



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34- 81136; File No. SR-GEMX-2017-29]

Self-Regulatory Organizations; Nasdaq GEMX, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Schedule of Fees to Assess Connectivity Fees

July 13, 2017.

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 June 29, 2017, Nasdaq GEMX, LLC (“GEMX” 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 amend the Schedule of Fees to assess fees for OTTO Port, CTI Port, FIX Port, FIX Drop Port and Disaster Recovery Port connectivity, and to provide monthly [sic] cap on those fees of \$7,500. The Exchange is also proposing to delete fees and descriptions thereof for connectivity no longer used by the Exchange.

The text of the proposed rule change is available on the Exchange’s website at www.ise.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

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

1. Purpose

The purpose of the proposed rule change is to amend the Schedule of Fees to assess fees for OTTO³ Port, CTI⁴ Port, FIX⁵ Port, FIX Drop⁶ Port and Disaster Recovery Port⁷ connectivity,

³ OTTO is an interface that allows market participants to connect and send orders, auction orders and auction responses into ISE Gemini [sic]. Data includes the following: (1) Options Auction Notifications (e.g., Flash, PIM, Solicitation and Facilitation or other information); (2) Options Symbol Directory Messages; (3) System Event Messages (e.g., start of messages, start of system hours, start of quoting, start of opening); (5) Option Trading Action Messages (e.g., halts, resumes); (6) Execution Messages (7) Order Messages (order messages, risk protection triggers or purge notifications).

⁴ CTI is a real-time clearing trade update is a message that is sent to a member after an execution has occurred and contains trade details. The message containing the trade details is also simultaneously sent to The Options Clearing Corporation. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or The Options Clearing Corporation or "OCC" number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; and (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; (vi) capacity.

⁵ FIX is an interface that allows market participants to connect and send orders and auction orders into ISE Gemini [sic]. Data includes the following: (1) Options Symbol Directory Messages; (2) System Event Messages (e.g., start of messages, start of system hours, start of quoting, start of opening); (3) Option Trading Action Messages (e.g., halts, resumes); (4) Execution Messages (5) Order Messages (order messages, risk protection triggers or purge notifications).

⁶ FIX Drop is a real-time order and execution update is a message that is sent to a member after an order been received/modified or an execution has occurred and contains trade

and to provide a monthly cap on those fees of \$7,500. The Exchange recently completed the migration of the Exchange's trading system to the Nasdaq INET architecture.⁸ This migration included the adoption of new connectivity, including OTTO, CTI, FIX, FIX Drop, Disaster Recovery Ports, which are the same as connectivity options currently used to connect to the Exchange's affiliates, including Nasdaq Options Market ("NOM"), Nasdaq BX ("BX") and Nasdaq Phlx ("Phlx").⁹ When the Exchange adopted these new ports it did not assess a fee for them so that members would not be double charged for connectivity to the old Exchange architecture and the new Nasdaq INET architecture.¹⁰

The Exchange is proposing to amend the Nasdaq GEMX Schedule of Fees Section IV.E.4. to assess a fee of \$650 per month, per port, per account number¹¹ for OTTO, CTI, FIX, and FIX Drop ports. The Exchange is proposing to assess a fee of \$50 per month, per port, per account number for Disaster Recovery Ports. The Exchange notes that it is adding "per account number" to the fees described above to clarify that billing for the ports is also based on account numbers, which allows the Exchange to identify the members that are fee liable for the port. The

details. The information includes, among other things, the following: (1) Executions (2) cancellations (3) modifications to an existing order (4) busts or post-trade corrections.

⁷ Disaster Recovery ports provide connectivity to the exchange's disaster recovery data center in Chicago to be utilized in the event the exchange has to fail over during the trading day. DR Ports are available for SQF, SQF Purge, CTI, OTTO, FIX and FIX Drop.

⁸ See Securities Exchange Act Release No. 80011 (February 10, 2017), 82 FR 10927 (February 16, 2017) (SR-ISEGemini-2016-17).

⁹ See NOM Rules, Chapter XV Options Pricing, Sec. 3 NOM - Ports and other Services; BX Rules, Chapter XV Options Pricing, Sec. 3 BX - Ports and other Services; and Phlx Pricing Schedule, VII. Other Member Fees, B. Port Fees.

¹⁰ See Securities Exchange Act Release No. 80213 (March 10, 2017), 82 FR 14066, 37499 [sic] (March 16, 2017) (SR-ISEGemini-2017-10).

¹¹ Account numbers are used to identify member order entry ports.

Exchange notes that this is similar to how the Exchange's sister exchanges bill these fees.¹² Last, the Exchange is proposing to limit the total amount of fees paid for these ports by applying a \$7,500 monthly fee cap per member.

