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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81256; File No. SR-NASDAQ-2017-077)

July 28, 2017

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Alter the Exchange's Fee Schedule for the Short Interest Report

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, 2017, The NASDAQ Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange.³ 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 alter the Exchange's fee schedule for the Short Interest Report at Rule 7022.

The text of the proposed rule change is available on the Exchange's Website at <http://nasdaq.cchwallstreet.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.

³ The Commission notes that Nasdaq initially filed this proposal as SR-NASDAQ-2017-064 on June 29, 2017. Nasdaq withdrew that filing on July 13, 2017 and replaced it with SR-NASDAQ-2017-071. On July 25, 2017, Nasdaq withdrew that filing and replaced it with this filing.

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 alter the fee schedule for the Short Interest Report at Rule 7022. The Exchange proposes to replace the current fee structure, which is based on the frequency of distribution, with a subscription service based on the number of Subscribers receiving that report. Nasdaq proposes these changes to: (i) partially offset increases in Nasdaq's cost of producing the report; (ii) more accurately reflect the value of the product to purchasers by establishing fees based on the number of Subscribers receiving the report rather than frequency of distribution; and (iii) provide an incentive to distribute the report widely by offering reduced rates to Distributors with a proven record of disseminating data widely to professionals and members of the investing public.

Short Interest Report

The Short Interest Report is a summary of short interest positions for all Nasdaq-listed issues as reported by the Financial Industry Regulatory Authority (FINRA); it is designed to facilitate the distribution of short sale data to the media and assist investors and traders in

developing risk-assessment tools and trading models for Nasdaq-listed issues. Reports are available on a semi-monthly basis on a secured FTP server.

Current Fee Structure

Fees for the Short Interest Report are set forth in Subsection C of Nasdaq Rule 7022(b), under the title Nasdaq Issues Summary Statistics.⁴ Fees are divided into two schedules, depending upon whether the report is distributed more or less than once per month. Reports distributed once per month, quarter or year are charged as follows: \$250 for 1-500 Subscribers; \$300 for 501-999 Subscribers; \$350 for 1,000-4,999 Subscribers; \$400 for 5,000-9,999 Subscribers; and \$500 for over 10,000 Subscribers. Reports distributed more often than once per month are charged \$1,000 per month for unlimited internal distribution and \$2,500 per month for unlimited external distribution.⁵ In addition, an annual set of aged reports previously distributed more often than once a month is available for \$3,000 for an unlimited number of subscribers.

Proposed Fee Structure

The proposed fee structure, set forth in revised Rule 7022(c),⁶ establishes a flat fee of \$500 per month for unlimited access to the Short Interest Report. Separate fees based on the

⁴ The Short Interest Report is the only report currently distributed under the fee schedule for Nasdaq Summary Statistics set forth in Subsection C of Nasdaq Rule 7022(b). See Securities Exchange Act Release 73662 at n.3 (November 20, 2014), 79 FR 70600 (November 26, 2014) (SR-NASDAQ-2014-106); Securities Exchange Act Release 72911 (August 25, 2014), 79 FR 51628 (August 29, 2014) (SR-NASDAQ-2014-086); Securities Exchange Act Release 68636 (January 11, 2013), 78 FR 3940 (January 17, 2013) (SR-NASDAQ-2013-009).

⁵ Internal distribution is defined as distribution within the recipient firm, while external distribution is defined as distribution both inside and outside of the firm.

⁶ The Exchange proposes to move the fee schedule for the report from Subsection C of Rule 7022(b) to Rule 7022(c) because the proposed fees are designed specifically for the Short Interest Report. Subsection C of Nasdaq Rule 7022(b) will be reserved until needed for a new report that falls within that category of information. In 2013, the Exchange moved the Daily List and Fundamental Data information in a similar fashion from Nasdaq Issues Summary Statistics into Rule 7022(d), which will be re-designated as

frequency of distribution are removed, including fees for reports distributed once per month, quarter, or year, and fees for an annual set of aged reports previously distributed more often than once a month. Internal distribution fees remain the same at \$1,000 per month.

