

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85959; File No. SR-NYSENAT-2019-13)

May 29, 2019

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

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 May 21, 2019, NYSE National, Inc. (“NYSE National” or the “Exchange”) 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 update the description of the access to trading and execution systems provided with the purchase of access to the co-location local area networks. 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 concerning the purpose of, and basis for, the proposed rule change and discussed any comments it

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 update the description of the access to trading and execution services and connectivity to data provided to Users⁵ with connections to the Liquidity Center Network (“LCN”) and internet protocol (“IP”) network, local area networks available in the data center.

To implement the changes, the Exchange proposes to amend paragraph one of General Note 4, which describes the access to trading and execution systems which a User receives when it purchases access to the LCN or IP network.⁶

The Exchange will announce the implementation date through a customer notice.

As set forth in the first paragraph of General Note 4, when a User purchases access to the LCN or IP network, it receives the ability to access the trading and execution systems of the

⁴ The Exchange initially filed rule changes relating to its co-location services with the Securities and Exchange Commission (“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 with NYSE, NYSE American, and NYSE Chicago, Inc., the “Affiliate SROs”). See id. at note 11.

⁶ See id. at 26315-26316.

Exchange and the SRO Affiliates (together, the “Exchange Systems”), provided the User has authorization from the Exchange or relevant Affiliate SRO.⁷ The Exchange proposes to revise such paragraph to reflect that a User that purchases access to the LCN or IP network also receives the ability to access the trading and execution systems of Global OTC (“Global OTC System”), subject to authorization by Global OTC.

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 any applicable fees charged to its subscribers by Global OTC. Once the Exchange receives authorization from Global OTC, the Exchange would establish a connection between the User and the Global OTC System.

The Exchange provides Users access to the Global OTC System and the Exchange Systems (“Access”) as a convenience to Users. Use of Access is completely voluntary. The Exchange is not aware of any impediment to third parties offering Access. As alternatives to using the Access to the Global OTC System provided by the Exchange, 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.

Global OTC

Global OTC is an affiliate of the Exchange, which has an indirect interest in Global OTC

⁷ See id.

because it is owned by the Exchange's ultimate parent, Intercontinental Exchange, Inc.⁸

Unlike the NYSE Exchanges, Global OTC is not a national securities exchange registered with the Securities and Exchange Commission (“Commission”) under Section 6 of the Act.⁹ Rather, Global OTC is an alternative trading system (“ATS”)¹⁰ operated by a broker-dealer, a member of the Financial Industry Regulatory Authority. It facilitates transactions in over-the-counter (“OTC”) equity securities, providing publicly displayed, firm, auto-executable prices in the OTC securities marketplace. There is no overlap in the securities traded on the NYSE Exchanges and Global OTC: members trade National Market System (“NMS”) securities on the NYSE Exchanges,¹¹ but Global OTC subscribers cannot trade NMS securities on Global OTC.

The Exchange charges fees for connectivity to the execution systems of third party markets and other content service providers, including two ATSS.¹² Of those, the Exchange believes the OTC Markets ATS is the most comparable to Global OTC.¹³ Both are inter-dealer

⁸ See id. at 26322. Global OTC is operated by Archipelago Trading Services, Inc., which is a broker-dealer subsidiary of NYSE Group, Inc. (“NYSE Group”). NYSE Group is also the parent company of the Exchange.

⁹ 15 U.S.C. 78f. Global OTC is not required to register as a national securities exchange because it operates under an exemption from the requirement to register as an exchange. See 17 CFR § 240.3a1-1(a) and 17 CFR § 240.300 through 304.

¹⁰ 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.

¹¹ See 17 CFR § 242.600.

¹² See 83 FR 26314, supra note 5, at 26322. Credit Suisse and OTC Markets have ATSS. See Commission list of ATSS at <https://www.sec.gov/foia/docs/atlist.htm>.

