



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66438; File No. SR-Phlx-2012-16)

February 22, 2012

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify Certain External and Inter-Cabinet Connectivity Fees

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 14, 2012, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to modify certain external and inter-cabinet connectivity fees.

The text of the proposed rule change is available at

<http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the Exchange’s principal office, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend the Phlx Fee Schedule, Section X(b), to reduce fees for low latency connectivity to Toronto and Chicago venues; and to increase certain fees for other forms of connectivity.

Low Latency Connectivity

On December 20, 2011, the Commission approved the Exchange's offering of low latency point-to-point telecommunications connectivity from the Exchange's co-location facility to select financial trading and co-location venues in the metropolitan New York/New Jersey area, Toronto, and Chicago.³ The enhanced point-to-point connectivity provides the Exchange's co-location customers the opportunity to obtain low latency network connectivity with greater ease and at a competitive price.⁴

The Exchange now proposes a pass-through reduction in the fees for connectivity to Toronto and Chicago venues as follows: (1) for 100MB connectivity to the Toronto area, a reduction of the installation fee from \$5,150 to \$4,850, and a reduction of the per-month connectivity fee from \$4,350 to \$4,100; (2) for 1G connectivity to the Toronto area, a reduction of the installation fee from \$8,200 to \$7,700, and a reduction of the per-month connectivity fee from \$10,450 to \$9,850; (3) for 10G connectivity to the Toronto area, a reduction of the

³ See Securities Exchange Act Release No. 66011 (December 20, 2011), 76 FR 80999 (December 27, 2011)(SR-Phlx-2011-142).

⁴ Id. at 80999.

installation fee from \$15,150 to \$14,200, and a reduction of the per-month connectivity fee from \$32,400 to \$28,400; (4) for 100MB connectivity to the Chicago area, a reduction of the installation fee from \$4,850 to \$3,500, and a reduction of the per-month connectivity fee from \$8,350 to \$7,350; (5) for 1G connectivity to the Chicago area, a reduction of the installation fee from \$5,900 to \$4,900, and a reduction of the per-month connectivity fee from \$16,400 to \$12,800; (6) for 10G connectivity to the Chicago area, a reduction of the installation fee from of [sic] \$12,050 to \$10,650, and a reduction of the per-month connectivity fee from \$39,750 to \$26,900.

The reductions in fees are the result of the Exchange obtaining a reduction in the fees charged to the Exchange by the Toronto and Chicago low latency telecommunication carriers. The Exchange is passing along the entire savings of the reduction in fees to the subscribers of the Toronto and Chicago low latency connectivity service.

Increasing the 1Gb Connectivity Fees

The Exchange further proposes to raise the 1Gb connectivity fees to The NASDAQ Stock Market LLC (“NASDAQ”).⁵ More specifically, the Exchange proposes to raise the per-month fiber connectivity fee to NASDAQ from \$500 to \$1,000. The Exchange also proposes to raise the one-time installation fee for the 1Gb copper connectivity to NASDAQ from \$100 to \$1,000, and the per-month connectivity fee from \$250 to \$1,000. Due to the Exchange’s continued efforts to upgrade its networks, the cost to maintain the 1G network connections and infrastructure continues to grow. The increased fees serve to cover the increased costs associated with maintaining the 1Gb connections and the related infrastructure.

2. Statutory Basis

⁵ All co-location services are provided by NASDAQ Technology Services LLC.

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁶ in general, and with Section 6(b)(4) of the Act,⁷ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which the Exchange operates or controls. The Exchange believes the proposed fees are reasonable and equitable for the reasons below.

Low Latency Connectivity

In SR-Phlx-2011-142,⁸ the Commission determined that the original fees established for low latency connectivity were reasonable, equitable, and not unfairly discriminatory because the connectivity options are uniformly available to all members that opt to pay for them, because they enable the Exchange to cover its costs, because they are comparable to fees charged by other trading venues for comparable services, and because they are designed to promote competition by offering members additional service options. These determinations apply with equal weight to the reduced fees, which enhance the reasonableness and competitiveness of the service by passing on the reduction in low latency connectivity fees to the Toronto and Chicago venues to the members that opt to receive the connectivity options in question.

Increasing the 1Gb Connectivity Fee

The Exchange believes the proposal to increase the 1Gb connectivity to NASDAQ is reasonable because the costs are associated with the Exchange's continued efforts to upgrade its networks by maintaining the 1Gb network connections and infrastructure as the need for such

⁶ 15 U.S.C. 78f.

