

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77354; File No. SR-NASDAQ-2016-032)

March 11, 2016

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Market Quality Incentive Programs under Rule 7014

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on March 1, 2016, The NASDAQ Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II, 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 proposes to: (i) change the qualification requirements of, and add an additional rebate to, the Qualified Market Maker Program; (ii) modify the maximum fee assessed for participation in the Exchange Opening and Closing Crosses, and extend the program to include participation in the Exchange Halt Cross, under the Lead Market Maker Program; and (iii) modify the requirements and rebates provided under the NBBO Program.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to amend the Market Quality Incentive Programs under Rule 7014 to: (i) change the qualification requirements of, and add an additional rebate to, the Qualified Market Maker Program; (ii) modify the maximum fee assessed for participation in the Exchange Opening and Closing Crosses, and extend the program to include participation in the Exchange Halt Cross, under the Lead Market Maker Program; and (iii) modify the requirements and rebates provided under the NBBO Program.

Qualified Market Maker Program Changes

The Exchange is proposing three changes to the Qualified Market Maker (“QMM”) Program: (1) eliminate the requirement that only a Primary Nasdaq Market Center MPID (a “QMM MPID” for purposes of the QMM Program)³ may be used to qualify as a QMM under Rule 7014(d); (2) eliminate the restriction that the per share executed rebates and fees provided

³ See Rule 7014(d).

by the program are limited to a QMM MPID under Rule 7014(e); and (3) offer new rebates under Rule 7014(e) of the program, which will be offered in Tape C securities.⁴

The QMM Program provides incentives to Exchange market makers to make a significant contribution to market quality by providing liquidity at the NBBO in a large number of stocks for a significant portion of the day. Under Rule 7014(d), members must meet certain criteria to qualify as a QMM, such as not imposing burdens on the Exchange and its market participants that may be associated with excessive rates of entry of orders away from the inside and/or order cancellation.⁵

Under Rule 7014(e), the Exchange provides a rebate per share executed with respect to all other displayed Orders (other than Designated Retail Orders as defined in Rule 7018) in securities priced at \$1 or more per share that provide liquidity and that are entered through a QMM MPID and were for securities listed on NYSE (“Tape A QMM Incentive”) or securities listed on exchanges other than the Exchange and NYSE (“Tape B QMM Incentive”) (both incentives are collectively described as the “QMM Incentives”).

The QMM Incentives have two tiers, Tier 1 and Tier 2, with Tier 2 having higher requirements and rebates than Tier 1. The requirements and rebates of the Tiers under both QMM Incentives are identical. To qualify under Tier 1, a QMM must execute shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent above 0.70% up to, and including, 0.90% of Consolidated Volume⁶ during the month. If a

⁴ Tape C securities are those that are listed on the Exchange, Tape A securities are those that are listed on NYSE, and Tape B securities are those that are listed on exchanges other than Nasdaq or NYSE.

⁵ See Rule 7014(d)(1) – (3) for the QMM qualification requirements.

⁶ Consolidated Volume is the total consolidated volume reported to all consolidated transaction reporting plans by all exchanges and trade reporting facilities during a month in equity securities, excluding executed orders with a size of less than one round lot. For

QMM qualifies under Tier 1, it will receive a \$0.0001 per share executed rebate in Tape A and Tape B securities, as described above. To qualify under Tier 2, a QMM must execute shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent above 0.90% of Consolidated Volume during the month. If a QMM qualifies under Tier 2, it will receive a \$0.0002 per share executed rebate in Tape A and Tape B securities, as described above.

Under Rule 7014(d) [sic], the Exchange also charges a fee of \$0.0030 per share executed for orders in Exchange-listed securities, and a fee of \$0.00295 per share executed for orders in securities listed on exchanges other than the Exchange, priced at \$1 or more per share that access liquidity on the Exchange and that are entered through a QMM MPID. To qualify for these fees, the QMM's volume of liquidity added through one or more of its MPIDs during the month (as a percentage Consolidated Volume) must not be less than 0.80%.

First, the Exchange is proposing to eliminate the requirement that only a Primary Nasdaq Market Center MPID may be used to qualify as a QMM under Rule 7014(d). By eliminating the requirement that a member may qualify only with its Primary Nasdaq Market Center MPID and allowing any MPID that the member may possesses to qualify under the QMM Program, the Exchange is significantly broadening potential eligibility for the program among members.

Second, the Exchange is proposing to eliminate the requirement that the rebates and fees applied to a member under the program apply only to orders sent through a QMM MPID.

