

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85892; File No. SR-NASDAQ-2019-004)

May 20, 2019

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Adopt a New MIDP Routing Option Under Rule 4758 and Make Conforming Changes to Rule 4703(e)

I. Introduction

On January 31, 2019, The Nasdaq Stock Market LLC (“Exchange” or “Nasdaq”) filed with the Securities and Exchange Commission (“Commission”), 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> a proposed rule change to adopt a new MIDP routing option under Nasdaq Rule 4758 and make conforming changes to Nasdaq Rule 4703(e). The proposed rule change was published for comment in the Federal Register on February 19, 2019.<sup>3</sup> On April 3, 2019, pursuant to Section 19(b)(2) of the Act,<sup>4</sup> the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.<sup>5</sup> On May 10, 2019, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>6</sup> The Commission received no comment letters on the proposed rule

---

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

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

<sup>3</sup> See Securities Exchange Act Release No. 85113 (February 12, 2019), 84 FR 4885.

<sup>4</sup> 15 U.S.C. 78s(b)(2).

<sup>5</sup> See Securities Exchange Act Release No. 85498, 84 FR 14171 (April 9, 2019). The Commission designated May 20, 2019 as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

<sup>6</sup> In Amendment No. 1, the Exchange: (1) provided clarification and additional details regarding the operation of the MIDP routing option; (2) provided additional arguments

change. The Commission is publishing this notice to solicit comments on Amendment No. 1 from interested persons, and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

## II. Description of the Proposal

The Exchange proposes to adopt MIDP, a new order routing option under Nasdaq Rule 4758(a)(1)(A).<sup>7</sup> The MIDP routing option would allow Nasdaq members to seek midpoint liquidity on Nasdaq and other markets on the Nasdaq system routing table.<sup>8</sup> The MIDP routing option would be available only for a non-displayed order<sup>9</sup> with a midpoint pegging order attribute.<sup>10</sup> The Exchange would accept an order with the MIDP routing option (“MIDP order”) only with a time-in-force of Market Hours DAY or IOC, and a MIDP order could not be flagged to participate in any of the Nasdaq crosses.<sup>11</sup>

As proposed, a MIDP order would check the Nasdaq system for available shares and any remaining shares would then be routed to destinations on the system routing table that support midpoint eligible orders.<sup>12</sup> A MIDP order to buy (sell) would be routed with a limit price that is

---

supporting the proposed rule change; and (3) made technical and conforming changes. Amendment No. 1 is available at <https://www.sec.gov/comments/sr-nasdaq-2019-004/srnasdaq2019004-5485246-185147.pdf>.

<sup>7</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi).

<sup>8</sup> See *id.*; see also Amendment No. 1, *supra* note 6, at 4.

<sup>9</sup> See Nasdaq Rule 4702(b)(3) (defining Nasdaq’s non-displayed order type).

<sup>10</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi). See also Nasdaq Rule 4703(d) (defining Nasdaq’s midpoint pegging order attribute).

<sup>11</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi). The Exchange proposes a conforming change to Nasdaq Rule 4758(a)(1), which currently provides that order routing is available during Nasdaq System Hours, to allow for the times-in-force applicable to the MIDP routing option (i.e., Market Hours Day or IOC).

<sup>12</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi). MIDP orders (including those that have a minimum quantity order attribute) would route sequentially and in their full amount to

at the lesser (greater) of: (1) the current NBO (NBB); or (2) the order's entered limit price (if applicable).<sup>13</sup> If shares remain unexecuted after routing, the order would return to Nasdaq and check the Nasdaq system for available shares, with remaining shares posted on the Nasdaq book as a non-displayed order with a midpoint pegging order attribute (unless an IOC).<sup>14</sup> If a MIDP order has a time-in-force of IOC and there are unexecuted shares remaining after routing, the order would first check the Nasdaq system for available shares, and then any remaining shares would be cancelled.<sup>15</sup>

The Exchange also proposes to allow a member to use the minimum quantity order attribute<sup>16</sup> upon entry of a MIDP order.<sup>17</sup> If, upon entry, the size of a MIDP order is less than the

---

the various venues on the Nasdaq system routing table. See Amendment No. 1, supra note 6, at 5 n.7.

<sup>13</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi). If the entered limit price of a buy (sell) MIDP order is less (greater) than the current midpoint price, the order would not be routed but would instead be posted on the Nasdaq book as a non-displayed order with a midpoint pegging order attribute, unless the order has a time-in-force of IOC, in which case the order would be cancelled. See id. Once on the Nasdaq book, if the NBBO moves and the order's limit price is equal to the midpoint of the NBBO (i.e., the price of the resting order is not being updated to a new midpoint price), the order would not subsequently route. See Amendment No. 1, supra note 6, at 5 n.8. If the NBBO updates so that a resting MIDP order would be updated to a new midpoint price, it would be routed again and, if shares remain unexecuted after routing, the order would check the Nasdaq system for available shares with any remaining shares reposted to the Nasdaq book. See proposed Nasdaq Rule 4758(a)(1)(A)(xvi).

<sup>14</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi).

<sup>15</sup> See id.

<sup>16</sup> See Nasdaq Rule 4703(e) (defining Nasdaq's minimum quantity order attribute).

