

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76008; File No. SR-NYSE-2015-40]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Adding Definitions Applicable to Certain Co-Location Services to the Exchange's Price List and Modifying the Fee for Users That Host Their Customers at the Exchange's Data Center

September 29, 2015.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act"),<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on September 18, 2015, New York Stock Exchange LLC ("NYSE" 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 add definitions applicable to certain co-location services to the Exchange's Price List and modify the fee for users that host their customers at the Exchange's Data Center. The text of the proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://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 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 operates a data center in Mahwah, New Jersey, from which it provides co-location services to Users.<sup>4</sup> The Exchange's co-location services allow Users to rent space in the data center so they may locate their electronic servers in close physical proximity to the Exchange's trading and execution system.<sup>5</sup> The Exchange proposes to amend the Exchange's Price List ("Price List") as it applies to co-location services to add the definitions of User, Hosting User and Hosted Customer. The Exchange also proposes to modify the fee for users that host their customers at the Exchange's Data Center, effective January 1, 2016.<sup>6</sup>

##### Definitions of User, Hosting User and Hosted Customer

In 2011, the Exchange changed the definition of the term "User," for the purposes of co-location services, to include any market participant that requests to receive co-location services directly from the Exchange.<sup>7</sup> As described in the 2011 Release, Users could include member organizations, as that term is defined in NYSE Rule 2(b) ("Members"); Sponsored Participants, as that term is defined in NYSE Rule 123B.30(a)(ii)(B) ("Sponsored Participant"); and non-member organization broker-dealers and vendors that request to receive co-location services directly from the Exchange. At the time, the Exchange contemplated that such definition would encompass Users that would provide, for example, hosting, service bureau, technical support, risk management, order routing and market data delivery services to their customers while such Users are co-located in the Exchange's data center.

The Exchange proposes to add the current definition of User to the Price

List, without changes from the 2011 Release, as follows:

A "User" means any market participant that requests to receive co-location services directly from the Exchange.

The proposed definition would, consistent with the 2011 Release, encompass Members, Sponsored Participants and non-member broker-dealers, as well as vendors that provide hosting, service bureau and technical support, risk management services, order routing services and market data delivery services to their customers while such Users are co-located in the Exchange's data center. Any entity that could be a User based on the term as described in the 2011 Release would be considered a User under the proposed definition.

The Exchange also proposes to make a non-substantive change to the description in the Exchange's Price List of the Exchange's billing practice for co-location services received by Users that connect to the Exchange and one or more of its affiliates, by replacing the term, "user," with the defined term, "User."

In the 2011 Release, the Exchange also amended its Price List to establish a fee applicable to Users that provide hosting services to their customers at the Exchange's data center. As described in the 2011 Release, "hosting" is a service offered by a User to another entity in the User's space within the data center and can include, for example, a User supporting such other entity's technology, whether hardware or software, through the User's co-location space. The 2011 Release used the term "Hosted User" to describe a customer to which a User provides hosting services.

The Exchange now proposes to include the definitions relating to hosting services in the Exchange's Price List, as follows:

A "Hosting User" means a User that hosts a Hosted Customer in the User's co-location space.

A "Hosted Customer" means a customer of a Hosting User that is hosted in a Hosting User's co-location space.

The proposed definition of "Hosting User" incorporates the description of a User that hosts customers in its co-location space as set forth in the 2011 Release. For the avoidance of doubt, a Hosting User must be a User pursuant to the proposed definition of User. Any User that could be a Hosting User based on the description of a User that hosts customers in the 2011 Release would be considered a Hosting User under the proposed definition.

<sup>4</sup> The Exchange initially filed rule changes relating to its co-location services with the Securities and Exchange Commission ("Commission") in 2010. See Securities Exchange Act Release No. 62960 (September 21, 2010), 75 FR 59310 (September 27, 2010) (SR-NYSE-2010-56).

<sup>5</sup> See *id.* at 59310.

<sup>6</sup> 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 NYSE MKT LLC and NYSE Arca, Inc. See Securities Exchange Act Release No. 70206 (August 15, 2013), 78 FR 51765 (August 21, 2013) (SR-NYSE-2013-59).

