



8011-01p

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-85449; File No. SR-NYSENAT-2019-03]

Self-Regulatory Organizations; NYSE National, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Its Schedule of Fees and Rebates Related to Co-location Services

March 29, 2019.

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on March 15, 2019, NYSE National, Inc. (the “Exchange” or “NYSE National”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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 its Schedule of Fees and Rebates (the “Price List”) related to co-location services to provide access to the execution system of Global OTC. The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, 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 self-regulatory organization included statements

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 those 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 parts 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 Price List related to co-location⁴ services offered by the Exchange to provide Users⁵ with access to the execution system of Global OTC (the “Global OTC System”). Global OTC is an alternative trading system (“ATS”) that facilitates transactions in over-the-counter equity securities.⁶

The Exchange proposes to implement the rule change on the first day of the month after it becomes operative. The Exchange will announce the implementation date through a customer notice.

As set forth in the Price List, the Exchange charges fees for connectivity to the execution

⁴ The Exchange initially filed rule changes relating to its co-location services with the Commission on May 18, 2018. See Securities Exchange Act Release No. 83351 (May 31, 2018), 83 FR 26314 (June 6, 2018) (SR-NYSENAT-2018-07). The Exchange operates a data center in Mahwah, New Jersey (the “data center”) from which it provides co-location services to Users.

⁵ For purposes of the Exchange’s co-location services, a “User” means any market participant that requests to receive co-location services directly from the Exchange. See id. at note 9. As specified in the Price List, a User that incurs co-location fees for a particular co-location service pursuant thereto would not be subject to co-location fees for the same co-location service charged by the Exchange’s affiliates the New York Stock Exchange (“NYSE”), NYSE American LLC (“NYSE American”), and NYSE Arca, Inc. (“NYSE Arca” and together, the “Affiliate SROs”). See id. at note 11.

⁶ See 17 CFR § 242.300(a). An ATS is a trading system that meets the definition of “exchange” under federal securities laws but is not required to register as a national securities exchange if the ATS operates under an exemption provided under the Act.

systems of third party markets and other content service providers (“Third Party Systems”).⁷

The Exchange has an indirect interest in Global OTC because it is owned by the Exchange's ultimate parent, Intercontinental Exchange, Inc.⁸ The Exchange proposes to treat Global OTC as a Third Party System and add it to the list of Third Party Systems set forth in the Price List.

As with the current Third Party Systems, in order to obtain access to the Global OTC System, the User would enter into an agreement with Global OTC, pursuant to which Global OTC would charge the User for access to the Global OTC System. Once the Exchange receives authorization from Global OTC, the Exchange would establish a connection between the User and the Global OTC System.⁹

As with the existing connections to Third Party Systems, the Exchange proposes to charge a monthly recurring fee for connectivity to the Global OTC System. The Exchange does not propose to change the current fee, which is for connectivity only.¹⁰

Currently, connectivity to the Third Party Systems is over the internet protocol (“IP”) network, a local area network available in the data center.¹¹ Users would have two options for connecting to the OTC Global System: over the IP network or the Liquidity Center Network (“LCN”), the other local area network available in the data center.¹² Accordingly, the Exchange proposes to amend the third sentence of the paragraph under “Connectivity to Third Party Systems” in the Price List to state that “[c]onnectivity to Third Party Systems is over the IP network, with the exception that Users can connect to Global OTC over the IP network or LCN.”

⁷ See 83 FR 26314, supra note 4, at 26322.

⁸ See id.

⁹ See id.

¹⁰ See id.

¹¹ See id. at 26316.

¹² See id.

