



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-98367; File No. SR-NASDAQ-2023-017]

**Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Order Granting Approval of a Proposed Rule Change to Modify the Package of Complimentary Services Provided to Certain Eligible Switches September 12, 2023**

**and Make Other Changes to IM-5900-7 and IM-5900-7A**

September 12, 2023.

I. Introduction

On June 21, 2023, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to modify the package of complimentary services provided to eligible companies and make other changes to Nasdaq Rules IM-5900-7 and IM-5900-7A. The proposed rule change was published for comment in the Federal Register on July 10, 2023.<sup>3</sup> On August 21, 2023, the Commission extended the time period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change to October 8, 2023.<sup>4</sup> The Commission did not receive any comments. As discussed further below, the Commission is approving the proposed rule change.

II. Description of the Proposal

The Exchange proposes to modify the package of complimentary services provided to certain Eligible Switches,<sup>5</sup> to update the values of complimentary services provided under

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 97833 (July 3, 2023), 88 FR 43637 (“Notice”).

<sup>4</sup> See Securities Exchange Act Release No. 98172 (August 25, 2023), 88 FR 58341.

Nasdaq Rules IM-5900-7 and IM-5900-7A, and to remove obsolete provisions from Nasdaq Rule IM-5900-7A.

Currently, Nasdaq offers complimentary services under Nasdaq Rule IM-5900-7 to Eligible New Listings<sup>6</sup> and Eligible Switches<sup>7</sup> newly listing on Nasdaq's Global or Global Select Market (collectively, "Eligible Companies").<sup>8</sup> The services offered include a whistleblower hotline, investor relations website, disclosure services for earnings or other press releases, webcasting, market analytic tools, environmental, social and governance ("ESG") services, and may include market advisory tools such as stock surveillance (collectively the "Service Package").<sup>9</sup> For Eligible New Listings, Nasdaq offers different tiers of complimentary services packages based upon whether the company has a market capitalization of (1) less than \$750 million or (2) \$750 million or more.<sup>10</sup> For Eligible Switches, Nasdaq offers different tiers of complimentary services packages based upon whether the company has a market capitalization of (i) less than \$750 million; (ii) \$750 million or more but less than \$5 billion; or (iii) \$5 billion or more.<sup>11</sup> Nasdaq states that it believes that the complimentary service program offers valuable

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<sup>5</sup> IM-5900-7 defines an Eligible Switch as "a Company: (i) (other than a Company listed under IM-5101-2) switching its listing from the New York Stock Exchange to the Global or Global Select Markets, or (ii) that has switched its listing from the New York Stock Exchange and listed on Nasdaq under IM-5101-2 after the Company publicly announced that it entered into a binding agreement for a business combination and that subsequently satisfies the conditions in IM-5101-2(b) and lists on the Global or Global Select Market in conjunction with that business combination."

<sup>6</sup> IM-5900-7 defines an Eligible New Listing as "a Company listing on the Global or Global Select Market in connection with: (i) an initial public offering in the United States, including American Depository Receipts (other than a Company listed under IM-5101-2), (ii) upon emerging from bankruptcy, (iii) in connection with a spin-off or carve-out from another Company, (iv) in connection with a Direct Listing as defined in IM-5315-1 (including the listing of American Depository Receipts), or (v) in conjunction with a business combination that satisfies the conditions in IM-5101-2(b)."

<sup>7</sup> See supra note 5.

<sup>8</sup> See IM-5900-7A (describing the Service Package available to companies that listed before March 12, 2021, the effective date of SR-NASDAQ-2021-002). See also Securities Exchange Act Release No. 91318 (March 12, 2021), 86 FR 14774 (March 18, 2021) (SR-NASDAQ-2021-002) (modifying the package of complimentary services provided to eligible companies and setting forth in IM-5900-7A the services offered to eligible companies that listed before the effective date of the change).