Currently, the Exchange limits the rebates and fees provided by the program to orders entered through a QMM MPID. As noted above, a QMM MPID is defined as a qualifying QMM's

purposes of calculating Consolidated Volume and the extent of a member's trading activity, expressed as a percentage of or ratio to Consolidated Volume, the date of the annual reconstitution of the Russell Investments Indexes shall be excluded from both total Consolidated Volume and the member's trading activity. See Rule 7018.

Primary Nasdaq Market Center MPID. By allowing all MPIDs to receive the rebates and fees of the QMM Program that a QMM qualifies for, the Exchange is increasing the incentive to members to provide Consolidated Volume sufficient to qualify under the tiers of the program.

Third, the Exchange is proposing to make Tape C securities eligible for rebates under the QMM Program. The Exchange is creating a new “Tape C QMM Incentive,” which will have a Tier 1 and Tier 2 that are identical to those of the Tape A and Tape B QMM Incentives, as described above. The Tape C QMM Incentive, like the other incentives under the QMM Program, is designed to reward QMMs, in the form of a rebate, for providing significant levels of Consolidated Volume. Extending such rewards, to a qualifying QMM’s Tape C displayed orders (other than a Designated Retail Order, as defined in Rule 7018) in securities priced at \$1 or more per share that provide liquidity may lead to greater participation in the program and, in turn, improve market quality for all market participants.

Lead Market Maker Program Changes

The Exchange is proposing to amend Rule 7014(f)(4): (1) to expand applicability under the Lead Market Maker Program (“LMM Program”) of a maximum fee on participation in the Exchange Opening Cross⁷ and Closing Cross⁸ to include participation in a Halt Cross,⁹ and (2) to lower the maximum fee assessed for participation those [sic] Crosses.

The LMM Program is designed to provide incentive to market makers to make markets in certain exchange-traded products (“ETPs”). To achieve this, the Exchange provides credits and reduced fees to a designated LMM for execution of a Qualified Security. Under Rule 7014(f)(1),

⁷ See Rule 4752.

⁸ See Rule 4753.

⁹ See Rule 4754.

a security may be designated as a “Qualified Security” if: (A) it is an ETP listed on the Exchange pursuant to Exchange Rules 5705, 5710, 5720, 5735, or 5745; and (B) it has at least one LMM.

An LMM is a registered Exchange market maker for a Qualified Security that has committed to maintain minimum performance standards, which are based on certain percentages of time that the LMM is quoting at the national best bid and offer (“NBBO”). Currently, the Exchange has three performance criteria tiers based on the time that an LMM is quoting at the NBBO: (1) above 15% to 20%; (2) above 20% to 50%; and (3) above 50%. For each tier, the Exchange provides rebates for displayed liquidity and a maximum fee for participation in the Opening and Closing Crosses.

First, the Exchange is proposing to include activity in the Exchange Halt Cross in the maximum fee provided by the program. Currently, the Exchange provides a maximum fee for participation in the Exchange’s Opening and Closing Crosses. Under Rule 7018, a Participant,¹⁰ including an LMM, is assessed a per share executed charge of \$0.0015 to \$0.0008 for participation in the Opening and Closing Crosses.¹¹ Under the LMM Program, the Exchange provides a maximum fee an LMM will pay for participation in the Opening and Closing Crosses of \$0.0010 per executed share if the LMM is at the NBBO above 15% to 20% of the time.¹² If a LMM is at the NBBO in excess of 20% of the time, it is not assessed any per executed share fee for participation in the Opening and Closing Crosses.

¹⁰ As defined by Rule 4701(c).

¹¹ See Rule 7018(d) and (e).

¹² An LMM will be assessed the charge under Rules 7018(d) or (e) if it is lower than the maximum charge it qualifies for under Rule 7014(f)(4). For example, if an LMM was eligible to receive a maximum charge of \$0.0010 per share executed under the first tier of Rule 7014(f)(4), but also qualified for a charge of \$0.0008 per share executed in the closing cross under Tier A of Rule 7018(d)(2), the LMM would receive the lower charge under Rule 7018(d)(2).

The Exchange is proposing to extend the fee limits under the this [sic] tier to include participation in the Halt Cross, which currently has a fee of \$0.0010 per executed share.¹³

Second, the Exchange is proposing to reduce the maximum fee provided for participation in the Crosses under Rule 7014(f)(4) if the LMM is at the NBBO above 15% to 20% of the time from \$0.0010 per executed share to \$0.0005 per executed share.

NBBO Program Changes

The Exchange is proposing to make three changes to the NBBO Program: (1) eliminate the \$0.0002 per share executed rebate tier provided under the program; (2) decrease the \$0.0004 per share executed rebate tier and modify the criteria required to receive it; (3) modify the criteria of the \$0.0001 per share executed rebate tier and increase the rebate to \$0.0002 per share executed.

