

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- 75252; File No. SR-NASDAQ-2015-024)

June 22, 2015

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1, to Amend and Restate Certain Nasdaq Rules that Govern the Nasdaq Market Center

I. Introduction

On March 16, 2015, The NASDAQ Stock Market LLC (“Nasdaq” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend and restate certain Nasdaq rules that govern the Nasdaq Market Center in order to provide a clearer and more detailed description of certain aspects of its functionality. The proposed rule change was published for comment in the Federal Register on March 26, 2015.³ The Commission received no comment letters regarding the proposed rule change. On May 6, 2015, the Commission extended to June 24, 2015, the time period in which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved.⁴ On June 15, 2015, the Exchange filed Amendment No. 1 to the proposed rule change.⁵ This order approves the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 74558 (March 20, 2015), 80 FR 16050 (“Notice”).

⁴ See Securities Exchange Act Release No. 74881, 80 FR 27216 (May 12, 2015).

⁵ In Amendment No. 1, the Exchange proposed to correct typographical errors in the original filing, further improve the clarity of certain rule language, and include additional explanation with regard to the purpose of the proposed rule change.

II. Description of the Amended Proposal

The Exchange proposes to amend and restate certain rules governing the Nasdaq Market Center in order to provide additional detail and clarity regarding its order type functionality.⁶ This proposed rule change is a response to Chair White’s request that each self-regulatory organization (“SRO”) conduct a comprehensive review of the operation of each of the order types that it offers to members.⁷

While the Exchange believes that its current rules and other public disclosures provide a comprehensive description of the operation of the Nasdaq Market Center and are sufficient for members and the investing public to have an accurate understanding of its market structure,⁸ it also acknowledges that a restatement of certain rules will further clarify the operation of its system.⁹ For instance, Nasdaq believes that adding examples of order type operation to its rules will promote greater understanding of Nasdaq’s market structure.¹⁰ In addition, Nasdaq asserts that certain functionality previously described as an “order type” is more precisely characterized as an attribute that may be added to a particular order.¹¹ Accordingly, this proposed rule change distinguishes between “Order Types” and “Order Attributes,” and provides descriptions of the Order Attributes that may be attached to particular Order Types.¹²

⁶ See Notice, 80 FR at 16050.

⁷ Id.; see also Mary Jo White, Chair, Commission, Speech at the Sandler O’Neill & Partners, L.P. Global Exchange and Brokerage Conference (June 5, 2014), available at <http://www.sec.gov/News/Speech/Detail/Speech/1370542004312>.

⁸ See Notice, 80 FR at 16050.

⁹ Id.

¹⁰ Id.

¹¹ Id.

¹² Id.

Currently, Nasdaq Rule 4751 sets forth most of the rules governing Nasdaq's Order Types and Order Attributes, as well as other defined terms that pertain to trading securities on the Exchange.¹³ Nasdaq proposes to restate and amend Rule 4751 as new Rule 4701.¹⁴ Nasdaq also proposes to amend the definitions pertaining to Order Types and Order Attributes and to relocate them from Rule 4751 to new Rules 4702 (Order Types) and 4703 (Order Attributes), respectively.¹⁵ In addition, Nasdaq proposes certain conforming and technical changes to Rules 4752, 4754-4758, and 4780.¹⁶

Nasdaq represents that, except where specifically stated otherwise, all proposed rules are restatements of existing rules and are not intended to reflect substantive changes to the rule text or the operation of the Nasdaq Market Center.¹⁷ Proposed Rule 4702 related to Order Types contains definitions and descriptions of Price to Comply Orders, Price to Display Orders (referred to as "Price to Comply Post Orders" in current Rule 4751),¹⁸ Non-Displayed Orders, Post-Only Orders, Midpoint Peg Post-Only Orders, Supplemental Orders, Market Maker Peg Orders, Market on Open Orders, Limit on Open Orders, Opening Imbalance Only Orders, Market on Close Orders, Limit on Close Orders, and Imbalance Only Orders. Proposed Rule 4703 related to Order Attributes contains definitions and descriptions of time-in-force ("TIF") modifiers, order size, order price, pegging, minimum quantity, routing, discretion, reserve size,

¹³ See Rule 4751.

¹⁴ See proposed Rule 4701.

¹⁵ See proposed Rules 4702 and 4703.

¹⁶ Nasdaq states that, in subsequent proposed rule changes, it plans to restate the remainder of its Rules numbered 4752 through 4780 so that they appear sequentially following Rule 4703. See Notice, 80 FR at 16050.