<sup>9</sup> According to Nasdaq, in addition, all companies listed on Nasdaq receive other standard services from Nasdaq, including Nasdaq Online and the Market Intelligence Desk. See Notice, supra note 3, at 43637, n.6.

<sup>10</sup> See IM-5900-7(c) for additional detail about the types of complimentary services and length of the complimentary services period offered to each tier of Eligible New Listings.

services to newly listing companies, is designed to help ease the transition of becoming a public company or switching markets, and makes listing on Nasdaq more attractive to these companies.<sup>12</sup> According to Nasdaq, it faces competition in the market for listing services and believes that it is reasonable to offer complimentary services to attract and retain listings as part of this competition.<sup>13</sup>

Nasdaq proposes to modify the ESG services available to Eligible Switches with a market capitalization of \$5 billion or more that list on or after the date of the Commission’s approval of the proposed rule change.<sup>14</sup> Nasdaq states that, based on Nasdaq’s experience since first including the ESG services in the Service Package for all Eligible Companies in 2021,<sup>15</sup> Nasdaq has become aware that as companies mature and become larger, they no longer rely on services like the Core ESG software solution, but instead need more sophisticated programs with additional metrics.<sup>16</sup> Nasdaq states that the Core ESG software solution is not valuable to these larger seasoned companies and Nasdaq proposes to instead offer Eligible Switches with a market capitalization of \$5 billion or more an advanced software solution, which will enable the company to select additional metrics to use in the solution (“Advanced ESG Software Solution”).<sup>17</sup> Nasdaq states that the Advanced ESG Software Solution will allow the company to

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<sup>11</sup> See IM-5900-7(d) for additional detail about the types of complimentary services and length of the complimentary services period offered to each tier of Eligible Switches.

<sup>12</sup> See Notice, *supra* note 3 at 43637.

<sup>13</sup> See *id.* at 43638. Nasdaq further states that all similarly situated companies are eligible for the same package of services. *Id.* at 43638.

<sup>14</sup> See proposed IM-5900-7(d)(3)(A). Nasdaq also proposes to add a new paragraph to IM-5900-7(d)(3)(B) that sets forth the ESG services provided to an Eligible Switch with a market capitalization of \$5 billion or more that listed before the effective date of the proposal. Specifically, proposed IM-5900-7(d)(3)(B) states: “an Eligible Switch that listed before [the effective date of SR-NASDAQ-2023-017] and had a market capitalization of \$5 billion or more is not eligible to receive the Advanced ESG Service or ESG Advisory Services, but instead receives the Core ESG Software Solution for four years. The total retail value of these services is up to approximately \$281,200 per year. The Company will also receive one Virtual Event during the four-year period, which has a retail value of approximately \$11,700.”

<sup>15</sup> See *supra* note 8. All Eligible Companies receive access to a Core ESG software solution. This service is currently called “ESG Core” in IM-5900-7. Nasdaq proposes to make a technical change to rename the service to “Core ESG Software Solution.” No other changes are proposed to the service.

<sup>16</sup> See Notice, *supra* note 3 at 43637.

<sup>17</sup> See *id.* Nasdaq states this service has a retail value of approximately \$52,500 per year. See *id.* at n. 10. In addition, one-time development fees of up to \$21,500 to establish the services in the first year will be

track approximately ten times as many standard performance indicators and also allows the company to select and track additional custom performance indicators.<sup>18</sup> Further, Nasdaq states that it will offer these companies \$60,000 worth of ESG consulting services per year (“ESG Advisory Services”) (collectively with Advanced ESG Software Solution, “Advanced ESG Services”).<sup>19</sup> According to Nasdaq, it believes that offering different ESG services based on a company’s market capitalization is not unfairly discriminatory because larger companies generally will need more and different ESG services, and that those issuers will likely bring greater future value to Nasdaq than will other issuers by switching to its market.<sup>20</sup>

