

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-86083; File No. SR-NASDAQ-2019-048)

June 11, 2019

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Rule 4702 to Establish the “Midpoint Extended Life Order + Continuous Book” as a New Order Type

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 May 29, 2019, 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 Rule 4702 to establish the “Midpoint Extended Life Order + Continuous Book” as a new Order Type.

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

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

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

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 Exchange proposes to: (1) amend Rule 4702(b) to establish the “Midpoint Extended Life Order + Continuous Book” or “M-ELO+CB” as a new Order Type on the Exchange; and (2) amend Rule 4703(n) to permit midpoint orders on the Continuous Book to execute against M-ELO+CBs when the Midpoint Trade Now Attribute is enabled on such midpoint orders.

Midpoint Extended Life Orders with Continuous Book

On March 7, 2018, the Commission issued an order approving the Exchange’s proposal to adopt the Midpoint Extended Life Order or “M-ELO” as a new Order Type.<sup>3</sup> A M-ELO is a non-displayed order that is available to all members but interacts only with other M-ELOs. It is priced at the midpoint between the National Best Bid and Offer (“NBBO”) and it does not become eligible for execution until it completes a one-half second holding period (the “Holding Period”).<sup>4</sup> Once the Holding Period elapses, a M-ELO becomes eligible for execution against other M-ELOs on a time-priority basis.<sup>5</sup> Since its implementation the Midpoint Extended Life Order Type has achieved its design expectations. Approximately 12 million shares transact as Midpoint Extended Life Orders a day, interacting only with other Midpoint Extended Life

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<sup>3</sup> See Securities Exchange Act Release No. 34-82825 (Mar. 7, 2018), 83 FR 10937 (Mar. 13, 2018).

<sup>4</sup> If a member modifies a M-ELO during the Holding Period, other than to decrease the size of the order or to modify the marking of a sell order as long, short, or short exempt, then such modification will cause the Holding Period to reset.

<sup>5</sup> If a member modifies a M-ELO after the Holding Period elapses, other than to decrease the size of the order or to modify the marking of a sell order as long, short, or short exempt, then such modification will trigger a new Holding Period for the order.

Orders thus avoiding interaction with Intermarket Sweep Orders, IOC Orders and other aggressively price Order Types.

M-ELO+CB is a variation on the M-ELO concept. That is, a M-ELO+CB is an Order Type that has all of the characteristics and attributes of a regular M-ELO, except that, in addition to executing against other M-ELO+CBs and M-ELOs, it also may access additional sources of “M-ELO-like” liquidity on the Exchange’s Continuous Book.

Specifically, if a member enters a M-ELO+CB, then the M-ELO+CB will be subject to the same one-half second Holding Period as a regular M-ELO. Upon expiration of the Holding Period, the M-ELO+CB will become available for execution, at the midpoint of the NBBO, against other M-ELOs and M-ELO+CBs. Additionally, it will become eligible to execute, again at the midpoint of the NBBO, against Non-Displayed Orders with Midpoint Pegging and Midpoint Peg Post-Only Orders (collectively, “Midpoint Orders”) if: (1) the Midpoint Orders have the Midpoint Trade Now Attribute enabled (as discussed below); (2) the Midpoint Order has rested on the Exchange’s Continuous Book for at least one-half second; (3) no other order is resting on the Continuous Book that has a more aggressive price than the current midpoint of the NBBO; and (4) the resting Midpoint Order fulfills any minimum quantity restriction that exists for the M-ELO+CB. The execution priority for the above orders will be ranked based on the time at which such orders become eligible to execute against each other.

In all respects other than described above, a M-ELO+CB will be identical to an ordinary M-ELO. That is, a M-ELO+CB may be assigned a limit price, in which case it would be: (1) eligible for execution in time priority after satisfying the Holding Period if upon acceptance of the order by the system, the midpoint price is within the limit set by the participant; or (2) held until the midpoint falls within the limit set by the participant, at which time the Holding Period

would commence and thereafter the system would make the order eligible for execution in time priority.

Also like an ordinary M-ELO, if a M-ELO+CB is modified by a member (other than to decrease the size of the order or to modify the marking of a sell order as long, short, or short exempt) during the Holding Period, the system would restart the Holding Period. Movements in the NBBO while a MELO+CB is in the Holding Period would not reset the Holding Period, even if, as a result of the NBBO move, the MELO+CB's limit price is less aggressive than the NBBO midpoint. Also, if a MELO+CB has met the Holding Period, but the NBBO midpoint is no longer within its limit, it would nonetheless be ranked in time priority among other M-ELOs and M-ELO+CBs if the NBBO later moves such that the midpoint is within the order's limit price (i.e., no new Holding Period).

