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

Nasdaq proposes to modify the charges to be paid for Managed Data Solutions (“MDS”). While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on January 1, 2016. The text of the proposed rule change is below. Proposed new language is italicized; proposed deletions are bracketed.

NASDAQ Stock Market Rules
Equity Rules

7026. Distribution Models

(a) No change.
(b) Managed Data Solutions
The charges to be paid by Distributors and Subscribers of Managed Data Solutions products containing Nasdaq Depth data (non-display use only) shall be:

 Fee schedule for managed data solutions

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed Data Solution Administration Fee (for the right to offer Managed Data Solutions to client organizations).</td>
<td>$12,500/mo Per Distributor.</td>
</tr>
<tr>
<td>Nasdaq Depth Data Professional Subscriber Fee (Internal Use Only and includes TotalView, Level 2, OpenView).</td>
<td>$3,007.50/mo Per Subscriber.</td>
</tr>
<tr>
<td>Nasdaq Depth Data Non-Professional Subscriber (Internal Use Only and includes TotalView, Level 2, OpenView).</td>
<td>$60/mo Per Subscriber.</td>
</tr>
</tbody>
</table>

(c) Hardware-Based Delivery of Nasdaq Depth data

(1) The charges to be paid by Distributors for processing Nasdaq Depth data sourced from a Nasdaq

Hardware-based market data format shall be:

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

In its filing with the Commission, NASDAQ 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. NASDAQ 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 increase the charges to be paid by distributors and subscribers of Managed Data Solutions products containing Nasdaq Depth-of-Book data. Nasdaq Depth-of-Book data is defined in Nasdaq Rule 7023 to include TotalView, OpenView, and NASDAQ Level 2 (collectively, “Nasdaq Depth data”). Specifically, the Exchange proposes to increase the fee charged to distributors for the right to offer Managed Data Solutions to client organizations to $2,500 per month per distributor (“MDS Administration Fee”), and the fee charged to professional subscribers to $375 per month per subscriber (“MDS Subscriber Fee”). This proposed rule change will not affect the pricing for non-professional subscribers.

The Exchange also proposes to increase the administration fee charged to distributors for processing Nasdaq Depth data sourced from a Nasdaq hardware-based delivery option. This option uses field-programmable gate array (“FPGA”) technology, and serves those customers requiring a predictable latency profile throughout the trading day. By taking advantage of hardware parallelism, FPGA technology is capable of processing more data packets during peak market conditions without the introduction of variable queuing latency. Specifically, the Exchange proposes to increase the tiered fee charged to distributors, which is based on the number of subscribers, to $5,000 per month for the first subscriber, and then $750 per month for each additional subscriber (“FPGA Distributor Fee”).

MDS is a data delivery option available to distributors of Nasdaq Depth data information. Under the MDS fee structure, distributors may provide data feeds, Application Programming Interfaces (APIs) or similar automated delivery solutions to client organizations with only limited entitlement controls. Through this program, NASDAQ offers a much simpler administration process for MDS distributors and subscribers, reducing the burden and cost of administration.

Subscribers of MDS may use the information for internal purposes only and may not distribute the information outside of their organization. MDS presents opportunities for small and mid-size firms to achieve significant cost savings over the cost of data feeds. While both the MDS Administration Fee and MDS Subscriber Fee have not changed since their introduction in 2010, NASDAQ is changing these fees now to remain consistent with the revised direct access non-display fee to maintain price uniformity between these two methods of accessing non-display depth information. Similarly, the Exchange has not increased the FPGA Distributor Fee since its introduction in 2012. Nevertheless, both distributors and subscribers reap the benefits of NASDAQ’s constant focus on the performance and enhancements to these offerings. As such, NASDAQ recently completed a technology refresh to ensure that its data feeds continue to achieve a high level of performance and resiliency. The Exchange has also upgraded and refreshed its disaster recovery capabilities, adding to the increased focus on redundancy and resiliency.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act, in general, and with Sections 6(b)(4) and 6(b)(5) of the Act, in particular, that it provides an equitable allocation of reasonable fees among subscribers and recipients of NASDAQ data and is not designed to permit unfair discrimination between them. NASDAQ’s proposal to increase the MDS Administration Fee, MDS Subscriber Fee and FPGA Distributor Fee is also consistent with the Act in that it reflects an equitable allocation of reasonable fees. The Commission has long recognized the fair and equitable and non-unequally discriminatory nature of assessing different fees for distributors and professional and non-professional users of the same data. NASDAQ also believes it is equitable to assess a higher fee per professional user than to an ordinary non-professional user due to the enhanced flexibility, lower overall costs and value that it offers distributors.

