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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70129; File No. SR-NASDAQ-2013-099)

August 7, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify NASDAQ Connectivity Options and 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 July 25, 2013 The NASDAQ Stock Market LLC (“NASDAQ” 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 Substance of the Proposed Rule Change

The Exchange proposes to modify NASDAQ connectivity options and fees. The text of the proposed rule change is available at <http://nasdaq.cchwallstreet.com/>, 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 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 modify Rule 7034(b) regarding connectivity to NASDAQ. Specifically, the Exchange proposes to establish connectivity and installation fees for a 10Gb Ultra low latency fiber connection option, and provide a waiver of installation fees for subscriptions through August 31, 2013.

The Exchange currently offers various bandwidth options for connectivity to NASDAQ, including a 40Gb fiber connection, a 10Gb fiber connection, a 1Gb fiber connection, and a 1Gb copper connection.³ In keeping with changes in technology, the Exchange now proposes to provide a second 10Gb fiber connection offering, which uses new ultra-low latency switches.⁴ A switch is a type of network hardware that acts as the “gatekeeper” for all of a co-located client’s orders sent to the System⁵ at the NASDAQ co-location facility and orders them in sequence for entry into the System for execution. Each of NASDAQ’s current connection offerings use different switches between the offerings, but the switches are of uniform type within each offering. As a consequence, all co-located client subscribers to a particular connectivity option receive the same latency in terms of the capabilities of their switches. The 10Gb Ultra offering uses a new ultra-low latency switch, which provides faster processing of orders sent to it in comparison to the current switch in use for co-location connectivity. As a consequence, co-located clients needing only 10Gb of bandwidth, but that seek faster processing of those orders

³ Rule 7034(b).

⁴ The term “Latency” for these purposes is a measure of the time it takes for an order to enter into a switch and then exit for entry into the System.

⁵ As defined by Rule 4751(a).

as they enter NASDAQ's co-location facility now have the option to subscribe to a faster and more efficient connection to the Exchange.⁶

The Exchange proposes a monthly subscription fee of \$15,000 for a 10Gb Ultra connection, and a one-time installation fee of \$1,500, which is identical to the 40Gb fiber connectivity option. NASDAQ believes that the pricing is reflective of the value the option will provide and the hardware and other infrastructure and maintenance costs to NASDAQ associated with offering technology that is at the forefront of the industry. The growth in the size of consolidated and proprietary data feeds has resulted in demand for faster processing of message traffic, and ultra-low latency switches meet this demand by decreasing the time individual orders are processed and market data is transmitted by these new switches. The Exchange's proposal provides the co-located client the option for faster switch processing, which is highly-valued among some market participants. NASDAQ notes that other markets have adopted low-latency connectivity options for their clients. For example, the International Securities Exchange LLC ("ISE") offers a 10Gb low latency Ethernet connectivity option to its clients, which provides a "higher speed network to access [ISE's] Optimise trading system."⁷

The Exchange also proposes to provide a waiver of the installation fees for client orders of 10Gb Ultra fiber connectivity to NASDAQ completed between the effectiveness of this proposal and August 31, 2013. The Exchange is providing the waiver to assist its co-located clients in upgrading to lower latency connections to meet the growing needs of co-located clients' business operations. NASDAQ is adding text to the rule that makes it clear that the connectivity option also provides connection to the markets of NASDAQ OMX BX, Inc. ("BX")

⁶ The Exchange is not offering a low latency option for other bandwidth connections at this time, but may do so in the future.

⁷ See Securities Exchange Act Release No. 66525 (March 7, 2012), 77 FR 14847 (March 13, 2012) (SR-ISE-2012-09).

and NASDAQ OMX PHLX LLC (“Phlx”). NASDAQ is deleting text that refers to an installation fee waiver time period for 10Gb and 40Gb fiber connections, which has since expired.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁸ in general, and with Section 6(b)(4) of the Act,⁹ 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 also believes the proposal furthers the objectives of Section 6(b)(5) of the Act¹⁰ in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest and is not designed to permit unfair discrimination between customer, issuers, brokers and dealers.

The Exchange believes that its proposal is consistent with Section 6(b)(4) of the Act because the fees assessed for 10Gb Ultra fiber connectivity fee allow the Exchange to cover the costs associated with the purchase of new, state of the art switches for this new offering. Because the switches are best in breed, they are priced at a premium, the cost of which NASDAQ must bear. NASDAQ is offering 10Gb Ultra fiber connectivity at the same price as 40Gb fiber connectivity. Both the proposed 10Gb Ultra fiber connectivity and 40Gb fiber connectivity represent the best performance available to co-located clients. 40Gb fiber connectivity provides the greatest bandwidth available on NASDAQ, which is important for co-located clients that have high order flow and ingest large amounts of market data and demand the

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(4).

¹⁰ 15 U.S.C. 78f(b)(5).

greatest bandwidth possible to handle such message flow. Some co-located clients, however, do not have bandwidth demands that would require 40Gb fiber bandwidth but rather put a premium on reducing latency. The 10Gb Ultra fiber connectivity is designed to meet this demand. As a consequence, both 40Gb and 10Gb Ultra fiber connectivity represent the best connectivity NASDAQ offers in terms of bandwidth and latency, respectively.