<sup>7</sup> See Securities Exchange Act Release No. 65973 (December 15, 2011), 76 FR 79232 (December 21, 2011) (SR-NYSE-2011-53) (the "2011 Release").

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

The proposed definition of “Hosted Customer” would be a customer of a Hosting User that is hosted in a Hosting User’s co-location space, and would be consistent with the description of the term “Hosted User” used in the 2011 Release.<sup>8</sup> The Exchange proposes to change the name of the term from “Hosted User” to “Hosted Customer” to make it clear that the entities that are hosted are customers of the Hosting Users that do not, in contrast to Users, have a direct contractual relationship with the Exchange vis-à-vis co-location services. For consistency with this proposed change, the Exchange also proposes to change the term “Hosted User” as used in the “Hosting Fee” set forth in the Price List, to “Hosted Customer.” Since, as noted above, only Users can be Hosting Users, a Hosted Customer may not provide hosting services to any other entities in the space in which it is hosted. Other than the change to the name of the definition, no other changes to the definition are intended and all current customers of a Hosting User would be “Hosted Customers” under the proposed definition.

#### Hosting Fee

In the 2011 Release, the Exchange amended its Price List to establish a fee charged to Users of \$500.00 per month with respect to each Hosted Customer (defined as “Hosted User” in the 2011 Release) that a User hosts in the Exchange’s data center (the “Hosting Fee”).

Effective January 1, 2016, the Exchange proposes to modify the Hosting Fee to provide that the Hosting Fee would be assessed to a Hosting User on a per Hosted Customer basis and for each cabinet in which the Hosting User hosts the Hosted Customer. This approach to hosting fees is comparable to the structure used by the NASDAQ Stock Market, Inc. (“NASDAQ”) in its Multi-Firm Cabinets Fee, and would similarly mean that a Hosting User would be assessed the Hosting Fee for each Hosted Customer that occupies space in a cabinet.<sup>9</sup> Thus, for example, if a Hosting User hosts a Hosted Customer in two of the Hosting User’s cabinets, the Hosting User would be charged two Hosting Fees, one for each cabinet in which the Hosted Customer

is hosted. The Exchange also proposes to increase the monthly Hosting Fee from \$500 per Hosted Customer to \$1,000 per Hosted Customer for each cabinet in which the Hosted Customer is hosted, effective January 1, 2016.

As is the case currently, Users may independently set fees for their Hosted Customers and the Exchange would not receive a share of any such fees.

#### 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 User or customer is a Member, a Sponsored Participant or an agent thereof (*e.g.*, a service bureau providing order entry services) and (ii) use of the co-location services proposed herein would be completely voluntary and available to all Users on a non-discriminatory basis.<sup>10</sup> In addition, 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 both of its affiliates.<sup>11</sup>

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,<sup>12</sup> in general, and furthers the objectives of Sections 6(b)(5) of the Act,<sup>13</sup> 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 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 proposal is not designed to permit unfair discrimination between customers, issuers, broker, or dealers. First, the proposed addition of the definitions for User, Hosting User and Hosted Customer to the Price List, would, by their addition to the Price List, make the application of such definitions more accessible and transparent. There is no change to the definition of User. There is no change to the definition of “Hosted User” as described in the 2011 Release other than to change the name to “Hosted Customer” to add clarity to the use and the application of the definition. The proposed new term, “Hosting User” reflects the description of a User that hosts customers in its co-location space as set forth in the 2011 Release. Finally, an entity that could be a User, a User that hosts customers and a Hosted User based on the 2011 Release, would be considered a User, Hosting User or Hosted Customer, respectively, under the proposed definitions. The proposed definitions would be applied uniformly for comparable services provided by the Exchange.

The Exchange believes that the proposal would remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, protect investors and the public interest because by including definitions in the Price List, the proposed change would provide Users with clarity as to the availability and application of co-location hosting services and fees.

