

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83653; File No. SR-NASDAQ-2018-052)

July 17, 2018

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend The Nasdaq Options Market LLC (“NOM”) Rules Relating to Market Maker Quotations

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 2, 2018, 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 amend The Nasdaq Options Market LLC (“NOM”) Rules at Chapter VII, Section 6 related to Market Maker quotations.

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.

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

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

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

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

Nasdaq proposes to amend the current rule text of Chapter VII, Section 6(d), related to quoting obligations, to restructure the current rule to conform to rule text utilized on Nasdaq Phlx LLC.<sup>3</sup> The Exchange does not propose to amend the current quoting obligations, rather the Exchange proposes to more clearly state the current quoting obligations utilizing the same format as Phlx Rule 1081(c).

Chapter VII, Section 6(d)

The Exchange proposes to amend Chapter VII, Section 6(d) to remove the word “continuous” from this first sentence in the rule. The Exchange is removing the word “continuous” because the Exchange notes that Market Makers quote a percentage of the day and therefore the word continuous may not accurately reflect the manner in which Market Makers quote on NOM. The Exchange proposes to retitle Section 6(d) as “Intra-day Quotes.”

The Exchange also proposes to remove the word “continuous” from Chapter V, Section 3(d)(iv) [sic] and replace that word with “intra-day.” The Exchange also proposes to amend Chapter X, Section 7(c) to replace the words “continuous bids and offers” with “intra-day quoting.”

Chapter VII, Section 6(d)(i)

The Exchange proposes to amend Chapter VII, Section 6(d)(i) to delete the first sentence of this paragraph, “On a daily basis, a Market Maker must during regular market hours make

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<sup>3</sup> Phlx Rule 1081(c)(ii).

markets consistent with the applicable quoting requirements specified in these rules, on a continuous basis in options in which the Market Maker is registered.” The Exchange believes that a Market Maker’s obligation to enter bids and offers for the options to which it is registered is currently noted in proposed Chapter VII, Section 6(d). The Exchange proposes to specifically detail a Market Maker’s quoting obligations in the proposed rule text and therefore believes that this sentence is not necessary because the following sentence replaces this sentence with the exception of the intra-day aspect as described below.

The Exchange proposes to add new rule text to Chapter VII, Section 6(d)(i). The first new sentence will provide “A Market Maker must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day<sup>4</sup> on the Exchange.” The Exchange believes this sentence is more specific than Section 6(d) because it excepts the intra-day quotes. Today, a Market Maker is not held to quote an intra-day add of a series because the options series was not available for trading the entire day. The Exchange is adding this exception to the rule text to make clear that Market Makers would not be responsible for quoting an intra-day addition. The Exchange believes that not counting intra-day adds of a series that were not available for the entire day of trading is consistent with the Act because the Market Maker would not have the opportunity to trade that particular options series for the entire trading day. The Exchange also proposes to note, “On a daily basis, a Market Maker must make markets consistent with the applicable quoting requirements specified below.”

Chapter VII, Section 6(d)(i)(1)

The Exchange proposes to remove the following sentence from Chapter VII, Section (d)(i)(1), “To satisfy this requirement, a Market Maker must quote 60% of the trading day (as a

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<sup>4</sup> An intra-day add of a series shall be defined, for purposes of this Phlx Rule 1081 [sic], as an option series that is added manually on the same day the series begins trading.

percentage of the total number of minutes in such trading day) or such higher percentage as Nasdaq may announce in advance.” The Exchange proposes to replace this language with language that more technically defines the quoting obligation. The Exchange proposes the following rule text:

Market Makers, associated with the same Options Participant, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as NOM may announce in advance, for which that Options Participant’s assigned options series are open for trading. Notwithstanding the foregoing, a Market Maker shall not be required to make two-sided markets pursuant to this Chapter VII, Section 6(d)(i)(1) in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

The 60% requirement and the manner in which it is calculated is not being amended. The Exchange does not propose to amend the current quoting obligations, rather the Exchange proposes to more clearly state the current quoting obligations utilizing the same format as Phlx Rule 1081(c)(ii)(A). The Exchange notes the quoting obligations expressed as the cumulative number of seconds rather than 60% of the trading day. While the current rule indicates that the Exchange currently reviews quoting as a percentage of the total number of minutes, the two standards are otherwise equivalent. Adding “associated with the same Options Participant” to the first sentence also makes clear that the obligation is at the firm level and that all associated Market Makers will be counted in arriving at the calculation for quoting obligations. The Exchange also states, “Notwithstanding the foregoing, a Market Maker shall not be required to make two-sided markets pursuant to this Chapter VII, Section 6(d)(i)(1) in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.” This exception exists today for NOM and is simply being carried over into the new text from current Section 6(d)(i)(2). The definition of an adjusted option series is currently defined at Section 6(d)(i)(2) as an option series wherein one option contract in the series represents the

delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares. This definition is being relocated to 6(d)(i)(1)(a), similar to Phlx's structure and is defined as "Adjusted Options Series" throughout this rule.