In adopting Regulation NMS, the Commission granted self-regulatory organizations and broker-dealers increased authority and flexibility to offer new and unique market data to the public. The Commission concluded that Regulation NMS—by deregulating the market in proprietary data—would itself further the Act’s goals of facilitating efficiency and competition:

Efficiency is promoted when broker-dealers who do not need the data beyond the prices, sizes, market center identifications of the NBBO and consolidated last sale information are not required to receive (and pay for) such data. The Commission also believes that efficiency is promoted when broker-dealers may choose to receive (and pay for) additional market data based on their own internal analysis of the need for such data.6

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5 15 U.S.C. 78f(b)(4) and [5].


By removing “unnecessary regulatory restrictions” on the ability of exchanges to sell their own data, Regulation NMS advanced the goals of the Act and the principles reflected in its legislative history. If the free market should determine whether proprietary data is sold to broker-dealers at all, it follows that the price at which such data is sold should be set by the market as well. Level 2, NASDAQ TotalView and NASDAQ OpenView are precisely the sort of market data products that the Commission envisioned when it adopted Regulation NMS. The decision of the United States Court of Appeals for the District of Columbia Circuit in NetCoalition I v. SEC, 615 F.3d 525 (D.C. Cir. 2010) (“NetCoalition I”), upheld the Commission’s reliance upon competitive markets to set reasonable and equitably allocated fees for market data. “In fact, the legislative history indicates that the Congress intended that the market system ‘evolve through the interplay of competitive forces as unnecessary regulatory restrictions are removed’ and that the SEC wield its regulatory power ‘in those situations where competition may not be sufficient,’ such as in the creation of a ‘consolidated transactional reporting system.’ NetCoalition I, at 535 (quoting H.R. Rep. No. 94–229, at 92 (1975), as reprinted in 1975 U.S.C.C.A.N. 321, 323). The court agreed with the Commission’s conclusion that ‘Congress intended that ‘competitive forces should dictate the services and practices that constitute the U.S. national market system for trading equity securities.’”7

The Court in NetCoalition I, while upholding the Commission’s conclusion that competitive forces may be relied upon to establish the fairness of prices, nevertheless concluded that the record in that case did not adequately support the Commission’s conclusions as to the competitive nature of the market for NYSE Arca’s data product at issue in that case. As explained below in NASDAQ’s Statement on Burden on Competition, however, NASDAQ believes that there is substantial evidence of competition in the marketplace for data that was not in the record in the NetCoalition I case, and that the Commission is entitled to rely upon such evidence in concluding fees are the product of competition, and therefore in accordance with the relevant statutory standards.8

Accordingly, any findings of the court with respect to that product may not be relevant to the product at issue in this filing. NASDAQ believes that the allocation of the proposed fee is fair and equitable in accordance with Section 6(b)(4) of the Act, and not unreasonably discriminatory in accordance with Section 6(b)(5) of the Act. As described above, the proposed fee is based on pricing conventions and distinctions that exist in NASDAQ’s current fee schedule. These distinctions are each based on principles of fairness and equity that have helped for many years to maintain fair, equitable, and not unreasonably discriminatory fees, and that apply with equal or greater force to the current proposal.

As described in greater detail below, if NASDAQ has calculated improperly and the market deems the proposed fees to be unfair, inequitable, or unreasonably discriminatory, firms can discontinue the use of their data because the proposed product is entirely optional to all parties. Firms are not required to purchase data and NASDAQ is not required to make data available to offer specific pricing alternative for potential purchases. NASDAQ can discontinue offering a pricing alternative (as it has in the past) and firms can discontinue their use at any time and for any reason (as they often do), including due to their assessment of the reasonableness of fees charged. NASDAQ continues to establish and revise pricing policies aimed at increasing fairness and equitable allocation of fees among Subscribers.

NASDAQ believes that periodically it must adjust the Subscriber fees to reflect market forces. NASDAQ believes it is an appropriate time to adjust this fee to more accurately reflect the investments made to enhance this product through capacity upgrades. This also reflects that the market for this information is highly competitive and continually evolves as products develop and change.