The proposed change to the Hosting Fee would be applied uniformly for comparable services provided by the Exchange to comparable Hosting Users and their customers and would not unfairly discriminate between similarly situated Hosting Users. The Exchange notes that assessing a fee per Hosted Customer per cabinet is comparable to the approach that NASDAQ takes to the same type of services in its Multi-Firm Cabinets Fee.<sup>14</sup> The Exchange also notes that the Hosting Fee has not been changed since it was established in

<sup>8</sup> A “customer of a Hosting User,” as used in the definition of a “Hosted Customer” would be any person that has a contractual relationship with a Hosting User to use that Hosting User’s co-location space. There is no limitation on the types of persons who could be Hosted Customers.

<sup>9</sup> See Nasdaq Rule 7034(a) and Securities Exchange Act Release No. 71200 (Dec. 30, 2013), 79 FR 677 (Jan. 6, 2014) (SR-NASDAQ-2013-157).

<sup>10</sup> 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 others with access to the Exchange’s trading and execution systems. 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 users that have access to the Exchange’s trading and execution systems, although Users that receive co-location services normally would expect reduced latencies in sending orders to, and receiving market data from, the Exchange.

<sup>11</sup> See SR-NYSE-2013-59, *supra* note 6 at 51766. The Exchange’s affiliates have also submitted substantially the same proposed rule change to propose the changes described herein. See SR-NYSEMKT-2015-67 and SR-NYSEArca-2015-82.

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> See *supra* note 9.

2011. The Exchange believes the proposed Hosting Fee is reasonable in that the fee is designed to reflect the expenses and resources expended by the Exchange in connection with hosting services. In addition, while Hosting Users may independently set fees for their Hosted Customers, and the Exchange would not receive a share of any such fees, the Hosting Fee on a per Hosted Customer per cabinet basis continues to be lower than the fees a Hosted Customer would pay for co-location space purchased directly from the Exchange.

The Exchange also believes that the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>15</sup> 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. Overall, the Exchange believes that the proposed change is consistent with the Act because the Exchange offers the co-location services described herein as a convenience to Users, but in so doing incurs certain costs, including costs related to the data center facility, hardware and equipment and costs related to personnel required for initial installation and ongoing monitoring, support and maintenance of such services.

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

Finally, the Exchange believes that it is subject to significant competitive forces, as described below in the Exchange's statement regarding the burden on competition.

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,<sup>16</sup> the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because any 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 could have access to the co-location services provided in the data center. This is also true because, in addition to the services being completely voluntary, they are available to all Users on an equal basis (*i.e.*, the same range of products and services are available to all Users).

The Exchange believes that incorporating the definitions of User, Hosting User and Hosted Customer into the Price List, the change to the Hosting Fee and the change to the application of the Hosting Fee will not impose any burden on competition that is not necessary or appropriate in further of the purposes of the Act because the definitions have been previously filed with the Commission<sup>17</sup> and their inclusion in the Price List will provide further clarity in the application of the fees. The Exchange believes that the changes to the Hosting Fee will not impose any burden on competition that is not necessary or appropriate in further of the purposes of the Act because they are designed to reflect the expenses and resources expended by the Exchange in connection with hosting services and because NASDAQ takes the same approach to the same type of services in its Multi-Firm Cabinets Fee.<sup>18</sup>

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if, for example, they deem fee levels at a particular venue to be excessive or if they determine that another venue's products and services are more competitive than on the Exchange. In such an environment, the Exchange must continually review, and consider adjusting, the services it offers as well as any corresponding fees and credits to remain competitive with other exchanges. 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**

Because the foregoing 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 for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>19</sup> and Rule 19b-4(f)(6) thereunder.<sup>20</sup>

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 change should be approved or disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2015-40 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-NYSE-2015-40. 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

<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4(f)(6). Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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

<sup>16</sup> 15 U.S.C. 78f(b)(8).

<sup>17</sup> See 2011 Release, *supra* note 7.

<sup>18</sup> See *supra* note 9.