Further, each of these services will be available to Eligible Switches with a market capitalization of \$5 billion or more for the same four-year term provided for other services to such category of Eligible Switches under Nasdaq Rule IM-5900-7.<sup>21</sup> Nasdaq states that no company is required to use these services as a condition of listing and, as is the case with other complimentary services, at the end of the package term, companies may choose to renew these services or discontinue them.<sup>22</sup>

Nasdaq also proposes to update the values of the services contained in Nasdaq Rules IM-5900-7 and IM-5900-7A to their current values.<sup>23</sup> According to Nasdaq, depending on a company’s market capitalization and whether it is an Eligible New Listing or an Eligible Switch,

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waived. See id. at n. 10. According to Nasdaq, the total one-time development fees that are waived for Eligible Companies that receive this service, as reflected in proposed IM-5900-7(d)(3)(A) is approximately \$26,500, which also includes approximately \$5,000 to establish the investor relations website. See id. at n. 10.

<sup>18</sup> See id. at 43637.

<sup>19</sup> See id. Nasdaq states that these services are designed to aid the company in identifying and incorporating ESG metrics into communications, with customized analysis and recommendations. See id.

<sup>20</sup> See id. at 43639. Nasdaq also states that such companies would more likely forego ESG services offered by their current exchange when switching their listing to Nasdaq, which smaller companies would not. See id. See also Securities Exchange Act Release No. 94222 (February 10, 2022), 87 FR 8886 (February 16, 2022) (SR-NYSE-2021-68) (approving changes to NYSE Listed Company Manual Section 907.00, including the offer of ESG tools to currently listed companies with 270 million or more total shares of common stock outstanding, but not to companies with fewer shares outstanding).

<sup>21</sup> See Notice, supra note 3 at 43637-38.

<sup>22</sup> See id. at 43637.

<sup>23</sup> Nasdaq states that these services are offered through Nasdaq Corporate Solutions, LLC, an affiliate of Nasdaq, or a third-party provider selected by Nasdaq. See id. at 43638.

the total revised value of the services provided to Eligible Companies (including the waiver of one-time fees) ranges from \$364,800 to \$1,533,000.<sup>24</sup>

Finally, Nasdaq proposes to simplify Nasdaq Rule IM-5900-7A by cross-referencing the description of services and their values that also appears in Nasdaq Rule IM-5900-7 and by deleting the descriptions of offerings that are no longer available to any companies.<sup>25</sup> Nasdaq represents that no other company will be required to pay higher fees as a result of the proposed amendments and that providing this service will have no impact on the resources available for its regulatory programs.<sup>26</sup>

### III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent Section 6 of the Act.<sup>27</sup> Specifically, the Commission finds that the proposed rule change is consistent with Sections 6(b)(4) and (5) of the Act,<sup>28</sup> in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among Exchange members, issuers, and other persons using the Exchange's facilities, and, in general to protect investors and the public interest and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. Moreover, the Commission believes that the proposed

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<sup>24</sup> See *id.* The exact values are set forth in proposed IM-5900-7 and IM-5900-7A. Nasdaq states that, in describing the total value of the services for companies that can select more than one market advisory tool, Nasdaq presumes that a company would use stock surveillance, which has an approximate retail value of \$56,500, and global targeting, which has an approximate retail value of \$48,000. See *id.* Nasdaq states that companies could select different combinations of the three services offered with lower total approximate retail values. See *id.*

<sup>25</sup> As to the description of offerings being deleted from IM-5900-7A, Nasdaq states that the services described in IM-5900-7A(c) and (d)(1) were provided for a term of two years to companies that listed before March 12, 2021. See *id.* at n. 13. Additionally, Nasdaq states that no company still receives the services described in IM-5900-7A(g), which applies only to companies that listed before April 23, 2018. See *id.* Nasdaq also proposes to revise the title of IM-5900-7 to specify that the rule specifies the services offered to certain newly listing companies listed on or after March 12, 2021. See also *supra* note 14 and accompanying text.