MELO+CB Orders may be entered via any of the Exchange's order entry protocols (other than QIX). If there is no NBB or NBO, the Exchange would accept M-ELO+CBs but would not allow M-ELO+CB executions until there is an NBBO. M-ELO+CBs would be eligible to execute if the NBBO is locked. If the NBBO is crossed, M-ELO+CBs would be held by the system until such time that the NBBO is no longer crossed, at which time they would be eligible to trade. M-ELO+CBs may be cancelled at any time, including during the Holding Period.

M-ELO+CBs would be active only during Market Hours. M-ELO+CBs entered during Pre-Market Hours would be held by the system in time priority until Market Hours. M-ELO+CBs entered during Post-Market Hours would not be accepted by the system, and M-ELO+CBs remaining unexecuted after 4:00 p.m. ET would be cancelled by the system. M-ELO+CB Orders would not be eligible for the Exchange's Opening, Halt, and Closing Crosses.

M-ELO+CBs must be entered with a size of at least one round lot, and any shares of a M-ELO+CB remaining after an execution that are less than one round lot would be cancelled.<sup>6</sup> M-ELO+CBs may have a minimum quantity order attribute. M-ELO+CBs may not be designated with a time-in-force of immediate or cancel and are ineligible for routing. They also may not have the discretion, reserve size, attribution, intermarket sweep order, display, or trade now order attributes.

M-ELO+CB executions would be reported to Securities Information Processors and provided in the Exchange's proprietary data feed without any new or special indication. The Exchange would, however, include in its existing volume reports delayed weekly aggregated statistics, as well as delayed monthly aggregated block-sized trading statistics, for M-ELO+CB executions. Specifically, the Exchange would add to the existing reports it publishes on *Nasdaqtrader.com* weekly aggregated statistics showing the number of shares and transactions of M-ELO+CBs executed on the Exchange by security. This information would be published with a two-week delay for NMS stocks in Tier 1 of the LULD Plan, and a four-week delay for all other NMS stocks. The Exchange also would add to the existing reports it publishes on *Nasdaqtrader.com* monthly aggregated block-sized trading statistics of total shares and total transactions of M-ELO+CBs executed on the Exchange. This information would be published no earlier than one month following the end of the month for which trading was aggregated. Under the proposal, a transaction would be considered “block-sized” if it meets any of the following criteria: (1) 10,000 or more shares; (2) \$200,000 or more in value; (3) 10,000 or more shares and

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<sup>6</sup> The Exchange notes that it recently filed a proposal to allow for odd-lot sized orders to be eligible for M-ELOs. See SR-NASDAQ-2019-044 (May 20, 2019). If and when the SEC approves this filing, the Exchange intends for it to also apply to M-ELO+CBs.

\$200,000 or more in value; (4) 2,000 to 9,999 shares; (5) \$100,000 to \$199,999 in value; or (6) 2,000 to 9,999 shares and \$100,000 to \$199,999 in value.

As part of the surveillance the Exchange currently performs, M-ELO+CBs would be subject to real-time surveillance to determine if they are being abused by market participants. In addition, as is the case for ordinary M-ELOs, the Exchange will monitor the use of M-ELO+CBs with the intent to apply additional measures, as necessary, to ensure their usage is appropriately tied to the intent of the Order Type. This monitoring may include metrics tied to participant behavior, such as the percentage of M-ELO+CBs that are cancelled prior to the completion of the Holding Period, the average duration of M-ELO+CBs, and the percentage of M-ELO+CBs where the NBBO midpoint is within the limit price when received. The Exchange is committed to determining whether there is opportunity or prevalence of behavior that is inconsistent with normal risk management behavior. Manipulative abuse is subject to potential disciplinary action under the Exchange's Rules, and other behavior that is not necessarily manipulative but nonetheless frustrates the purposes of the M-ELO+CB Order Type may be subject to penalties or other participant requirements to discourage such behavior, should it occur.

