnomy, an individual; Anthony Moss, an individual; and Does 1-50, inclusive: In the Superior Court of the State of California in and for the County of San Diego, North County Division, Case No. GIN 032455, February 14, 2005.

Declaration, Expert Report, Expert Rebuttal Report and Deposition of Gustavo Bamberger in Re: Robert Ross and Randal Wachsmuth, on behalf of themselves and all others similarly situated vs. American Express Company, American Express Travel Related Services, Inc., and American Express Centurion Bank: In the U.S. District Court for the Southern District of New York, 04 CV 05723, February 18, 2005 (Declaration); September 12, 2005 (Expert Report); November 14, 2005 (Expert Rebuttal Report); and December 14, 2005 (Deposition).


Declaration, Reply Declaration and Ex Parte Submission of Gustavo E. Bamberger, Dennis W. Carlton and Alan L. Shampine in Re: Verizon Communications Inc. and MCI, Inc., Applications for Approval of Transfer of Control: Before the Federal Communications Commission, WC Docket No. 05-75, March 11, 2005 (Declaration); May 24, 2005 (Reply Declaration); and September 9, 2005 (Ex Parte Submission).
EXHIBIT 3

Statement of Gustavo Bamberger and Lynette Neumann, Further Statement of Gustavo Bamberger and Lynette Neumann, Updated Analysis of Effect of RSN Availability on DBS Penetration (with L. Neumann); Analysis of the Effect of “Clustering” on the Availability and Penetration of Digital Cable, High-Speed Data and Telephony Services (with L. Neumann); and Supporting Declaration of Gustavo Bamberger and Lynette Neumann in Re: Applications of Adelphia Communications Corporation, Comcast Corporation, and Time Warner Cable Inc., For Authority to Assign and/or Transfer Control of Various Licenses; Before the Federal Communications Commission, MB Docket No. 05-192, July 21, 2005 (Statement); March 1, 2006 (Further Statement); March 17, 2006 (Updated Analysis); March 30, 2006 (Effect of “Clustering”); and April 5, 2006 (Supporting Declaration).

Comments of Gustavo E. Bamberger, Dennis W. Carlton and Alan L. Shampine in the Matter of: The Joint Petition of Verizon Communications Inc., and MCI, Inc. for a Declaratory Ruling Disclaiming Jurisdiction Over, or, in the Alternative, for Approval of Agreement and Plan of Merger; Before the State of New York Public Service Commission, Case 05-C-0237, August 5, 2005.

Declaration of Gustavo Bamberger in Re: USG Corporation, a Delaware corporation, et al., Debtors, USG Corporation, et al., Movant v. Official Committee of Asbestos Personal Injury Claimants, Official Committee of Unsecured Creditors, Official Committee of Asbestos Property Damage Claimants and Legal Representative for Future Claimants, Respondents: In The U.S. District Court For The District Of Delaware, Chapter 11, Jointly Administered, Case No. 01-2094 (JKF), Civil Action No. 04-1559 (JFC) Civil Action No. 04-1560 (JFC), September 28, 2005.

Declaration, Deposition and Testimony of Gustavo Bamberger in Re: Marvin D. Chance, Jr., on behalf of himself and all other similarly situated Kansas residents, Thomas K. Osborn, on behalf of himself and all other similarly situated New York residents v. United States Tobacco Company, United States Tobacco Sales and Marketing Company, Inc., United States Tobacco Manufacturing Company, Inc., and UST, Inc.: In the District Court of Seward County, Kansas, Case No. 02-C-12, September 29, 2005 (Declaration); November 1, 2005 (Deposition); and January 19, 2006 and April 4, 2006 (Testimony).

Expert Report, Rebuttal Report and Deposition of Gustavo Bamberger in Re: Jame Fine Chemicals, Inc. (d/b/a JFC Technologies) v. Hi-Tech Pharmacal Co., Inc. v. MedPointe Inc. as successor in interest to and formerly known as Carter-Wallace, Inc., and ABC Corporation and XYZ, Inc., companies and/or corporations whose true identities are unknown to Third-Party Plaintiff: In the U.S. District Court for the District of New Jersey, Civil Action No. 00-3545 (AET), October 3, 2005 (Report); May 8, 2006 (Rebuttal Report); and June 15, 2006 (Deposition).

Deposition and second Deposition of Gustavo Bamberger in Re: John Crane, Inc. v. Admiral Insurance Company, et al., In the Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 04-CH-08266, October 17, 2005 (Deposition); and November 2, 2006 (Second Deposition).

Submission, Testimony and Additional Submission of Gustavo Bamberger for Unison Networks Limited to the New Zealand Commerce Commission, October 28, 2005 (Submission); December 6, 2005 (Testimony); and January 11, 2006 (Additional Submission).
Submission of Gustavo Bamberger for Transpower New Zealand Limited to the New Zealand Commerce Commission, February 27, 2006.