External distribution fees are revised to reflect the number of Subscribers with access to the report, as follows: \$2,500 for 1-499 Subscribers; \$5,000 for 500-9,999 Subscribers; and \$7,500 for 10,000 or more Subscribers or on an open website.

Distributors that serve a large number of external Subscribers will be offered reduced fees. Firms that purchase an enterprise license for Nasdaq Basic under Rule 7047(b)(5), an enterprise license for depth-of-book data under Rule 7023(c)(3), or that pay \$5,000 or more in monthly usage fees for Nasdaq Last Sale (NLS) or NLS Plus under Rule 7039 (excluding distributor fees under Rule 7039(c)), will be eligible for a reduced rate of \$1,500 per month for distribution to an unlimited number of external Subscribers or on an open website.⁷ This fee is a reduction from the current flat fee of \$2,500.⁸

These changes are proposed to: (i) partially offset increases in Nasdaq's cost of producing the report; (ii) more accurately reflect the value of the product to purchasers by establishing fees based on the number of Subscribers receiving the report rather than frequency

Rule 7022(e) by this rule change. See Securities Exchange Act Release 68636 (January 11, 2013), 78 FR 3940 (January 17, 2013) (SR-NASDAQ-2013-009).

⁷ The Exchange offers a reduced rate for the largest distributors of a number of its market data products. For example, the Exchange establishes a maximum fee of \$41,500 per month for NLS for Nasdaq and NLS for NYSE/NYSE MKT without regard to usage in Rule 7039(b). Also, firms that purchase enterprise licenses under Rules 7023(c)(3) or Rule 7047(b)(5) may pay less for the same service than firms that elect not to purchase an enterprise license. As explained in the discussion of statutory basis, offering discounts to firms that elect to purchase an enterprise license or that otherwise pay large amounts in market data fees is an equitable allocation of reasonable dues, fees, and other charges.

⁸ The Exchange also corrects a typographical error in the fee schedule by replacing "4999" with "4,999."

of distribution; and (iii) provide an incentive to distribute the report widely by offering reduced rates to Distributors with a proven record of disseminating data widely to professionals and members of the investing public.

The impetus for the proposed fee changes arose when FINRA increased its annual charges for receipt of short interest data effective January 1, 2017, resulting in an increase to Nasdaq's cost in producing the report. In response, the Exchange reviewed the Short Interest Report fee structure, and determined that fees should be based on the number of Subscribers receiving it, rather than the frequency of distribution. The Exchange proposes these revisions because the number of Subscribers is a better measure of the value of the report to both professionals and the investing public than the frequency of distribution. The Exchange also proposes to adjust the fee structure to encourage wider dissemination of the report by reducing fees for firms with a proven ability to disseminate information widely. This includes firms with a sufficiently large Subscriber base to purchase enterprise licenses for Nasdaq Basic and depth-of-book data, or that have demonstrated broad dissemination of Exchange data by paying over \$5,000 per month in monthly usage fees for NLS or NLS Plus.

The proposed fees for the Short Interest Report are optional in that they apply only to firms that elect to purchase these products. The proposed changes do not impact the cost of any other Nasdaq product.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁰ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The proposed fee increase reasonably reflects the value that members and sponsored customers receive for the service, and a reduced rate for large Distributors avoids placing a disproportionate financial burden on Distributors that have purchased enterprise licenses to control costs or that have already expended substantial amounts to distribute certain Nasdaq market data products intended for the general investing public.

The Exchange proposes charging the same \$500 subscription fee and \$1,000 internal distribution fee to all Distributors.