#### Amending the Midpoint Trade Now Attribute to Enable Execution Against M-ELO+CB

To facilitate the establishment of the M-ELO+CB Order Type, the Exchange concurrently proposes to amend the Midpoint Trade Now Attribute, at Rule 4703(n), such that if a participant opts to enable Midpoint Trade Now on a Midpoint Order, then in addition to the normal functionality that the Attribute provides,<sup>7</sup> the Attribute would also permit the Midpoint

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<sup>7</sup> The Midpoint Trade Now Order Attribute presently allows a resting Order that becomes locked at its non-displayed price by an incoming Midpoint Peg Post-Only Order to automatically execute against crossing or locking interest, including potentially against the Midpoint Peg Post-Only Order that locked the resting Order, as a liquidity taker. See

Order to execute against a M-ELO+CB (provided that the Midpoint Order meets the eligibility requirements for doing so). In other words, a Midpoint Order with the Midpoint Trade Now Attribute enabled would become eligible to execute against a marketable M-ELO+CB only if it does not first execute against another order on the Continuous Book within one-half second of its entry. Executions with M-ELO+CB orders will be trade reported like any other time they remove liquidity.

#### Example of Use of M-ELO+CB

The following example demonstrates how the M-ELO+CB will operate in practice. Assume for purposes of this example that the NBBO remains constant at \$84.00 x \$86.00, such that the midpoint is \$85.00. At 10:05:27:00 am, Participant A enters a Midpoint Order on the Continuous Book with the Midpoint Trade Now Attribute enabled. The Midpoint Order is to sell 1,000 shares with a limit price of \$85.00. The Midpoint Order posts to the Continuous Order Book at \$85.00. At 10:05:37:00 am, Participant B enters a M-ELO+CB to buy 1,000 shares at \$85.00. After the Holding Period expires, the M-ELO+CB posts to the M-ELO Order Book at \$85.00. No other M-ELOs or M-ELO+CBs are available to execute against the M-ELO+CB at the time it becomes marketable. Because the Midpoint Order with Midpoint Trade Now has rested on the Continuous Order Book for more than one-half second, it becomes eligible to match against the M-ELO+CB, which continues to rest on the M-ELO Book. Because no other orders are resting on the Continuous Book with a price more aggressive than the NBBO, the M-ELO+CB will execute in full against the Midpoint Order at \$85.00.

#### Implementation

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Rule 4703(n); Securities Exchange Act Release No. 84621 (Nov. 19, 2018), 83 FR 60514 (Nov. 26, 2018) (SR-NASDAQ-2018-090).

The Exchange plans to implement M-ELO+CB within thirty days after Commission approval of the proposal. The Exchange will make the M-ELO+CB available to all members and to all securities upon implementation. The Exchange will announce the implementation date by Equity Trader Alert.<sup>8</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</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 reasons why the M-ELO+CB Order Type is consistent with the Act are generally the same as those that the Commission identified in its order approving the M-ELO Order Type.<sup>11</sup> The Exchange does not believe that the design of the M-ELO+CB presents concerns that are unique or materially different from those that the M-ELO presents.

For example, just as the Commission determined that the M-ELO “could create additional and more efficient trading opportunities on the Exchange for investors with longer investment time horizons, including institutional investors, and provide these investors with an ability to limit their information leakage and the market impact that could result from their orders,”<sup>12</sup> so too will the M-ELO+CB do so. By proposing to add M-ELO+CB as a new Order

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<sup>8</sup> The Exchange plans to propose a fee structure for the M-ELO+CB in a subsequent Commission rule filing.

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

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> See Securities Exchange Act Release No. 34-82825, supra, 83 FR at 10938-41.

<sup>12</sup> See id. at 10938-39.



Type, the Exchange intends to enhance the utility of the M-ELO concept to investors by providing them with opportunities to execute M-ELOs where they cannot do so now. Indeed, a M-ELO+CB will have all of the characteristics and offer all of the benefits of an ordinary M-ELO, except that it will also afford M-ELO investors the ability to accomplish their investment strategies by sourcing liquidity from the Nasdaq Continuous Book, where approximately 55 million shares trade at Midpoint a day.

The proposal would remain consistent with the underlying purpose of a M-ELO, which is to enable investors to source liquidity on the Exchange by limiting interaction with intermarket sweep orders or other aggressively priced order types. By allowing M-ELO+CBs to access liquidity in the Continuous Book, the Exchange would not dilute the purpose of the M-ELO because the Exchange would only permit the M-ELO+CB to access liquidity on the Continuous Book that resembles M-ELOs – including because eligible orders must have rested on the Book for at least one-half second and because they must be non-displayed orders and execute at the midpoint of the NBBO. In addition, the option to access qualified midpoint liquidity on the continuous book is purely voluntary.