The proposed treatment of Global OTC would be consistent with its treatment in other contexts. The Exchange also treats Global OTC as a third party with respect to connectivity to data feeds from third party markets and other content service providers (the “Third Party Data Feeds”).¹³ The Exchange proposes that Users could connect to the Global OTC System over the IP network or LCN: this is substantially the same as with Third Party Data Feeds, where “[c]onnectivity ... is over the IP network, with the exception that Users can connect to Global OTC and ICE Data Global Index over the IP network or LCN.”¹⁴

The Exchange would provide access to the Global OTC System (“Access”) as a convenience to Users. Use of Access is completely voluntary, and it is the Exchange’s understanding that currently third party options are available to a User to access the Global OTC System. The Exchange is not aware of any impediment to additional third parties offering such access. With respect to third parties that presently offer, or in the future opt to offer, access to the Global OTC Systems, a User may access such services through the Secure Financial Transaction Infrastructure (“SFTI”) network, a third party telecommunication network, third party wireless network, a cross connect, or a combination thereof to access such services and products through a connection to an access center outside the data center (which could be a SFTI access center, a third-party access center, or both), another User, or a third party vendor.

Establishing a User’s access to the Global OTC System would not give the Exchange any right to use the Global OTC System. Connectivity to the Global OTC System would not provide access or order entry to the Exchange’s execution system, and a User’s connection to the Global OTC System would not be through the Exchange’s execution system.

General

¹³ See id. at 26322-26323.

¹⁴ Price List, at 17; see 83 FR 26314, supra note 4, at 26323.

As is the case with all Exchange co-location arrangements, (i) neither a User nor any of the User's customers would be permitted to submit orders directly to the Exchange unless such User or customer is a member organization, a Sponsored Participant or an agent thereof (e.g., a service bureau providing order entry services); (ii) use of the co-location services proposed herein would be completely voluntary and available to all Users on a non-discriminatory basis;¹⁵ and (iii) a User would only incur one charge for the particular co-location service described herein, regardless of whether the User connects only to the Exchange or to the Exchange and one or more of the Affiliate SROs.¹⁶

The proposed change is not otherwise intended to address any other issues relating to co-location services and/or related fees, and the Exchange is not aware of any problems that Users would have in complying with the proposed change.

2. Statutory Basis

The Exchange believes that the proposed fee change is consistent with Section 6(b) of the Act,¹⁷ in general, and furthers the objectives of Sections 6(b)(5) of the Act,¹⁸ in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just

¹⁵ As is currently the case, Users that receive co-location services from the Exchange will not receive any means of access to the Exchange's trading and execution systems that is separate from, or superior to, that of other Users. In this regard, all orders sent to the Exchange enter the Exchange's trading and execution systems through the same order gateway, regardless of whether the sender is co-located in the data center or not. In addition, co-located Users do not receive any market data or data service product that is not available to all Users, although Users that receive co-location services normally would expect reduced latencies in sending orders to, and receiving market data from, the Exchange.

¹⁶ See id. at 26315. NYSE, NYSE American, and NYSE Arca have submitted substantially the same proposed rule change to propose the changes described herein. See SR-NYSE-2019-07, SR-NYSEAmer-2019-03, and SR-NYSEArca-2019-07.

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed changes would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because, by offering access to the Global OTC System, the Exchange would give each User additional options for addressing its access needs, responding to User demand for access options. Providing additional services would help each User tailor its data center operations to the requirements of its business operations by allowing it to select the form and latency of access that best suits its needs.

The Exchange would provide Access as a convenience to Users. Use of Access is completely voluntary, and it is the Exchange's understanding that currently third party options are available to a User to access the Global OTC System. The Exchange is not aware of any impediment to additional third parties offering such access. With respect to third parties that presently offer, or in the future opt to offer, access to the Global OTC Systems, a User may access such services through the SFTI network, a third party telecommunication network, third party wireless network, a cross connect, or a combination thereof to access such services and products through a connection to an access center outside the data center (which could be a SFTI access center, a third-party access center, or both), another User, or a third party vendor.