External distribution fees will be based on a tiered fee structure that depends on the number of Subscribers, with a reduced rate for Distributors that purchase certain enterprise licenses or that pay more than a certain amount for NLS or NLS Plus. Firms with between 1 and 499 Subscribers will continue to pay \$2,500, while firms with more Subscribers pay either \$5,000 or \$7,500, depending on the number of Subscribers. The tiered structure for external distribution is an equitable allocation of reasonable dues, fees and other charges because the higher fees are commensurate with the higher value of the report for Distributors with more Subscribers.

The reduced rate for Distributors that have elected to purchase an enterprise license for the distribution of Nasdaq depth-of-book products or Nasdaq Basic, or that pay substantial fees for the distribution of NLS or NLS Plus, is also an equitable allocation of reasonable dues, fees and other charges. Enterprise licenses are a frequently-employed method for allowing Distributors to control costs, and purchasing such licenses may, from time to time, result in the enterprise license purchaser paying less for the same service than a Distributor that elected not to

purchase such a license. This is an equitable allocation of reasonable dues, fees and other charges because Distributors have a choice of whether or not to purchase the enterprise license.

The Exchange also proposes a fee cap on short interest report fees for firms that pay over \$5,000 per month in monthly usage fees for NLS or NLS Plus. This is analogous to the fee cap of \$41,500 per month for NLS in Rule 7039(b). It is an equitable allocation of reasonable dues, fees and other charges because it avoids placing a disproportionate financial burden on Distributors that pay a substantial amount for distributing data to the general investing public by limiting the total amount that such Distributors are required to pay. This fee cap will be applied equally to all Distributors that reach the established level of fees for NLS or NLS Plus.

In adopting Regulation NMS,¹¹ the Commission granted SROs and broker-dealers increased authority and flexibility to offer new and unique market data to the public. It was believed that this authority would expand the amount of data available to consumers, and also spur innovation and competition for the provision of market data. The Short Interest Report—which supplies data on short interest positions for all Nasdaq-listed issues as reported by the Financial Industry Regulatory Authority—is the type of market data product that the Commission envisioned when it adopted regulation NMS. The Commission concluded that Regulation NMS—deregulating the market in proprietary data—would further the Act’s goals of facilitating efficiency and competition:

[E]fficiency 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.¹²

¹¹ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005) (“Regulation NMS Adopting Release”).

¹² Id.

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.

In NetCoalition v. Securities and Exchange Commission¹³ (“NetCoalition”) the D.C. Circuit upheld the Commission’s use of a market-based approach in evaluating the fairness of market data fees against a challenge claiming that Congress mandated a cost-based approach.¹⁴ As the court emphasized, the Commission “intended in Regulation NMS that ‘market forces, rather than regulatory requirements’ play a role in determining the market data . . . to be made available to investors and at what cost.”¹⁵ “No one disputes that competition for order flow is ‘fierce.’ . . . As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’”¹⁶

Data products such as the Short Interest Report are a means by which exchanges compete to attract order flow. To the extent that exchanges are successful in such competition, they earn trading revenues and also enhance the value of their data products by increasing the amount of

¹³ NetCoalition v. SEC, 615 F.3d 525 (D.C. Cir. 2010).

¹⁴ See NetCoalition, at 534 - 535.

¹⁵ Id. at 537.

¹⁶ Id. at 539 (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

data they provide. The need to compete for order flow places substantial pressure upon exchanges to keep their fees for both executions and data reasonable.¹⁷

The proposed changes are consistent with Section 6(b)(5) of the Act. The proposed fees will reflect the value of the product by basing fees on the number of Subscribers receiving the report, and the reduced fees for certain large Distributors avoids allocating disproportionately high charges to Distributors that already expend substantial amounts to distribute certain Nasdaq products. The proposed changes would not permit unfair discrimination because the Exchange will apply the same fee to all similarly-situated Distributors.

Fees for the Short Interest Report are optional in that they apply only to firms that elect to purchase the product, which, like all proprietary data products, they may cancel at any time.