The NBBO program provides incentive to members to improve the quality of the market by rewarding members that provide significant market-improving order flow with a rebate.

The Exchange provides a \$0.0004 per share executed rebate in securities listed on NYSE and a \$0.0002 per share executed rebate in securities listed on exchanges other than the Exchange or NYSE, which are available to any member that provides shares of liquidity in all securities through one or more of its Nasdaq Market Center MPIDs that represent 0.50% or more of Consolidated Volume during the month; or (2) add NOM Market Maker liquidity, as defined in Chapter XV, Section 2 of the Nasdaq Options Market rules, in Penny Pilot Options and/or Non-Penny Pilot Options above 0.90% of total industry customer equity and ETF option ADV contracts per day in a month.

¹³ See Rule 7018(f).

The Exchange also provides members that qualify for the NBBO Program a \$0.0001 per share executed rebate¹⁴ with respect to all other displayed orders (other than Designated Retail Orders, as defined in Rule 7018) in securities priced at \$1 or more per share that provide liquidity if the member qualifies for the \$0.0004 or \$0.0002 per share executed rebate tiers, and has a ratio of at least 25% NBBO liquidity provided¹⁵ to liquidity provided during the month.

First, the Exchange is proposing to no longer offer the \$0.0002 per share executed rebate provided under the rule in Tape C securities. Second, the Exchange is proposing to reduce the remaining \$0.0004 per share executed credit provided in Tape A and B securities to \$0.0002 per share executed, delete the NOM Market Maker liquidity-based eligibility criteria requirement under the rebate tier, and modify the remaining Consolidated Volume-based criteria by increasing the level of Consolidated Volume provided during the month from 0.5% to 1.0%.

Third, the Exchange is proposing to modify the level of rebate provided and the qualification criteria of the \$0.0001 per share executed rebate the Exchange provides to members that qualify for the NBBO Program, and have a ratio of at least 25% NBBO liquidity provided to liquidity provided during the month. The Exchange is also proposing to require that a member execute shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represents 0.5% or more of Consolidated Volume during the month.

The Exchange notes that it has incorporated one of the qualifying criteria required to receive the \$0.0004 and \$0.0002 per share executed rebates, into this rebate tier. The Exchange

¹⁴ The rebate is provided in addition to any rebate or credit payable under Rule 7018(a) and the Investor Support, QMM, and NBBO Programs under Rule 7014.

¹⁵ NBBO liquidity provided means liquidity provided from orders (other than Designated Retail Orders, as defined in Rule 7018) that establish the NBBO, and displayed a quantity of at least one round lot at the time of execution.

is also proposing to increase the rebate from \$0.0001 per share executed to \$0.0002 per share executed

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁶ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁷ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which the Exchange operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Qualified Market Maker Program Changes

The Exchange believes that the proposed changes to the QMM Program are reasonable because they increase the incentives provided by the program. Eliminating the restriction that only Primary MPIDs be used to qualify for the program will provide greater opportunity to members to qualify and participate in the program.

Likewise, eliminating the restriction that the per share executed rebates provided by the program are limited to liquidity provided through a QMM MPID is reasonable because it will expand the number of MPIDs that receive the rebate. In turn, it will provide greater opportunity for improvements to market quality. Making Tape C securities eligible for rebates under the QMM Program is reasonable because it is reflective of the Exchange's desire to improve market quality on the Exchange generally through use of rebates. In this case, the Exchange is proposing to extend the rebates it provides under the program to include the securities of all three Tapes.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(4) and (5).

As noted above, the QMM Program provides incentives to a member to make a significant contribution to market quality by providing liquidity at the NBBO in a large number of stocks for a significant portion of the day. The Exchange believes that expanding the program to include Tape C securities will make the program more attractive to members and promote its goal of improving market quality.

The Exchange also believes that eliminating the restriction that only Primary MPIDs be used to qualify for the program is an equitable allocation and is not unfairly discriminatory because it will allow more members the opportunity to qualify for the program. Furthermore, eliminating the restriction that the rebates provided by the QMM Program only apply to qualifying orders entered through a QMM MPID is an equitable allocation and is not unfairly discriminatory because it will apply to all members that qualify as QMMs under the program.

In addition, including Tape C securities as eligible for rebates under the QMM Program is an equitable allocation and is not unfairly discriminatory because the Exchange will apply the same fee to all similarly situated members. In this regard, the proposed change to the rule is an equitable allocation and is not unfairly discriminatory because the rebates are provided uniformly to all QMMs that qualify for the rebates and all QMMs have an equal opportunity to earn the discounted fee for accessing liquidity.