The Exchange is also proposing to delete "Market Makers API Quoting, Order Entry and Listening" and its associated \$100 per month, per API fee from Nasdaq GEMX Schedule of Fees Section IV.E.1., and "Nasdaq GEMX Only" and its associated \$100 per session, per month fee from Nasdaq GEMX Schedule of Fees Section IV.E.2. (EAM Options API).¹³ The Exchange notes that both of these connectivity options are no longer available on the Exchange post-migration.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁵ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed fees are reasonable because they are similar to the fees assessed by other exchanges. As noted above, NOM, BX and Phlx provide some or all of the same connectivity options. For example, Nasdaq assesses a fee of \$750 per port, per month for OTTO Ports, \$650 per port, per month for CTI, FIX (order entry) Ports and FIX Drop

¹² See, e.g., NOM Rules, Chapter XV Options Pricing, Section 3(b) (billing per port, per month, per mnemonic).

¹³ The Exchange is retaining Nasdaq GEMX and Nasdaq ISE connectivity until ISE connectivity is migrated, which the Exchange anticipates will occur in the third quarter 2017.

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(4) and (5).

Ports. Moreover, Nasdaq assesses a fee of \$25 per port, per month for equities Disaster recovery ports (OUCH, RASH, and DROP).¹⁶ Although the proposed Disaster Recovery port fee is higher than the fee assessed by Nasdaq, the higher fee is reasonable because it reflects the ongoing costs in maintaining and supporting the ports, as well as the initial investment in such ports for the Exchange and the fewer subscribers among which it may spread fixed costs associated with offering the ports. As such, the Exchange believes that the proposed fees are consistent with those of other exchanges and therefore reasonable. The Exchange also believes that the proposed \$7,500 fee cap is reasonable because, taken together with the proposed new fees, it will allow the Exchange to cover costs while reducing the impact of the fees on members that subscribe to a large number of ports. Because members generally need an increasing number of ports as provided under the Nasdaq GEMX Schedule of Fees Section IV.E.4. as their activity expands on the Exchange, the Exchange believes that without such a cap members may be inhibited from growing their activity on the Exchange. As a general principal, the Exchange believes that greater participation on the Exchange by members improves market quality for all market participants. Thus, in arriving at a fee cap of \$7,500, the Exchange balanced the desire to improve market quality against the need to cover costs and make a profit. Last, the Exchange notes that BX provides its options participants a \$7,500 per month fee cap for its options market connectivity.¹⁷

The Exchange believes that the proposed fees are an equitable allocation and are not unfairly discriminatory because the Exchange must ultimately assesses [sic] fees to cover the costs associated with offering the connectivity. The Exchange notes that members have historically paid fees for Exchange connectivity and, in adopting the connectivity for which the

¹⁶ See Rule 7015(g)(2).

¹⁷ See BX Rules, Chapter XV Options Pricing, Sec. 3(b).

Exchange is proposing to assess a fee, it noted that it was not adopting a fee at that time to avoid being double charged for connectivity to the old Exchange architecture and the new Nasdaq INET architecture. Now that members no longer have connectivity to the old Exchange architecture, and therefore are not assessed connectivity fees, the Exchange is now proposing to assess fees for connectivity to the new Nasdaq INET architecture of the Exchange. The Exchange believes that the proposed \$7,500 fee cap is an equitable allocation and is not unfairly discriminatory because the [sic] any member that subscribes to connectivity under the rule that would otherwise exceed \$7,500 per month will have its fees capped. Although members that do not have fees under the rule in excess of \$7,500 per month will not benefit from the fee cap, the Exchange notes that any member may increase the number of ports subscribed to receive the fee cap, should their activity on the Exchange warrant increased subscription. Moreover, members that do not qualify for the fee cap will benefit from the greater liquidity provided by members that conduct a sufficient level of activity on the Exchange to require connectivity in excess of the fee cap. For these reasons, the Exchange believes that the proposed fees are an equitable allocation and are not unfairly discriminatory.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are

free to modify their own fees in response, and because market participants may connect to third parties instead of directly connecting to the Exchange, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed changes to the charges assessed for connectivity to the Exchange are consistent with the fees assessed by other exchanges for the same or similar connectivity. Moreover, the Exchange must assess fees to cover the costs incurred in providing connectivity and members had been assessed fees for Exchange connectivity prior to the sunset of the old Exchange architecture. As a consequence, competition will not be burdened by the proposed fees. In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or 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.¹⁸ 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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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.

¹⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

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-GEMX-2017-29 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-GEMX-2017-29. 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-GEMX-2017-29, 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.¹⁹

Jill M. Peterson,
Assistant Secretary.

¹⁹ 17 CFR 200.30-3(a)(12).