⁷ 15 U.S.C. 78f(b)(4).

⁸ See Securities Exchange Act Release No. 66011 (December 20, 2011), 76 FR 80999 (December 27, 2011)(SR-Phlx-2011-142).

connections continues to grow. The costs associated with operating a co-location facility, like the costs of operating the electronic trading facility with which the co-location facility is associated, are primarily fixed costs, and in the case of co-location are primarily the costs of renting or owning data center space and retaining a staff of technical personnel. Accordingly, the Exchange establishes a range of co-location fees with the goal of covering these fixed costs, covering less significant marginal costs, such as the cost of electricity, and providing the Exchange a profit to the extent the costs are covered. In this instance, the current fees charged for the 1Gb network connections does [sic] not cover the costs of maintaining the connections, resulting in a loss for the Exchange on this service. The Exchange is proposing to raise the fees for the 1Gb network connections to cover its costs, and to the extent the costs are covered, allow the Exchange to earn a profit.

More specifically, the Exchange proposes to raise the per-month 1Gb fiber connectivity fee to NASDAQ from \$500 to \$1,000 to cover the increasing cost to continually improve this lower bandwidth network, which includes continuous improvements in reducing latency, upgrading equipment, and adding functionality to this network. The cost to maintain this lower bandwidth network also continues to rise as the network gets older, equipment must be replaced and resources must be dedicated to monitor and ensure any issues are dealt with quickly and do not cause any client outages or connectivity issues. Due to the continuous growth of the size of consolidated and proprietary market data feeds that can be provided over these 1G network connections, as per client request, additional NASDAQ network resources are required to monitor and interface with clients when data spikes and data gapping issues occur. The Exchange has not increased the fees for these services in over six years, while the costs have continued to rise.

The Exchange also proposes to raise the one-time installation fee [sic] the 1Gb copper connectivity to NASDAQ from \$100 to \$1,000 to cover the increasing costs to install connections to this lower bandwidth network. The copper installation requires the same amount of resources, tools, and time to install, enable data and test connectivity as the fiber installation which is already priced at \$1,000. While the costs have increased, the Exchange has not adjusted the price on this connection for more than six years.

Additionally, the Exchange proposes to raise the per-month 1Gb copper connectivity to NASDAQ from \$250 to \$1,000 to cover the increasing costs to improve and maintain this lower bandwidth network, which includes continuous improvements in reducing latency, upgrading equipment, and adding functionality to this network. The cost to maintain this lower bandwidth network also continues to rise as the network gets older, equipment must be replaced and resources must be dedicated to monitor and ensure any issues are dealt with quickly and do not cause any client outages or connectivity issues. Due to the continuous growth of the size of consolidated and proprietary market data feeds that can be provided over these 1G network connections, as per client request, additional NASDAQ network resources are required to monitor and interface with clients when data spikes and data gapping issues occur. The Exchange has not increased the fees for these services in over six years, while the costs have continued to rise. In addition, the copper connections provide the same services and latency as the fiber connections. The Exchange proposes to standardize the fees for these connections as it does with the inter-cabinet connectivity fees of this section of the Fee Schedule.

The Exchange further believes that the proposed fees are reasonable in that the Exchange's proposed fees are less than those charged by other trading venues for comparable services.⁹

The Exchange also believes the proposed increase in the fees for the 1Gb connectivity to NASDAQ, both fiber and copper, is equitably allocated and non-discriminatory in that all Exchange members have the option of selecting the 1Gb connections to NASDAQ and there is no differentiation among members with regard to the fees charged for such costs.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Moreover, the Exchange believes that its changes with respect to fees for the 1Gb connectivity will not burden competition because the applicable fees remain competitive with those charged by other venues.

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 rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.¹⁰ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or

⁹ See Securities Exchange Act Release No. 63275 (November 8, 2010), 75 FR 70048 (November 16, 2010)(SR-NYSEArca-2010-100) at page 70049. The Exchange's proposed monthly fee of \$1,000 for a 1Gb is less than NYSE's fee of \$5,000 for the same bandwidth connection to the data center.

¹⁰ 15 U.S.C. 78s(b)(3)(a)(ii) [sic].

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.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2012-16 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2012-16. This file number should be included on the subject line if e-mail is used.

To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and

printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make publicly available. All submissions should refer to File Number SR-Phlx-2012-16, 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.¹¹

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2012-4685 Filed 02/27/2012 at 8:45 am; Publication Date: 02/28/2012]

¹¹ 17 CFR 200.30-3(a)(12).