The Exchange believes that the proposed change would remove impediments to, and

perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because the proposed treatment of Global OTC would be consistent with its treatment in other contexts. The Exchange also treats Global OTC as a third party with respect to connectivity to Third Party Data Feeds.¹⁹ The Exchange proposes that Users could connect to the Global OTC System over the IP network or LCN: this is substantially the same as with Third Party Data Feeds, where connectivity is over the IP network, with the exception that Users can connect to Global OTC and one other Third Party Data Feed over the IP network or LCN.²⁰

The Exchange also believes that the proposed fee change is consistent with Section 6(b)(4) of the Act,²¹ in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange believes that the proposed fee change is consistent with Section 6(b)(4) of the Act for multiple reasons. The Exchange operates in a highly competitive market in which exchanges offer co-location services as a means to facilitate the trading and other market activities of those market participants who believe that co-location enhances the efficiency of their operations. Accordingly, fees charged for co-location services are constrained by the active competition for the order flow of, and other business from, such market participants. If a particular exchange charges excessive fees for co-location services, affected market participants will opt to terminate their co-location arrangements with that exchange, and adopt a possible range of alternative strategies, including placing their servers in a physically proximate location

¹⁹ Supra note 13.

²⁰ Supra note 14.

²¹ 15 U.S.C. 78f(b)(4).

outside the exchange's data center (which could be a competing exchange), or pursuing strategies less dependent upon the lower exchange-to-participant latency associated with co-location. Accordingly, the exchange charging excessive fees would stand to lose not only co-location revenues but also the liquidity of the formerly co-located trading firms, which could have additional follow-on effects on the market share and revenue of the affected exchange.

The Exchange believes that the proposed charges would be reasonable, equitably allocated and not unfairly discriminatory because it would treat connectivity to the Global OTC System the same as connectivity to the execution system of other ATSS. Currently, the Third Party Systems include two ATSS.²²

The Exchange believes that the additional service proposed herein would be equitably allocated and not unfairly discriminatory because, in addition to Access being completely voluntary, it would be available to all Users on an equal basis (i.e., the same Access would be available to all Users). All Users that voluntarily selected to receive Access would be charged the same amount for the same service. Users that opted to use Access would not receive access that is not available to all Users, as all market participants that contracted with Global OTC would receive access.

The Exchange believes that the proposed charges would be reasonable, equitably allocated and not unfairly discriminatory because the Exchange would offer the Access as a convenience to Users, but in order to do so must provide, maintain and operate the data center facility hardware and technology infrastructure. The Exchange must handle the installation, administration, monitoring, support and maintenance of such services, including by responding to any production issues. Since the inception of co-location, the Exchange has made numerous

²² Credit Suisse and OTC Markets have ATSS. See Commission list of ATSS at <https://www.sec.gov/foia/docs/atsslist.htm>.

improvements to the network hardware and technology infrastructure and has established additional administrative controls. The Exchange has expanded the network infrastructure to keep pace with the increased number of services available to Users, including resilient and redundant feeds. In addition, in order to provide Access, the Exchange would maintain multiple connections to the Global OTC System, allowing the Exchange to provide resilient and redundant connections; adapt to any changes made by Global OTC; and cover any applicable fees charged by Global OTC, such as port fees. In addition, Users would not be required to use any of their bandwidth for Access unless they wish to do so.

The Exchange believes the fees for Access are reasonable because they allow the Exchange to defray or cover the costs associated with offering Users Access while providing Users the convenience of receiving such Access within co-location, helping them tailor their data center operations to the requirements of their business operations.

For the reasons above, the proposed changes would not unfairly discriminate between or among market participants that are otherwise capable of satisfying any applicable co-location fees, requirements, terms and conditions established from time to time by the Exchange.

For these reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,²³ the Exchange believes that the proposed rule change will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because all of the proposed services are completely voluntary.

The Exchange believes that providing Users with additional options for access to the

²³ 15 U.S.C. 78f(b)(8).

Global OTC Systems would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because such proposed Access would satisfy User demand for access options. The Exchange would provide Access as a convenience to Users. Use of Access is completely voluntary, and it is the Exchange's understanding that currently third party options are available to a User to access the Global OTC System. The Exchange is not aware of any impediment to additional third parties offering such access. With respect to third parties that presently offer, or in the future opt to offer, access to the Global OTC Systems, a User may access such services through the SFTI network, a third party telecommunication network, third party wireless network, a cross connect, or a combination thereof to access such services and products through a connection to an access center outside the data center (which could be a SFTI access center, a third-party access center, or both), another User, or a third party vendor.