¹³ The OTC Markets’ ATS is OTC Link. Global OTC is substantially smaller than OTC Markets’ ATS: Global OTC’s market share is approximately 10% of average daily volume of trades of over-the-counter equities, compared to OTC Markets’ ATS market share of approximately 90% of average daily volume of trades. See <https://www.globalotc.com/brokers/market-share>.

quotation systems for OTC securities.¹⁴ Global OTC and the OTC Markets' ATS are not fungible, however. The OTC Markets' ATS is a trade messaging system that displays market makers quotes and does not offer automatic executions. While Global OTC provides a limit order book, displays participants' orders, and executes orders pursuant to price/time priority, OTC Markets' ATS displays market makers' quotes by price priority, not time priority. In sum, OTC Markets' ATS is a market maker intermediary, whereas Global OTC is a trading platform.

The Proposed Amendments

To implement the change, the Exchange proposes to revise the first paragraph of General Note 4 as follows:

- Amend the first sentence to state that when a User purchases access to the LCN or IP network, it receives the ability to access the Global OTC System as well as the Exchange Systems, subject to authorization by Global OTC, the Exchange or Affiliate Exchange, as applicable;
- Amend the third sentence to note that a User can change the access to the Global OTC System that it receives at any time, subject to authorization by Global OTC; and
- Add a new fifth sentence stating that "Global OTC offers access to the Global OTC System to its subscribers, such that a User does not have to purchase access to the LCN or IP network to obtain access to the Global OTC System."

General

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

¹⁴ The third inter-dealer quotation system is the OTC Bulletin Board, a facility of the Financial Industry Regulatory Authority.

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

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, as compared to Users that are not co-located, in sending orders to, and receiving market data from, the Exchange.

¹⁶ See 83 FR 26314, supra note 5, 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-2019-31, SR-NYSEAmer-2019-21, and SR-NYSEArca-2019-40.

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

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 rule 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 it would allow Users to connect to the Global OTC System, thereby increasing Users' ability to tailor their data center operations to the requirements of their business operations by allowing them to select the form and latency of access that best suits their needs. Global OTC provides publicly displayed, firm, auto-executable prices in the OTC securities marketplace, and the Exchange believes that allowing Users to connect to the Global OTC System would promote price discovery and transparency in the OTC market, benefiting participants in such market. At the same time, Users are not required to use any of their bandwidth to access the Global OTC System unless they wish to do so. Rather, a User only receives the Access that it selects, and a User can change what Access it receives at any time, subject to authorization from the Exchange, Affiliate SRO or Global OTC, as applicable.

The Exchange provides Access as a convenience to Users. Use of Access is completely voluntary, and each User has several other access options available to it. As alternatives to using the Access to the Global OTC System provided by the Exchange, a User may access the Global OTC System through the SFTI network, a third party telecommunication network, third party wireless network, a cross connect, or a combination thereof to access the Global OTC System

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 revisions to General Note 4 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 they would make the description of Access more accessible and transparent by including Global OTC, thereby providing market participants with clarity as to what connectivity is included in the purchase of access to the LCN and IP network, avoiding any potential investor confusion. The proposed revisions to General Note 4 would provide a more detailed and accurate description of the Access Users receive with their purchase of access to the LCN or IP network. The proposed rule change would also make clear that Access to each of the Exchange Systems and the Global OTC System is provided on the same terms. All Users that voluntarily select to access the LCN or IP network receive Access to the Exchange Systems and the Global OTC System, and are not subject to a charge for such Access above and beyond the fee paid for the relevant LCN or IP network access.

The Exchange also believes that the proposed rule changes are consistent with Section 6(b)(4) of the Act,¹⁹ 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 changes are consistent with Section 6(b)(4) of the Act for multiple reasons.

¹⁹ 15 U.S.C. 78f(b)(4).