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. Notwithstanding its determination that

7 NetCoalition I, at 535.

8 It should also be noted that Section 916 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") has amended paragraph (A) of Section 19(b)(3) of the Act, 15 U.S.C. 78s(b)(3), to make it clear that all exchange fees, including fees for market data, may be filed by exchanges on an immediately effective basis. See also NetCoalition v. SEC, 715 F.3d 342 (D.C. Cir. 2013) ("NetCoalition II") (finding no jurisdiction to review Commission’s non-suspension of immediately effective fee changes).
to which the BD is directing orders will become correspondingly more valuable.

Thus, an increase in the fees charged for either transactions or data has the potential to impair revenues from both products. “No one disputes that competition for order flow is ‘fierce’.” NetCoalition at 24. However, the existence of fierce competition for order flow implies a high degree of price sensitivity on the part of BDs with order flow, since they may readily reduce costs by directing orders toward the lowest-cost trading venues. A BD that shifted its order flow from one platform to another in response to order execution price differentials would both reduce the value of that platform’s market data and reduce its own need to consume data from the disfavored platform. Similarly, if a platform increases its market data fees, the change will affect the overall cost of doing business with the platform, and affected BDs will assess whether they can lower their trading costs by directing orders elsewhere and thereby lessening the need for the more expensive data.

Analyzing the cost of market data distribution in isolation from the cost of all of the inputs supporting the creation of market data will inevitably underestimate the cost of the data. Thus, because it is impossible to create data without a fast, technologically robust, and well-regulated execution system, system costs and regulatory costs affect the price of market data. It would be equally misleading, however, to attribute exchange’s costs to the market data portion of an exchange’s joint product. Rather, all of the exchange’s costs are incurred for the unified purposes of attracting order flow, executing and/or routing orders, and generating and selling data about market activity. The total return that an exchange earns reflects the revenues it receives from the joint products and the total costs of the joint products.

Competition among trading platforms can be expected to constrain the aggregate return each platform earns from the sale of its joint products, but different platforms may choose from a range of possible, and equally reasonable, pricing strategies as the means of recovering total costs. NASDAQ pays rebates to attract orders, charges relatively low prices for market information and charges relatively high prices for accessing posted liquidity. Other platforms may choose a strategy of paying lower liquidity rebates to attract orders, setting relatively low prices for posted liquidity, and setting relatively high prices for market information. Still others may provide most data free of charge and rely exclusively on transaction fees to recover their costs. Finally, some platforms may incentivize use by providing opportunities for equity ownership, which may allow them to charge lower direct fees for executions and data.

In this environment, there is no economic basis for regulating maximum prices for one of the joint products in an industry in which suppliers face competitive constraints with regard to the joint offering. Such regulation is unnecessary because an “excessive” price for one of the joint products will ultimately have to be reflected in lower prices for other products sold by the firm, or otherwise the firm will experience a loss in the volume of its sales that will be adverse to its overall profitability. In other words, an increase in the price of data will ultimately have to be accompanied by a decrease in the cost of executions, or the volume of both data and executions will fall.

The level of competition and contestability in the market is evident in the numerous alternative venues that compete for order flow, including eleven SRO markets, as well as internalizing BDs and various forms of alternative trading systems (“ATSs”), including dark pools and electronic communication networks (“ECNs”). Each SRO market competes to produce transaction reports via trade executions, and two FINRA-regulated TRFs compete to attract internalized transaction reports. It is common for BDs to further and exploit this competition by sending their order flow and transaction reports to multiple markets, rather than providing them all to a single market. Competitive markets for order flow, executions, and transaction reports provide pricing discipline for the inputs of proprietary data products.

The large number of SROs, TRFs, BDs, and ATSs that currently produce proprietary data products, and that have the ability to consolidate and distribute their data without the involvement of FINRA or an exchange-operated TRF.

The fact that proprietary data from ATSs, BDs, and vendors can by-pass SROs is significant in two respects. First, non-SROs can compete directly with SROs for the production and sale of proprietary data products, as BATS and NYSE Arca did before registering as exchanges by publishing proprietary book data on the internet. Second, because a single order or transaction report can appear in a core data product, an SRO proprietary product, and/or a non-SRO proprietary product, the data available in proprietary products is exponentially greater than the actual number of orders and transaction reports that exist in the marketplace.