NASDAQ believes that the proposed one-time installation fee is consistent with Section 6(b)(4) of the Act because it is identical to the installation fees assessed for 40Gb fiber connectivity under the rule. NASDAQ notes that it will incur the same costs associated with setting up a subscriber with either 40Gb fiber or 10Gb Ultra fiber connectivity. As a consequence, NASDAQ believes that it is reasonable to assess the same installation fee as 40Gb fiber. The Exchange also believes that its proposal to waive temporarily the 10Gb Ultra fiber connection installation fee is reasonable because it will assist its co-located clients in upgrading to lower latency connections to meet the growing needs of the co-located clients' business operations at a time in the industry when speed continues to be a driver of the U.S. securities markets. Moreover, the Exchange notes that it has previously waived the installation fees for the 10Gb and 40Gb fiber connections for a limited time after these connectivity options were first introduced.¹¹

In addition to covering costs, the proposed fees will allow the Exchange to recoup costs associated with providing the 10Gb Ultra fiber connection and provide the Exchange a profit while providing customers the possibility of reducing the number of their connections to the Exchange. As discussed above, ISE offers different connectivity options with respect to latency and NYSE Arca, Inc. offers what NASDAQ believes is a similar connectivity option, yet both

¹¹ See Securities Exchange Act Release No. 66428 (February 21, 2012), 77 FR 11602 (February 27, 2012) (SR-NASDAQ-2012-028).

options do not provide the breadth of connectivity at the same latency as NASDAQ's proposed 10Gb Ultra fiber connectivity option.¹² NASDAQ notes that the 10Gb Ultra fiber option provides connectivity to seven of the NASDAQ OMX Group's U.S. markets (specifically, the cash equities and options markets operated by NASDAQ, BX, and Phlx, and the NASDAQ OMX Futures Exchange), whereas the offerings of other exchanges provide far fewer.¹³ Moreover, as new leading-edge technology, the switches to be used for 10Gb Ultra fiber connectivity have lower latency than the switches currently in use by other markets. For these reasons, the Exchange believes the proposed fees for 10Gb Ultra fiber connectivity to NASDAQ are reasonable.

The Exchange also believes the proposed 10Gb Ultra fiber installation and connectivity fees are equitably allocated in that all co-located clients that voluntarily select this service option will be charged the same amount to cover the hardware, installation, testing and connection costs to maintain and manage the enhanced connection. The proposed fees allow the Exchange to recoup costs associated with providing the 10Gb Ultra fiber connection and provide the Exchange a profit while providing customers with the most efficient connection to the System in terms of latency. All co-located clients have the option to select this voluntary co-location connectivity option; however, NASDAQ is not eliminating any existing connectivity options. Accordingly, a co-located client may elect not to subscribe to the 10Gb Ultra fiber connectivity option and retain the option to which it is currently subscribed.

¹² NYSE Arca charges \$10,000 per month for a 10Gb LCN (Liquidity Center Network) Connection. See https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_arca_marketplace_fees_1.3.2012.pdf, page 13. Although similar, NASDAQ's 10Gb Ultra connection provides even lower latency connectivity to a larger number of markets, which represents the premium over the NYSE Arca 10Gb LCN connectivity option.

¹³ The ISE connectivity offering provides access to one market and the NYSE Arca connectivity offering provides connectivity to the four markets of NYSE Euronext.

The Exchange also believes the proposal furthers the objectives of Section 6(b)(5) of the Act¹⁴ in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest and is not designed to permit unfair discrimination between customer, issuers, brokers and dealers. The 10Gb Ultra fiber connectivity option assists co-located clients in making their network connectivity more efficient by reducing the time orders take to reach the System once sent from their co-located server and also the time that market data takes to reach their co-located server. Speed and efficiency are important drivers of the U.S. securities markets and NASDAQ is offering a co-location connectivity solution that promotes these drivers by providing state of the art technology that is available to all co-located clients. The Exchange believes the enhanced 10Gb Ultra connection will remove impediments to and perfect the mechanism of a free and open market and a national market system because NASDAQ will provide state of the art switching technology to market participants, which will improve the speed and efficiency of processing orders arriving at the market from clients' co-located servers.

The Exchange also believes that the reduction in latencies attributed to the enhanced 10Gb Ultra connection option serves to protect investors and the public interest. The reduction in latency will provide investors with the most efficient means of processing orders once they reach the Exchange. Higher bandwidth options like NASDAQ's current 10Gb and 40Gb fiber connectivity and the proposed 10Gb Ultra fiber option also remove the potential for data spikes and data gapping issues that result from the transmission of the growing size of the consolidated and proprietary market data feeds. Such data spiking and data gapping issues have the potential

¹⁴ 15 U.S.C. 78f(b)(5).

for disrupting the marketplace which could negatively impact investors as well as the public interest.

The Exchange also believes the proposed installation and subscription fees for the 10Gb Ultra fiber connectivity option are not unfairly discriminatory because all clients have the option to subscribe to co-locate with NASDAQ and subscribe to the 10Gb Ultra connection. There is no differentiation among co-located clients with regard to the fees charged for these services. The Exchange believes the proposal to waive the 10Gb Ultra fiber connection installation fee is not unfairly discriminatory because the waiver of fees is provided to all co-located clients that volunteer for this particular service option during the prescribed timeframe, and there is no differentiation among co-located clients with regard to the waiver of fees for this option.

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. Specifically, the Exchange believes that the changes will promote competition by offering co-located clients an additional connectivity option that will enhance their trading operations and ultimately bring greater speed and efficiency to trading in the marketplace.

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

Because the foregoing proposed rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and

the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁵ and Rule 19b-4(f)(6) thereunder.¹⁶

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest so that NASDAQ can immediately offer the 10GB Ultra connectivity to those clients that believe it can enhance the efficiency of their trading.¹⁷ Accordingly, the Commission hereby grants the Exchange's request and designates the proposal operative upon filing.

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 otherwise in furtherance of the purposes of the Act.

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has met this requirement.

¹⁷ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2013-099 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-NASDAQ-2013-099. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should

submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2013-099 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.¹⁸

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2013-19508 Filed 08/12/2013 at 8:45 am; Publication Date: 08/13/2013]

¹⁸ 17 CFR 200.30-3(a)(12).