The proposed rule change is reasonable and equitable because, as stated above, it would also make clear that Access to each of the Exchange Systems and Global OTC System is provided on the same terms. The Exchange further believes that the Access to the Global OTC System described herein is equitably allocated and not unfairly discriminatory because all Users that voluntarily select to access the LCN or IP network receive the same Access, and are not subject to a charge for Access to Global OTC above and beyond the fee paid for the relevant LCN or IP network access. Users are not required to use any of their bandwidth to access the Global OTC System unless they wish to do so. Rather, a User only receives the Access that it selects, and a User can change what Access it receives at any time, subject to authorization from the Exchange, Affiliate SRO or Global OTC, as applicable. In addition to the service being completely voluntary, it is available to all Users on an equal basis. Users that opted to Access the Global OTC System would not receive access that is not available to all Users.

The Exchange believes that the proposed rule change does not unfairly discriminate between customers, issuers, brokers or dealers in not charging Users an additional fee to access Global OTC while charging a connectivity fee to access OTC Markets, because Global OTC and the OTC Markets ATS are not fungible. A User that opted to access Global OTC or OTC Markets would choose between them based on a variety of factors, including not just the reasonableness of fees charged, but also the extent to which it wished to have publicly displayed, firm, auto-executable prices. In addition, the Exchange is not the sole method a User can use to access the OTC Markets ATS. A User may use the SFTI network, a third party telecommunication network, a cross connect, or a combination thereof to access the OTC Markets ATS 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 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 above, the proposed changes do 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,²⁰ 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, in addition to the proposed services being completely voluntary, they are available to all Users on an equal basis (i.e. the same products and

²⁰ 15 U.S.C. 78f(b)(8).

services are available to all Users). The Exchange believes that the proposed changes are reasonable and designed to be fair and equitable, and therefore, will not unduly burden any particular group of Users.

The Exchange believes that providing Users that purchase access to the LCN or IP network with Access to the Global OTC System does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because, by offering Access to the Global OTC System, the Exchange gives each User additional options for addressing its access needs, responding to User demand for access options. The Exchange provides Access as a convenience to Users. Use of Access is completely voluntary, and each User has several other access options available to it. As alternatives to using the Access to the Global OTC System provided by the Exchange, a User may access the Global OTC System through the SFTI network, a third party telecommunication network, third party wireless network, a cross connect, or a combination thereof to access the Global OTC System 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 Access the Global OTC System 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 rule change does not unfairly discriminate between customers, issuers, brokers or dealers in not charging Users an additional fee to access Global OTC while charging a connectivity fee to access OTC Markets, because Global OTC and

the OTC Markets ATS are not fungible. A User that opted to access Global OTC or OTC Markets would choose between them based on a variety of factors, including not just the reasonableness of fees charged, but also the extent to which it wished to have publicly displayed, firm, auto-executable prices. In addition, the Exchange is not the sole method a User can use to access the OTC Markets ATS. A User may use the SFTI network, a third party telecommunication network, a cross connect, or a combination thereof to access the OTC Markets ATS 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 revisions to General Note 4 would provide a more detailed and accurate description of the Access Users receive with their purchase of access to the LCN or IP network, thereby enhancing competition by ensuring that all Users have access to the same information regarding Access.

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 Act²¹ and Rule 19b-4(f)(6) thereunder.²² Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant 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.²³

A proposed rule change filed under Rule 19b-4(f)(6)²⁴ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²⁵ the Commission may designate a shorter time if such action is consistent with the

²¹ 15 U.S.C. 78s(b)(3)(A)(iii).

²² 17 CFR 240.19b-4(f)(6).

²³ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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.

²⁴ 17 CFR 240.19b-4(f)(6).

²⁵ 17 CFR 240.19b-4(f)(6)(iii).

protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange believes that waiver of the operative delay would allow Users to have access to the Global OTC System during the operative delay period and would provide Users with options for connectivity to trading and execution services and the availability of products and services. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission waives the 30-day operative delay and designates the proposed rule change operative upon filing.²⁶

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)²⁷ 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:

²⁶ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁷ 15 U.S.C. 78s(b)(2)(B).

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-2019-13 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-NYSENAT-2019-13. 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-2019-13 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.²⁸

Eduardo A. Aleman
Deputy Secretary

²⁸ 17 CFR 200.30-3(a)(12).