<sup>26</sup> See *id.* at 43638. Nasdaq also represents that the proposed rule change will help ensure that individual listed companies are not given specially negotiated packages of products or services to list, or remain listed. See *id.*

<sup>27</sup> 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>28</sup> 15 U.S.C. 78f(b)(4) and (5).

rule change is consistent with Section 6(b)(8) of the Act,<sup>29</sup> in that it does not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

The Commission believes that Nasdaq is responding to competitive pressures in the market for listings in making this proposal. Nasdaq states in its proposal that it faces competition in the market for listing services and that it competes, in part, by offering complimentary services to companies.<sup>30</sup> Specifically, Nasdaq is increasing the types of complimentary ESG services offered for certain Eligible Switches that list on or after the effective date of the proposed rule change. Nasdaq states that the Advanced ESG Services will help eligible companies communicate with their shareholders and other stakeholders by helping collect, store and disclose ESG data chosen by the company and guiding messaging and reporting of that information.<sup>31</sup> Nasdaq also states that the services will help assess the company's current ESG program, identify ESG risk and opportunities, and establish strategies for risk management and opportunity capture.<sup>32</sup> In addition, Nasdaq states that no company is required to use these complimentary services.<sup>33</sup> Further, Nasdaq states that offering different ESG services based on a company's market capitalization is not unfairly discriminatory because larger companies generally will need more and different ESG services and that those issuers will likely bring greater future value to Nasdaq than other issuers by switching to its market.<sup>34</sup>

As stated in the Commission's previous order approving Nasdaq Rule IM-5900-7, Section 6(b)(5) of the Act does not require that all issuers be treated the same; rather, the Act requires that the rules of an exchange not unfairly discriminate between issuers.<sup>35</sup> As the

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<sup>29</sup> 15 U.S.C. 78f(b)(8).

<sup>30</sup> See Notice, supra note 3, at 43638.

<sup>31</sup> See id.

<sup>32</sup> See id.

<sup>33</sup> See id. at 43637.

<sup>34</sup> See id. at 43639. The Exchange also states that companies would more likely forego ESG services offered by their current exchange given that NYSE offers ESG tools to currently listed companies with 270 million or more total shares of common stock outstanding, but not to companies with fewer shares outstanding. See id. at 43638. See also NYSE Listed Company Manual Section 907.00.

Commission has previously found, it is reasonable for Nasdaq to provide different services to tiers based on market capitalization since larger capitalized companies generally will need and use more services.<sup>36</sup> The Commission believes that it is reasonable and consistent with Section 6(b)(5) of the Act for the Exchange to offer the new Advanced ESG Services to Eligible Switches with a market capitalization of \$5 billion or more that list on or after the date of approval of the proposed rule change. For the reasons stated above, the Commission also believes that the proposal does not unfairly discriminate among issuers and is therefore consistent with Section 6(b)(5) of the Act. In addition, the Commission believes that the proposed rule reflects the current competitive environment for exchange listings among national securities exchanges, and is appropriate and consistent with Section 6(b)(8) of the Act.<sup>37</sup>

Further, the Commission believes that describing in the Exchange's rules the products and services available to Eligible Companies and their associated values, as well as the length of time companies are entitled to receive such services, will ensure that individual listed companies are not given specially negotiated packages of products or services to list, or remain listed, that would raise unfair discrimination issues under the Act.<sup>38</sup> The Commission has previously found that the package of complimentary services offered to Eligible Companies is equitably allocated

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<sup>35</sup> 15 U.S.C. 78f(b)(5); see also Securities Exchange Act Release No. 65963 (December 15, 2011), 76 FR 79262, 79266 (December 21, 2011) (approving SR-NASDAQ-2011-122) ("2011 Approval Order") ("The Commission believes that Nasdaq has provided a sufficient basis for its different treatment of Eligible Switches and that this portion of Nasdaq's proposal meets the requirements of the Act in that it reflects competition between exchanges, with Nasdaq offering discounts for transfers of listings from a competing exchange."). See also Exchange Act Release No. 79366 (November 21, 2016), 81 FR 85663, 85665 (November 28, 2016) (approving SR-NASDAQ-2016-106) ("2016 Approval Order") (citing Securities Exchange Act Release No. 65127 (August 12, 2011), 76 FR 51449, 51452 (August 18, 2011) (approving SR-NYSE-2011-20) ("NYSE Approval Order")).

