



July 10, 2018

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No. SR-NASDAQ-2018-038

Dear Mr. Fields:

The Nasdaq Stock Market LLC (“Nasdaq”) writes this letter in response to a June 12, 2018 comment letter that the Securities and Exchange Commission (“SEC” or “Commission”) received from Themis Trading LLC (“Themis”). In its letter, Themis critiqued Nasdaq’s proposal to establish a Price Improvement Only (“PIO”) variant of the Midpoint Extended Life Order (“M-ELO”) (the “Proposal”)¹ based, in part, on the assertion that the Proposal “would offer advantages to professional traders in a way that seems to contradict the purpose that Nasdaq gave when it asked the SEC to approve the MELO order type.”² Nasdaq wishes to correct the public record with respect to Themis’ assertions about M-ELO and PIO, which are incorrect.

Nasdaq wishes to clarify that its purpose in establishing M-ELO was – and it still remains – “to increase access to, and participation on, Nasdaq for investors that are less concerned with time to execution, but rather are looking to source liquidity, often in greater size, at the midpoint of the NBBO against a contra-party Order that has met the same objectives.”³ Nasdaq specifically designed M-ELOs to have certain features that would unite counterparties with similar investment time horizons and minimize market impact – *i.e.*, the half-second Holding Period for each M-ELO, the ranking of M-ELOs by time only, and the restriction that M-ELOs can only interact with other M-ELOs.

¹ See Securities Exchange Act Release No. 83272 (May 17, 2018), 83 FR 23978 (Apr. 20, 2018) (SR-NASDAQ-2018-038).

² Themis Ltr. at 1.

³ Release No. 34–81311 (Aug. 3, 2017); 82 FR 37248, at 37251 (SR-NASDAQ-2018-074).

As stated in its original M-ELO proposal, Nasdaq “weighed various ideas on how to augment the interaction on Nasdaq” so that participants that “have longer term investment horizons and that focus on minimizing market impact rather than optimizing for queue placement” would be better served on a public exchange.⁴

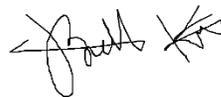
The intended purpose of PIO would be to provide these same participants with an additional protective mechanism by which to manage the risks associated with market volatility that occurs during the half-second Holding Period prior to M-ELOs becoming executable. Although the participants M-ELO was designed for are “not necessarily measuring execution quality solely by each tick by tick change in market price” Nasdaq believes these investors are seeking to minimize market impact.⁵ M-ELO with PIO is another mechanism with which to protect against market impact and to guarantee a price that is better than the participant’s stated limit price – therefore providing a built-in price improvement mechanism. In addition, M-ELO with PIO would help these investors to manage volatility more efficiently without having to cancel and re-price their orders to limit unwanted executions.

Themis is simply mistaken that PIO would transform the M-ELO into a vehicle by which firms could achieve speed-based advantages. Specifically, Themis is wrong that PIO would enable M-ELO users to obtain higher priority in the M-ELO queue relative to other investors. M-ELOs with PIO would be no different than regular M-ELOs in that Nasdaq would rank them only by the time at which the orders became executable. Price would not be a factor in the ranking process. Said otherwise, Nasdaq would not give higher priority to a M-ELO with PIO to the extent that a market participant entered a M-ELO PIO priced more aggressively than other M-ELOs or M-ELOs with PIO.

In sum, the addition of PIO is entirely consistent with the purpose of M-ELO. The same investors for which M-ELO was designed are the ones for which M-ELO with PIO was designed. PIO would provide users with a valuable means by which they can mitigate execution risks while achieving high-quality executions for customers.

Nasdaq appreciates the opportunity to respond to this comment letter. Please do not hesitate to contact us with any questions you may have about our response or any aspect of Nasdaq’s Proposal.

Respectfully,



Brett M. Kitt
Senior Associate General Counsel

⁴ 82 FR 37248, at 37249.

⁵ Id.