The proposal would also benefit those participants with Midpoint Orders resting on the Exchange's Continuous Book, insofar as the proposal would provide additional opportunities for such Midpoint Orders to execute against M-ELO+CBs if the Midpoint Order user voluntarily chooses to do so.

Like the M-ELO, the M-ELO+CB will not discriminate unfairly against other market participants because it will be available for voluntary use by all Exchange members. Moreover, the proposal is not unfairly discriminatory against participants that enter Midpoint Orders that have not rested for at least one-half second because imposition of this resting condition is

necessary to ensure that M-ELO+CBs fulfill their purpose without the transitory risk of a change to the NBBO that may have the effect of an adverse execution. And again, participants will have a choice as to whether they wish for their Midpoint Orders to interact with M-ELO+CBs,

Like all M-ELOs and all other orders entered into Nasdaq, the Exchange will conduct real-time surveillance to monitor the use of M-ELO+CBs to ensure that such usage is appropriately tied to the intent of the Order Type. Also like the M-ELO, transactions in M-ELO+CB will be reported to the Securities Information Processor and will be provided in Nasdaq's proprietary data feed in the same manner as all other transactions occurring on Nasdaq are done currently, namely, without any new or special indication that it is a M-ELO+CB execution. The Exchange believes that doing so is important to ensuring that investors are protected from any market impact that may occur if M-ELO or M-ELO+CB executions were reported with a special indication.

The Exchange does not believe that the proposed M-ELO+CB will negatively affect the quality of the market. To the contrary, the Exchange believes that the addition of M-ELO+CB will draw new market participants to the Exchange's transparent and well-regulated market, including participants that were previously not utilizing M-ELO orders. Moreover, like the M-ELO, the M-ELO+CB will allow longer term investors an opportunity to find like-minded counterparties at the midpoint on Nasdaq. It will also allow participants with Midpoint Orders the option to choose for their Orders to interact with M-ELO+CBs, and if so, to execute in circumstances where they would not otherwise. Thus, the proposal would enhance liquidity opportunities of midpoint executions on the Exchange.

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.

The Exchange believes that the introduction of the M-ELO+CB will only boost the utility of the M-ELO among market participants who want the benefits of M-ELO but require additional trading flexibility. Accordingly, the Exchange expects that its proposal will draw new market participants to Nasdaq and increase the extent to which existing participants utilize the M-ELO concept. To the extent the proposed change is successful in attracting additional market participants, Nasdaq believes that the proposed change will promote competition among trading venues by making Nasdaq a more attractive trading venue for long-term investors and therefore capital formation.

Additionally, adoption of M-ELO+CB will not burden any market participants. Just as with an ordinary M-ELOs, the M-ELO+CB will be available to all Nasdaq members and it will be available on an optional basis. Thus, any member that seeks to avail itself of the benefits of a M-ELO+CB can choose accordingly. Although the proposal provides potential benefits for investors that select the M-ELO+CB order type, the Exchange believes that all market participants will benefit to the extent that this proposal contributes to a healthy and attractive market that is attentive to the needs of all types of investors.

The proposal also will not adversely impact market participants that choose not to use this M-ELO+CB because no changes need to be made to participants' systems to account for it. As discussed above, M-ELO+CB executions will be reported the same as other executions, without any new or special indicator.

Similarly, the proposal will benefit members that enter Midpoint Orders on the Continuous by providing them with flexibility to have their orders execute in situations where they would not do so now. Again, however, this flexibility will be optional. Any member that wants its Midpoint Orders to interact with M-ELO+CBs can choose accordingly.

In any event, the Exchange notes that it operates in a highly competitive market in which market participants can readily choose between competing venues if they deem participation in Nasdaq's market is no longer desirable. In such an environment, the Exchange must carefully consider the impact that any change it proposes may have on its participants, understanding that it will likely lose participants to the extent a change is viewed as unfavorable by them. Because competitors are free to modify the incentives and structure of their markets, the Exchange believes that the degree to which modifying the market structure of an individual market may impose any burden on competition is limited. Last, to the extent the proposed change is successful in attracting additional market participants, Nasdaq also believes that the proposed change will promote competition among trading venues by making Nasdaq a more attractive trading venue for long-term investors and therefore capital formation.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### 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-2019-048 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-2019-048. 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-2019-048, 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>13</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).