<sup>36</sup> See 2011 Approval Order, supra note 35, at 79266. As the Commission previously stated, Nasdaq's rationale for treating NYSE transfers differently from other types of transfers, including that those issuers provided greater future value to Nasdaq through their listing than do other issuers and that the issuers must forego similar services provided by NYSE, among other factors, justified such differential treatment. See id. As stated above Nasdaq, provided similar rationale for only providing the Advanced ESG Services to Eligible Switches with a market capitalization of \$5 billion or more.

<sup>37</sup> 15 U.S.C. 78f(b)(8).

<sup>38</sup> See 2016 Approval Order, supra note 35, at 85665 (citing NYSE Approval Order, supra note 35, at 51452). The Commission notes that Nasdaq represents that no other company will be required to pay higher fees as a result of the proposal, that the proposal will have no impact on the resources available for its regulatory programs, and that the proposal will help to ensure that individual listed companies are not given specially negotiated packages of products or services to list, or remain listed. See supra note 26 and accompanying text.

among issuers consistent with Section 6(b)(4) of the Act and that describing the values of the services adds greater transparency to the Exchange's rules and to the fees applicable to such companies.<sup>39</sup> As discussed above, the Commission believes that adding the Advanced ESG Services to the complimentary services package offered to Eligible Switches with a market capitalization of \$5 billion or more for Eligible Switches that list on or after the effective date of the proposed rule change is consistent with Section 6(b)(5) of the Act. As stated above, the Commission also believes that the proposal does not unfairly discriminate among issuers and is therefore consistent with Section 6(b)(5) of the Act. For similar reasons, the Commission believes that the packages of complimentary services to be offered pursuant to Nasdaq's proposal are equitably allocated among issuers consistent with Section 6(b)(4) of the Act.

The Commission also believes that it is reasonable, and required by Section 19(b) of the Act,<sup>40</sup> that Nasdaq amend its rules to update the products and services it offers to Eligible Companies contained in Nasdaq Rules IM-5900-7 and IM-5900-7A, including the time periods for which such products and services are offered and the commercial value of such products and services. This provides greater transparency to the Exchange's rules and the fees, and the value of complementary products and services, applicable to Eligible Companies.

Finally, the Commission finds that it is consistent with Section 6(b)(5) of the Act<sup>41</sup> for Nasdaq to make various technical and conforming revisions, as described above,<sup>42</sup> to facilitate clarity of its rules.

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<sup>39</sup> See 2016 Approval Order, *supra* note 35, at 85665; 2011 Approval Order, *supra* note 35, at 79266.

<sup>40</sup> See Exchange Act Release No. 72669 (July 24, 2014), 79 FR 44234, 44236, n.39 (July 30, 2014) (SR-NASDAQ-2014-058) ("We would expect Nasdaq, consistent with Section 19(b) of the Exchange Act, to periodically update the retail values of services offered should they change. This will help to provide transparency to listed companies on the value of the free services they receive and the actual costs associated with listing on Nasdaq.").

<sup>41</sup> 15 U.S.C. 78f(b)(5).

<sup>42</sup> See *supra* note 25 and accompanying text.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>43</sup> that the proposed rule change (SR-NASDAQ-2023-017) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>44</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2023-20087 Filed: 9/15/2023 8:45 am; Publication Date: 9/18/2023]

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<sup>43</sup> 15 U.S.C. 78s(b)(2).

<sup>44</sup> 17 CFR 200.30-3(a)(12).