Users that opt to use the proposed Access would not receive access that is not available to all Users, as all market participants that contract with Global OTC may receive access. In this way, the proposed changes would enhance competition by helping Users tailor their Access to the needs of their business operations by allowing them to select the form and latency of access and connectivity that best suits their needs.

The Exchange believes that the proposed change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because it would treat connectivity to the Global OTC System the same as connectivity to the execution system of other ATSS. Specifically, they would all be Third Party Systems subject to the same fees. In addition, the proposed treatment of Global OTC would be consistent with its treatment in other contexts. The Exchange also treats Global OTC as a third party with respect to

connectivity to Third Party Data Feeds.²⁴

Currently, connectivity to the Third Party Systems is over the IP network. The Exchange believes that allowing Users to connect to the Global OTC System over either the IP network or LCN would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Currently, the Third Party Systems include two ATS, of which the Exchange believes OTC Markets is the most comparable to Global OTC, although Global OTC is substantially the smaller of the two.²⁵ While an LCN connection provides lower latency than the IP network, that latency difference is relevant, as a practical matter, only for connections within the Mahwah data center, where the Global OTC System is located. When connecting to a comparable, competing ATS located in another data center, such as OTC Markets, Users within the Mahwah data center would incur geographical latency that would dwarf any differences between the IP network and LCN. Furthermore, it is the Exchange's understanding that market participants trading in non-NMS securities tend to be less latency sensitive due to the smaller pools of liquidity in the over-the-counter markets.

Allowing Users to connect to the Global OTC System would be consistent with the treatment of Third Party Data Feeds, where connectivity is over the IP network, with the exception that Users can connect to Global OTC and one other Third Party Data Feed over the IP network or LCN.²⁶

²⁴ Supra note 13.

²⁵ Both Global OTC and the OTC Markets are inter-dealer quotation systems. The third is the OTC Bulletin Board, a facility of the Financial Industry Regulatory Authority. Global OTC's market share is approximately 10% of average daily volume of trades of over-the-counter equities, compared to OTC Markets' market share of approximately 90% of average daily volume of trades. See <https://www.globalotc.com/brokers/market-share>.

²⁶ Supra note 14.

The Exchange operates in a highly competitive market in which exchanges offer co-location services as a means to facilitate the trading and other market activities of those market participants who believe that co-location enhances the efficiency of their operations.

Accordingly, fees charged for co-location services are constrained by the active competition for the order flow of, and other business from, such market participants. If a particular exchange charges excessive fees for co-location services, affected market participants will opt to terminate their co-location arrangements with that exchange, and adopt a possible range of alternative strategies, including placing their servers in a physically proximate location outside the exchange's data center (which could be a competing exchange), or pursuing strategies less dependent upon the lower exchange-to-participant latency associated with co-location.

Accordingly, the exchange charging excessive fees would stand to lose not only co-location revenues but also the liquidity of the formerly co-located trading firms, which could have additional follow-on effects on the market share and revenue of the affected exchange. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

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

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act²⁷ and Rule 19b-4(f)(6) thereunder.²⁸ Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant

²⁷ 15 U.S.C. 78s(b)(3)(A)(iii).

²⁸ 17 CFR 240.19b-4(f)(6).

burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, 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 Act and Rule 19b-4(f)(6)(iii) thereunder.²⁹

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)³⁰ of the Act to determine whether the proposed rule change 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-NYSENAT-2019-03 on the subject line.

²⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission 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 satisfied this requirement.

³⁰ 15 U.S.C. 78s(b)(2)(B).

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-NYSENAT-2019-03. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-NYSENAT-2019-03 and should be submitted on or before **[INSERT DATE 21 DAYS FROM PUBLICATION IN THE *FEDERAL REGISTER*]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³¹

Eduardo A. Aleman,
Deputy Secretary.

³¹ 17 CFR 200.30-3(a)(12).