¹⁷ Id.

¹⁸ Id. at 16054 n.29.

attribution, intermarket sweep order (“ISO”) designation, display, and participation in the Nasdaq opening cross or closing cross.¹⁹

In Amendment No. 1, the Exchange proposes to add language further explaining the operation of the following order types: Post-Only Orders; orders with a time-in-force of IOC, including Routable Orders and Post-Only Orders; Market Maker Peg Orders; orders with Midpoint Pegging, Primary Pegging or Market Pegging; Midpoint Peg Post-Only Orders; orders designated with both Pegging and Routing attributes; Minimum Quantity Orders; and orders designated with a reactive routing strategy.²⁰ For example, the Exchange states that for Order Types that list both Pegging and Routing as possible Order Attributes, the two Order Attributes may be combined since Pegging serves to establish the price of the order, while Routing establishes the market center(s) to which the system’s routing functionality may direct a routed order if liquidity is available at that price.²¹ The Exchange also proposes to add further specification regarding the availability of certain order types only through certain communication protocols.²² For example, the Exchange states that a Post-Only Order with a TIF of IOC may not be entered through the RASH, QIX, or FIX protocols.²³ In addition, the Exchange proposes to add language stating that one or more Order Attributes may be assigned to a single order, but if the use of multiple Order Attributes would result in contradictory instructions, the system will reject the order or remove non-conforming Order Attributes.²⁴

¹⁹ The Notice contains additional details related to proposed Rules 4702 and 4703. See Notice, 80 FR at 16051-69.

²⁰ See Amendment No. 1.

²¹ Id.

²² Id.

²³ Id.

²⁴ Id.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.²⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁶ which requires, among other things, that the rules of a national securities exchange be 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 facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission notes that the Exchange believes that the proposal is consistent with Section 6(b)(5) of the Act because the reorganized and enhanced descriptions of its Order Types, Order Attributes, and related System functionality should promote just and equitable principles of trade and perfect the mechanisms of a free and open market and the national market system by providing greater clarity concerning certain aspects of the System's operations.²⁷ In addition, the Commission notes that Nasdaq believes that the proposed rule change should contribute to the protection of investors and the public interest by making Nasdaq's rules easier to understand.²⁸ Further, Nasdaq believes that additional specificity in its rules will promote a better

²⁵ 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).

²⁶ 15 U.S.C. 78f(b)(5).

²⁷ See Notice, 80 FR at 16069.

²⁸ Id.

understanding of Nasdaq's operation, thereby facilitating fair competition among brokers and dealers and among markets.²⁹

The Commission notes that, according to the Exchange, the proposal does not add any new functionality but instead re-organizes the Exchange's order type rules and provides additional detail regarding the order type functionality currently offered by the Exchange. Based on the Exchange's representation, the Commission believes that the proposed rule change does not raise any novel regulatory considerations and should provide greater specificity, clarity and transparency with respect to the order type functionality available on the Exchange. In addition, the Commission notes that the Exchange's proposed rule changes provide additional detail related to functionality for certain order types and the handling of orders during initial entry and after posting to the Nasdaq Book. Accordingly, the Commission believes that this proposed rule change should provide greater transparency with respect to the Exchange's order type functionality. For these reasons, the Commission believes that the proposal should help to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

The Commission finds good cause to approve the filing, as amended by Amendment No. 1 to the proposed rule change, prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. The proposed amendments should further increase the Exchange's transparency with respect to the operation of various order types and modifiers, and serve to enhance investors' understanding of the tools available with respect to the handling of their orders. Accelerated approval would allow the Exchange to update its rule text immediately,

²⁹ Id.

thus providing users with greater clarity with respect to the use and potential use of functionality offered by the Exchange. In addition, the initial proposal was open for comment for twenty-one days after publication and generated no comment. Accordingly, the Commission believes that good cause exists, consistent with Sections 6(b)(5) and 19(b) of the Act,³⁰ to approve the filing, as amended by Amendment No. 1 to the proposed rule change, on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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 e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2015-024 on the subject line.

Paper comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2015-024. 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

³⁰ 15 U.S.C. 78f(b)(5); 15 U.S.C. 78s(b).

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-2015-024 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,³¹ that the proposed rule change (SR-NASDAQ-2015-024) be, and it hereby is, approved, as amended.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³²

Robert W. Errett
Deputy Secretary

³¹ 15 U.S.C. 78s(b)(2).

³² 17 CFR 200.30-3(a)(12).