<sup>17</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi). The Exchange proposes a conforming change to Nasdaq Rule 4703(e), which currently provides that an order with a minimum quantity order attribute and a routing order attribute will be rejected. According to the Exchange, an order could not have both a minimum quantity order attribute and a routing order attribute due to limitations in the Nasdaq system, but the Exchange has made technical changes to allow an order to have both the minimum quantity order attribute and the MIDP routing option. See Amendment No. 1, supra note 6, at 7. As proposed,

minimum quantity designated by the member, the order would be rejected.<sup>18</sup> If, at any point during the routing process and prior to the MIDP order returning to post on the Nasdaq book, the remaining size of the order becomes less than the specified minimum quantity, the order would be cancelled back to the member.<sup>19</sup> If shares of a MIDP order with a minimum quantity order attribute remain unexecuted after routing, the order would return to Nasdaq and check the Nasdaq system for available shares with any remaining shares posted on the Nasdaq book (unless an IOC) as a non-displayed order with a midpoint pegging order attribute and the minimum quantity condition specified by the member upon entry of the order.<sup>20</sup> As noted above, if a MIDP order has a time-in-force of IOC and there are unexecuted shares remaining after routing, the order would first check the Nasdaq system for available shares, and then any remaining shares would be cancelled.<sup>21</sup>

The Exchange proposes to implement the proposal in the second quarter of 2019, and the Exchange represents that it will provide notice of the implementation date at least 30 days prior to implementation via an Equity Trader Alert.<sup>22</sup>

---

the minimum quantity order attribute could only be combined with the MIDP routing option and not with any other routing options. See id.

<sup>18</sup> See proposed Nasdaq Rule 4758(a)(1)(A)(xvi).

<sup>19</sup> See id. To reflect this order cancellation, the Exchange proposes a conforming change to Nasdaq Rule 4703(e), which currently provides that if, following a partial execution, the number of shares remaining in an order with a minimum quantity order attribute is less than the specified minimum quantity value, the minimum quantity value of the order will be reduced to the number of shares remaining.

<sup>20</sup> See id.

<sup>21</sup> See id.

<sup>22</sup> See Amendment No. 1, supra note 6, at 7.

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>23</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>24</sup> 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.

The Commission believes that the MIDP routing option would provide an additional mechanism for Nasdaq members to seek midpoint liquidity on Nasdaq and other markets.<sup>25</sup> The Commission also believes that allowing Nasdaq members to use the minimum quantity order attribute with the MIDP routing option would provide Nasdaq members with additional control over the execution of their MIDP orders. In particular, the Commission believes that allowing an order to have both the minimum quantity order attribute and the MIDP routing option would

---

<sup>23</sup> 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).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

<sup>25</sup> As the Exchange noted, Cboe BYX Exchange, Inc. ("BYX") and Cboe EDGA Exchange, Inc. ("EDGA") each currently have two routing strategies (RMPT and RMPL) that utilize a midpoint peg order to check their respective systems for available shares, with any remaining shares sent to destinations on their system routing tables that support midpoint eligible orders. See Amendment No. 1, supra note 6, at 8 n.18; BYX Rule 11.13(b)(3)(Q); EDGA Rule 11.11(g)(12). Under those strategies, if any shares remain unexecuted after routing, they are posted on the exchange book as a midpoint peg order, unless otherwise instructed by the user. See Amendment No. 1, supra note 6, at 8 n.18; BYX Rule 11.13(b)(3)(Q); EDGA Rule 11.11(g)(12).

enable Nasdaq members to seek midpoint executions on Nasdaq and away venues while controlling the amount of order information provided through executions. Moreover, the Commission believes that cancelling a MIDP order if the order's remaining size is less than the specified minimum quantity (rather than continuing to route) would allow a Nasdaq member's minimum quantity instruction to be honored every time its MIDP order is routed to an away venue as a new order<sup>26</sup> and would further enable the member to control the amount of order information provided while the MIDP order is accessing liquidity at away venues.<sup>27</sup>

Based on the foregoing, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the Act.

#### IV. Solicitation of Comments on Amendment No. 1 to the Proposed Rule Change

Interested persons are invited to submit written data, views, and arguments concerning whether Amendment No. 1 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-2019-004 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.

---

<sup>26</sup> According to the Exchange, each time a MIDP order is routed to an away venue it is treated as a new order. See Amendment No. 1, supra note 6, at 6 n.14.

<sup>27</sup> Also, the member may reenter a MIDP order with updated characteristics (e.g., minimum quantity).

All submissions should refer to File Number SR-NASDAQ-2019-004. 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-2019-004, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 1 in the Federal Register. As discussed above, in Amendment No. 1, the Exchange provided clarification and additional details regarding the operation of the MIDP routing option, provided additional arguments in support of the proposed rule change, and made various technical and conforming changes. The Commission believes that the changes made in

Amendment No. 1 do not raise any material or novel regulatory issues. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>28</sup> to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>29</sup> that the proposed rule change (SR-NASDAQ-2019-004), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>30</sup>

Eduardo A. Aleman  
Deputy Secretary

---

<sup>28</sup> 15 U.S.C. 78s(b)(2).

<sup>29</sup> Id.

<sup>30</sup> 17 CFR 200.30-3(a)(12).