In addition to the competition and price discipline described above, the market for proprietary data products is also highly contestable because market entry is rapid, inexpensive, and profitable. The history of electronic trading is replete with examples of entrants that swiftly grew into some of the largest electronic trading platforms and proprietary data producers: Archipelago, Bloomberg Tradebook, Island, RediBook, Attain, TracECN, BATS Trading and BATS/Direct Edge. A proliferation of dark pools and other ATSSs operate profitably with fragmentary shares of consolidated market volume.

Regulation NMS, by deregulating the market for proprietary data, has increased the contestability of that market. While BDs have previously published their proprietary data individually, Regulation NMS encourages market data vendors and BDs to produce proprietary products cooperatively in a manner never before possible. Multiple market data vendors already have the capability to aggregate data and disseminate it on a profitable scale, including Bloomberg and Thomson Reuters. In Europe, Cinnober aggregates and disseminates data from over 40 brokers and multilateral trading facilities.

In this environment, a super-competitive increase in the fees charged for either transactions or data has the potential to impair revenues from both products. “No one disputes that competition for order flow is ‘fierce’. NetCoalition at 539. The existence of fierce competition for order flow implies a high degree of price sensitivity

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* See http://www.cinnober.com/boat-trade-reporting.
on the part of BDs with order flow, since they may readily reduce costs by directing orders toward the lowest-cost trading venues. A BD that shifted its order flow from one platform to another in response to order execution price differentials would both reduce the value of that platform’s market data and reduce its own need to consume data from the disfavored platform. If a platform increases its market data fees, the change will affect the overall cost of doing business with the platform, and affected BDs will assess whether they can lower their trading costs by directing orders elsewhere and thereby lessening the need for the more expensive data.

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 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, as amended, 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 email to rule-comments@sec.gov. Please include File Number SR–NASDAQ–2015–158 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–NASDAQ–2015–158. This file number should be included on the subject line if email 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 Web site (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 Web site viewing and printing in the Commission’s Public Reference Room 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 offices 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–2015–158, and should be submitted on or before January 27, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.11

Jill M. Peterson,
Assistant Secretary.

[FR Doc. 2015–33208 Filed 1–5–16; 8:45 am]
BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION
[SEC File No. 270–149, OMB Control No. 3235–0130]

Submission for OMB Review; Comment Request

Upon Written Request, Copies Available From: Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE., Washington, DC 20549–2736.

Extension: Rule 17Ad–2(c), (d), and (h).

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.) (“PRA”), the Securities and Exchange Commission (“Commission”) has submitted to the Office of Management and Budget (“OMB”) a request for approval of extension of the previously approved collection of information provided for in Rule 17Ad–2(c), (d), and (h) (17 CFR 240.17Ad–2(c), (d), and (h)), under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.).

Rule 17Ad–2(c), (d), and (h) enumerates the requirements with which registered transfer agents must comply to inform the Commission or the appropriate regulator of a transfer agent’s failure to meet the minimum performance standards set by the Commission rule by filing a notice.

The Commission receives approximately 3 notices a year pursuant to Rule 17Ad–2(c), (d), and (h). The estimated annual time burden of these filings on respondents is minimal in view of: (a) The readily available nature of most of the information required to be included in the notice (since that information must be compiled and retained pursuant to other Commission rules); and (b) the summary fashion in which such information must be presented in the notice (most notices are one page or less in length). In light of the above, and based on the experience of the staff regarding the notices, the Commission staff estimates that, on average, most notices require approximately one-half hour to prepare. Thus, the Commission staff estimates that the industry-wide total time burden is approximately 1.5 hours.

The retention period for the recordkeeping requirement under Rule 17Ad–2(c), (d), and (h) is not less than two years following the date the notice is submitted. The recordkeeping requirement under this rule is mandatory to assist the Commission in monitoring transfer agents who fail to meet the minimum performance standards set by the Commission rule. This rule does not involve the collection of confidential information. A transfer agent is not required to file under the rule unless it does not meet the minimum performance standards for turnaround, processing or forwarding items received for transfer during a month.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information under the PRA unless it displays a currently valid OMB control number. The public may view background documentation for this information collection at the following Web site: www.reginfo.gov. Comments should be directed to: (i) Desk Officer for the Securities and Exchange Commission,