Chapter VII, Section 6(d)(i)(2)

The Exchange proposes to add new rule text at Chapter VII, Section 6(d)(i)(2) which provides the method by which the Exchange will calculate the NOM Market Maker quoting obligations. The Exchange proposes to state, that the Exchange will (i) take the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for Market Makers; and (ii) divide that time by the eligible total number of seconds each assigned option series is open for trading that day. Similar to Phlx Rule 1081(c)(ii)(D), the Exchange believes that the addition of this language will bring greater transparency to the manner in which the Exchange calculated the quoting obligation. The Exchange is not amending the manner in which the quoting obligation is calculated, rather the Exchange is simply adding to the current rule the exact manner in which the Exchange determines the quoting percentage. The Exchange proposes to add, "Quoting is not required in every assigned options series." This sentence is not currently contained in the rule. The Exchange is not proposing to amend its current practice, rather the Exchange is clearly stating that quoting is not required in every assigned options series to make clear the current obligation. Also, the Exchange proposes to state, "Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant." This language is similar to the language currently being removed from Chapter VII, Section 6(d)(i)(1), "This obligation will apply to all of a Market Maker's registered options collectively

to all appointed issues, rather than on an option-by-option basis.” The proposed new language simply conforms the text to Phlx’s Rule 1081(c)(ii)(D).

Chapter VII, Section 6(d)(i)(3)

The Exchange proposes to also delete the following language from Chapter VII, Section 6(d)(i)(3), “This obligation will apply to all of a Market Maker's registered options collectively to all appointed issues, rather than on an option-by-option basis. Compliance with this obligation will be determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve a Market Maker of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet the continuous quoting obligation each trading day.” The Exchange proposes to replace this language with the following language proposed in Section 6(d)(i)(3), “For purposes of the Exchange’s surveillance of an Options Participant compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange’s monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.” The Exchange’s amendment is not substantive, rather the amendment brings greater clarity to the current rule text and aligns the rule with that of Phlx Rule 1081(c)(iii).

The Exchange proposes to remove the entire paragraph at current Section 6(d)(i)(2). As explained above this language is being relocated within the proposed rule text. The Exchange notes that the sentence “Accordingly, the continuous quotation obligations set forth in this rule shall not apply to Market Makers respecting Quarterly Option Series, adjusted option series, and

series with an expiration of nine months or greater” is being deleted and not relocated because this sentence is redundant. Also, the Exchange proposes to amend current Section 6(d)(i)(3) by renumbering it (4) and also capitalizing “System” which is a defined term and renumbering a cross-reference.

The Exchange believes this proposed rule will allow Market Makers to quickly compare obligations across Nasdaq affiliated markets.<sup>5</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>7</sup> in particular, in that it is designed to promote just and equitable principles of trade, 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. The Exchange believes that its proposed rule change provides further detail as to obligations of Market Makers on NOM. The Exchange is not amending its current quoting obligations, rather the Exchange is proposing to amend its current rule text to bring greater transparency to the current quoting obligations by adding clear language which explains the manner in which NOM will calculate quoting obligations. The Exchange believes the proposed rule text is consistent with the Act because the proposed rule text protect investors and the public interest by providing clear language that will be utilized on all Nasdaq affiliate markets for easy comparison.

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<sup>5</sup> The Exchange intends to file a similar proposal for Nasdaq BX, Inc., Nasdaq ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC.

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

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

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, 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. The proposal does not impose a burden on competition because the Exchange will continue to uniformly calculate and apply the quoting obligations for all NOM Market Makers. The Exchange's proposal does not modify the current quoting obligations on NOM.

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

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)(iii) of the Act<sup>10</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>11</sup>

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

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>11</sup> 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.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>12</sup> normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>13</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. In its filing with the Commission, the Exchange has asked the Commission to waive the 30-day operative delay so that the proposal to amend its Market Maker quoting obligations to add more detail to the current quoting requirements may become operative immediately upon filing. The Exchange believes that the proposal will bring greater transparency to the Exchange's rules. The Commission notes that the changes are substantially similar to Phlx Rule 1081(c). As such, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change operative upon filing.<sup>14</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 under Section 19(b)(2)(B) of the Act<sup>15</sup> to determine whether the proposed rule change should be approved or disapproved.

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<sup>12</sup> 17 CFR 240.19b-4(f)(6).

<sup>13</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>14</sup> For purposes only of waiving the operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>15</sup> 15 U.S.C. 78s(b)(2)(B).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2018-052 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-2018-052. 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-NASDAQ-2018-052 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.<sup>16</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).