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. Indeed, the Exchange believes that the Short Interest Report enhances competition by creating a fee structure that reflects the value of the report to both Distributors and Subscribers and encourages the dissemination of the report to professionals and the investing public.

The market for data products is extremely competitive and firms may freely choose alternative venues and data vendors based on the aggregate fees assessed, the data offered, and the value provided. Numerous exchanges compete with each other for listings, trades, and market data itself, providing virtually limitless opportunities for entrepreneurs who wish to produce and distribute their own market data. Transaction execution and proprietary data

¹⁷ See Sec. Indus. Fin. Mkts. Ass'n (SIFMA), Initial Decision Release No. 1015, 2016 SEC LEXIS 2278 (ALJ June 1, 2016) (finding the existence of vigorous competition with respect to non-core market data).

products are complementary in that market data is both an input and a byproduct of the execution service. In fact, market data and trade execution are a paradigmatic example of joint products with joint costs. The decision whether and on which platform to post an order will depend on the attributes of the platform where the order can be posted, including the execution fees, data quality and price, and distribution of its data products. Without trade executions, exchange data products cannot exist. Moreover, data products are valuable to many end users only insofar as they provide information that end users expect will assist them or their customers in making trading decisions.

The costs of producing market data include not only the costs of the data distribution infrastructure, but also the costs of designing, maintaining, and operating the exchange's transaction execution platform and the cost of regulating the exchange to ensure its fair operation and maintain investor confidence. The total return that a trading platform earns reflects the revenues it receives from both products and the joint costs it incurs. Moreover, the operation of the exchange is characterized by high fixed costs and low marginal costs. This cost structure is common in content distribution industries such as software, where developing new software typically requires a large initial investment (and continuing large investments to upgrade the software), but once the software is developed, the incremental cost of providing that software to an additional user is typically small, or even zero (*e.g.*, if the software can be downloaded over the internet after being purchased).¹⁸ It is costly to build and maintain a trading platform, but the incremental cost of trading each additional share on an existing platform, or distributing an additional instance of data, is very low. Market information and executions are each produced

¹⁸ See William J. Baumol and Daniel G. Swanson, "The New Economy and Ubiquitous Competitive Price Discrimination: Identifying Defensible Criteria of Market Power," *Antitrust Law Journal*, Vol. 70, No. 3 (2003).

jointly (in the sense that the activities of trading and placing orders are the source of the information that is distributed) and are each subject to significant scale economies.

Competition among trading platforms can be expected to constrain the aggregate return each platform earns from the sale of its joint products. The level of competition and contestability in the market is evident in the numerous alternative venues that compete for order flow, including SRO markets, as well as internalizing BDs and various forms of alternative trading systems (“ATs”), 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 ATs that currently produce proprietary data or are currently capable of producing it provides further pricing discipline for proprietary data products. Each SRO, TRF, AT, and BD is currently permitted to produce proprietary data products, and many currently do or have announced plans to do so, including Nasdaq, NYSE, NYSE MKT, NYSE Arca, and the BATS exchanges.

In this competitive environment, an “excessive” price for one product will have to be reflected in lower prices for other products sold by the Exchange, or otherwise the Exchange may experience a loss in sales that may adversely affect its profitability.

In this instance, the proposed rule change enhances competition by creating a fee structure that reflects the value of the report to both Distributors and Subscribers and encourages the dissemination of the report to professionals and the investing public. If the Short Interest

Report were to become unattractive to members and sponsored firms, those firms would opt not to purchase the product, and it is likely that the Exchange will lose market share as a result. As such, the Exchange does not believe that the proposed changes will impair competition 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.¹⁹

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.

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

¹⁹ 15 U.S.C. 78s(b)(3)(A)(ii).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2017-077 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-2017-077. 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-2017-077, 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.²⁰

Brent J. Fields
Secretary

²⁰ 17 CFR 200.30-3(a)(12).