Moreover, the Exchange believes that providing qualifying QMMs rebates in Tape C securities is equitable and not unfairly discriminatory because, in return for the rebates, QMMs are providing a significant contribution to market quality by providing displayed liquidity, to the benefit of all market participants.

Lead Market Maker Program Changes

The Exchange believes that the proposed changes to the LMM Program are reasonable because it is reflective of the Exchange's desire to improve market quality through the use of

reduced fees. As noted above, the LMM Program is designed to provide incentive to LMMs to make markets in certain ETPs.

The Exchange is proposing to provide further incentive to LMMs to quote at the NBBO a significant percentage of the time by extending the maximum fee for participation in the Opening and Closing Crosses to now include the Halt Cross.

Similarly, the Exchange is providing further incentive to LMMs to provide liquidity at the NBBO by decreasing the maximum fee the LMM will be assessed for participation in the Crosses under the lowest tier. Thus, the proposed changes are reflective of the Exchange's efforts to incentivize market participants to improve market quality.

The Exchange believes that the proposed changes to the LMM Program are an equitable allocation and are not unfairly discriminatory because the Exchange will apply the same fee to all similarly situated members. Specifically, the Exchange will provide the same maximum fee for participation in all of the Crosses, to the extent the LMM qualifies under one of the tiers. Last, the Exchange believes that providing LMMs a maximum fee in the Opening, Closing, and Halt Crosses is equitable and not unfairly discriminatory because, in return for the reduced fees, LMMs are providing beneficial displayed liquidity to the benefit of all market participants.

NBBO Program Changes

The Exchange believes that proposed changes to the NBBO Program are reasonable because they more narrowly focus the program, which the Exchange believes may increase participation in the program. As noted above, the NBBO program provides incentives to members to improve the quality of the market by rewarding members that provide significant market-improving order flow with a rebate.

Currently, to qualify for \$0.0004 and \$0.0002 per share executed NBBO rebates, members must execute shares in of [sic] liquidity through one or more of its MPIDs that

represents 0.5% or more of Consolidated Volume during the month, or add NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.90% of total industry customer equity and ETF option ADV contracts per day in a month.

The Exchange believes it is reasonable to eliminate the Tape C rebate, decrease the \$0.0004 per share executed rebate provided in Tape A and B securities to \$0.0002 per share executed, and modify the qualification criteria because doing so will allow the Exchange to increase the other rebates under the program, which will better align the program with improving the NBBO.

The Exchange also believes that eliminating the NOM Market Maker liquidity-based eligibility criteria under the rule and modifying the remaining Consolidated Volume-based criteria by increasing the level of Consolidated Volume required to receive the rebate from 0.5% to 1.0% is reasonable because the Exchange is more narrowly focusing the requirement on overall participation in the markets in contrast to liquidity provided only on NOM. The NOM Market Maker liquidity-based eligibility criteria have not been effective at providing an incentive to members to participate in the program.

The Exchange believes that it is reasonable to include a requirement that a member must execute shares in of [sic] liquidity through one or more of its MPIDs that represents 0.5% or more of Consolidated Volume during the month in order to receive the \$0.0002 per share executed rebate under the amended NBBO Program for all other displayed orders is reasonable because it is an existing requirement to receive the existing \$0.0001 per share executed fee under the program.

Thus, members qualifying under the program must not only improve the NBBO significantly, but also provide improvement to the market overall by contributing a significant

level of Consolidated Volume, which is consistent with the current requirements to receive the rebate under the NBBO Program. The Exchange believes that increasing the rebate from \$0.0001 to \$0.0002 per share executed will provide a greater incentive to members to participate in the program.

The Exchange believes the proposed changes to the NBBO Program are equitable and not unfairly discriminatory because the NBBO Program rebates and their qualification criteria will apply uniformly to all similarly situated members. Members that elect to provide the levels of Consolidated Volume required by the amended rule, and in the case of the proposed \$0.0002 per share executed rebate establish the NBBO with a ratio of at least 25%, will receive the amended rebates.

Last, although elimination of the NOM Market Maker based criteria may impact members that are also market makers on NOM, the revised Consolidated Volume based criteria will apply to all members, not only those participating on NOM as market makers

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust

their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed changes to the fees and rebates provided to member firms under the market quality incentive programs of Rule 7014 do not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from other exchanges and from off-exchange venues.

Rather than placing a burden on competition, the proposed fees and rebates are reflective of the fierce competition among market venues to attract order flow, including displayed liquidity, to the benefit of all market participants. All of the proposed changes to the incentive programs under Rule 7014 are designed to improve their effectiveness in achieving their stated purposes. If any of the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result.

Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. 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.

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 e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2016-032 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-NASDAQ-2016-032. 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; 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-2016-032 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.¹⁸

Lynn M. Powalski
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).