Declaration, Revised Declaration and Deposition of Gustavo Bamberger in Re: Jason Feuerabend, a Wisconsin resident, on behalf of himself and all others similarly situated v. UST Inc., U.S. Smokeless Tobacco Brands Inc., U.S. Smokeless Tobacco Co., U.S. Smokeless Tobacco Manufacturing Limited Partnership, and Does 1-20 inclusive: In the Circuit Court of Milwaukee County, Wisconsin, Case No. 02CV007124, September 21, 2006 (Declaration); December 1, 2006 (Revised Declaration); and December 5, 2006 (Deposition).


Declaration of Gustavo Bamberger in Re: Smokeless Tobacco Cases I-IV: In the Superior Court of the State of California, City and County of San Francisco, Judicial Council Coordination Proceeding Nos. 4250, 4258, 4259 & 4262, March 21, 2007.


Declaration of Gustavo Bamberger in Re: Massachusetts Smokeless Tobacco Litigation: In the Superior Court of the Commonwealth of Massachusetts, Superior Court Dept. Docket No. 03-0320, Case No. 02-5038 BLS, August 1, 2007.


Declaration of Gustavo Bamberger in Re: Burns & Roe Enterprises, Inc., et al., Debtors: In the United States Bankruptcy Court, District of New Jersey, Case Nos. 00-41610(RG) and 05-47946(RG) (Consolidated), October 17, 2007.


Declaration of Gustavo E. Bamberger in Support of Plaintiffs’ Opposition to Defendants’ Motion for Partial Summary Judgment on Plaintiffs’ Per Se Claim, Deposition and Declaration in Re: ATM Fee Antitrust Litigation: In the United States District Court, Northern District of California, Master File No. C04-2676 CRB, December 21, 2007 (Declaration); February 1, 2008 (Deposition); and August 20, 2010 (Declaration).

Declaration, Deposition, Reply Declaration and Deposition of Gustavo Bamberger in Re: Payment Card Interchange Fee and Merchant-Discount Antitrust Litigation: In the United States District Court, Eastern District of New York, Master File No. 1:05-md-1720-JG-JO, May 8, 2008 (Declaration); July 30-31, 2008 (Deposition); January 29, 2009 (Reply Declaration); and May 27, 2009 (Deposition).
EXHIBIT 3


Expert Report, Deposition, Expert Rebuttal Report, Testimony, Rebuttal Testimony, Supplemental Expert Report, Supplemental Expert Rebuttal Report and Deposition of Gustavo Bamberger in Re: Valassis Communications, Inc. v. News America Incorporated, a/k/a News America Marketing Group, News America Marketing FSI, Inc. a/k/a News America Marketing FSI, LLC and News America Marketing In-Store Services, Inc. a/k/a News America Marketing In-Store Services, LLC; In the United States District Court, Eastern District of Michigan, Southern Division, Case No. 2:06-cv-10240 and State Court of Michigan, in the Circuit Court for the County of Wayne, Case No. 07-706645-CZ, November 21, 2008 (Expert Report); December 23, 2008 (Deposition); February 6, 2009 (Expert Rebuttal Report); Testimony (June 11, 2009); Rebuttal Testimony (July 16, 2009); Supplemental Expert Report (December 21, 2009); Supplemental Expert Rebuttal Report (January 14, 2010); and Deposition (January 19, 2010) (Case No. 2:06-cv-10240 only for Supplemental Reports and second deposition).


Expert Report of Gustavo Bamberger in Re: Valassis Communications, Inc. v. News America Incorporated, a/k/a News America Marketing Group, News America Marketing FSI, Inc. a/k/a News America Marketing FSI, LLC and News America Marketing In-Store Services, Inc. a/k/a News America Marketing In-Store Services, LLC; In the Superior Court of the State of California for the County of Los Angeles, May 11, 2009.


EXHIBIT 3

Report and Reply Report of Dennis W. Carlton and Gustavo E. Bamberger and Cross-Examination of Gustavo E. Bamberger in Re: Air Canada and Toronto Port Authority and Porter Airlines Inc.: Federal Court, File No. 10-T-6, February 5, 2010 (Report); May 18, 2010 (Reply Report); and June 15, 2010 (Cross-Examination).


Declaration of Gustavo Bamberger in Re: Credit/Debit Card Tying Cases: In the Superior Court for the State of California, City and County of San Francisco, J.C.C.P. No.: 4335, July 29, 2010.


Expert Report of Gustavo Bamberger in Re: JOC Inc. T/A Summit Exxon and Sung Eel Chang Auto, Inc. T/A Ashwood Exxon vs. ExxonMobil Oil Corporation: In the United States District Court for the District of New Jersey, Civil Action No.: 08-05344 (FSH) (PS), September 27, 2010.