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, 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-NYSE-2015-40 and should be submitted on or before October 26, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

**Robert W. Errett,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76016; File No. SR-BYX-2015-40]

### Self-Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Restructure and Amend Rule 11.17, Clearly Erroneous Executions

September 29, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 21, 2015, BATS Y-Exchange, Inc. (the "Exchange" or "BYX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which items have been prepared by the Exchange. 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 filed a proposal to restructure and amend Rule 11.17, Clearly Erroneous Executions, in order to conform to the rules of EDGA Exchange, Inc. ("EDGA") and EDGX Exchange, Inc. ("EDGX").<sup>3</sup>

The text of the proposed rule change is available at the Exchange's Web site at [www.batstrading.com](http://www.batstrading.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 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 parts of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

In early 2014, the Exchange and its affiliate, BATS Exchange, Inc. ("BZX"), received approval to effect a merger (the "Merger") of the Exchange's parent company, BATS Global Markets, Inc., with Direct Edge Holdings LLC, the indirect parent of EDGX and EDGA (together with BZX, BYX and EDGX, the "BGM Affiliated Exchanges").<sup>4</sup> In the context of the Merger, the BGM Affiliated Exchanges are working to align their rules, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the Exchange proposes to restructure and amend Rule 11.17, Clearly Erroneous Executions, in order to conform to the corresponding rules of EDGA and EDGX and provide a consistent rule set across each of the BGM Affiliated Exchanges.<sup>5</sup>

<sup>3</sup> See EDGA and EDGX Rule 11.15.

<sup>4</sup> See Securities Exchange Act Release No. 71375 (January 23, 2014), 79 FR 4771 (January 29, 2014) (SR-BATS-2013-059; SR-BYX-2013-039).

<sup>5</sup> The Exchange notes that BZX intends to file an identical proposal with the Commission to restructure and amend its Rule 11.17, Clearly Erroneous Executions, to conform to EDGA and EDGX Rules 11.15.

#### Background

On September 10, 2010, the Commission approved, on a pilot basis, changes to BATS Rule 11.17 to provide for uniform treatment: (1) Of clearly erroneous<sup>6</sup> execution reviews in multi-stock events involving twenty or more securities; and (2) in the event transactions occur that result in the issuance of an individual stock trading pause by the primary listing market and subsequent transactions that occur before the trading pause is in effect on the Exchange.<sup>7</sup> The Exchange also adopted additional changes to Rule 11.17 that reduced the ability of the Exchange to deviate from the objective standards set forth in Rule 11.17,<sup>8</sup> and in 2013, adopted a provision designed to address the operation of the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the "Limit Up-Limit Down Plan" or the "Plan").<sup>9</sup> In 2014, the Exchange adopted two additional provisions providing that: (i) A series of transactions in a particular security on one or more trading days may be viewed as one event if all such transactions were effected based on the same fundamentally incorrect or grossly misinterpreted issuance information resulting in a severe valuation error for all such transactions (the "Multi-Day Event"); and (ii) in the event of any disruption or malfunction in the operation of the electronic communications and trading facilities of an Exchange, another SRO, or responsible single plan processor in connection with the transmittal or receipt of a trading halt, an Officer, acting on his or her own motion, shall nullify any transaction that occurs after a trading halt has been declared by the primary listing market for a security and before such trading halt has officially ended according to the primary listing market.<sup>10</sup>

<sup>6</sup> The terms of a transaction executed on the Exchange are "clearly erroneous" when there is an obvious error in any term, such as price, number of shares or other unit of trading, or identification of the security. A transaction made in clearly erroneous error and cancelled by both parties or determined by the Exchange to be clearly erroneous will be removed from the Consolidated Tape. See Exchange Rule 11.17(a).

<sup>7</sup> Securities Exchange Act Release No. 62886 (Sept. 10, 2010), 75 FR 56613 (Sept. 16, 2010) (SR-BATS-2010-016).

<sup>8</sup> *Id.*

<sup>9</sup> See Securities Exchange Act Release No. 68797 (Jan. 31, 2013), 78 FR 8635 (Feb. 6, 2013) (SR-BATS-2013-008); see also current BATS Rule 11.17(h).

<sup>10</sup> See Securities Exchange Act Release No. 72434 (June 19, 2014), 79 FR 36110 (June 25, 2014) (SR-BYX-2014-007).

<sup>21</sup> 17 CFR 200.30-3(a)(12).

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

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