

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89225; File No. SR-NASDAQ-2020-034)

July 6, 2020

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Nasdaq Rules 6130 and IM-6200-1

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 June 25, 2020, 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 6130 (Nasdaq Kill Switch) and IM-6200-1 (Risk Settings) to provide Participants with additional optional settings.

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

¹ 15 U.S.C. 78s(b)(1).

² 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

The purpose of the proposed rule changes under Nasdaq Rule 6130 (Nasdaq Kill Switch) and IM-6200-1 (Risk Settings) are to provide Participants with additional optional settings in order to assist them in their efforts to manage their risk levels. Once the optional risk controls are set, the Exchange is authorized to take automated action if a designated risk level for a Participant is exceeded. Such risk settings would provide Participants with enhanced abilities to manage their risk with respect to orders on the Exchange.

The proposed pre-trade risk controls described below are meant to supplement, and not replace, the Participant's own internal systems, monitoring and procedures related to risk management. For clarification, the Exchange does not guarantee that these controls will be sufficiently comprehensive to meet all of a Participant's needs, nor are the controls designed to be the sole means of risk management, and using these controls will not necessarily meet a Participant's obligations required by Exchange or federal rules (including, without limitation, the Rule 15c3-5 under the Act³ ("Rule 15c3-5")). Use of the Exchange's Kill Switch or proposed risk setting in IM-6200-1(h) will not automatically constitute compliance with Exchange or federal rules and responsibility for compliance with all Exchange and SEC rules remains with the Participant.⁴

³ 17 CFR § 240.15c3-5.

⁴ See Division of Trading and Markets, Responses to Frequently Asked Questions Concerning Risk Management Controls for Brokers or Dealers with Market Access,

Rule 6130(a) provides the definition of the Nasdaq Kill Switch, which is an optional tool offered at no charge that enables Participants to establish a pre-determined level of Net Notional Risk Exposure ("NNRE"), to receive notifications as the value of executed orders approaches the NNRE level, and to have order entry ports disabled and open orders administratively cancelled when the value of executed orders exceeds the NNRE level. Most order entry ports are assigned to one MPID. In the event that multiple MPIDs are assigned to one port, only the affected MPID is disabled from the port. The NNRE, although not explicitly defined,⁵ accounts for the daily dollar amount for buy and sell orders across all symbols, where both buy and sell orders are counted as positive values. For purpose of calculating NNRE, only executed orders are included.

The Exchange is renaming the NNRE by proposing to remove references to "Net Notional Risk Exposure" and to replace them with "Gross Executed Risk Exposure". This risk level refers to a pre-established maximum daily dollar amount for buy and sell orders across all symbols, where both buy and sell orders are counted as positive values. For purposes of calculating Gross Executed Risk Exposure, only executed orders are included. The Exchange is not changing the NNRE calculation under the proposed amendment. Rather, it will be renamed as the Gross Executed Risk Exposure. This risk setting is similar to Cboe BZX Exchange, Inc.'s ("BZX") Interpretations and Policies .03(a)(1) of BZX Rule 11.13.

The Exchange is also proposing to add an additional risk setting titled "Gross Notional Risk Exposure," which refers to a pre-established maximum daily dollar amount for buy and sell orders across all symbols, where both buy and sell orders are counted as positive values. For

available at <https://www.sec.gov/divisions/marketreg/faq-15c-5-risk-management-controls-bd.htm>.

⁵ The Exchange is not changing the NNRE functionality under the proposed amendment. Rather, it is being renamed as the Gross Executed Risk Exposure.

purposes of calculating Gross Notional Risk Exposure, unexecuted orders on the Exchange book and executed orders are included. This setting is similar to Interpretations and Policies .03(a)(2) of BZX Rule 11.13, except BZX excludes unexecuted orders and counts purchases as positive values and sales are counted negative values. Additionally, the Exchange's rule is similar to New York Stock Exchange LLC ("NYSE") Rule 7.19(a)(5), except NYSE includes orders routed on arrival. While the current functionality would continue to be available, this additional proposed risk setting would allow a Participant to manage its risk more comprehensively, instead of relying solely on the NNRE functionality offered today. For purposes of Rule 6130, the Exchange proposes to use the term "Participant" as defined in Rule 4701(c).⁶

The Exchange also proposes to make a conforming change to Rule 6130(b) by removing "Net Notional Risk Exposure" and replacing it with "Establishing and Adjusting Levels." The Exchange is also proposing to specify that a Participant's clearing member, as discussed below, may set the risk levels for each MPID individually. This action is similar to Interpretations and Policies .03(b)(1) of BZX Rule 11.13 and NYSE Rule 7.19(b)(3)(B), except unlike NYSE, the Exchange does not allow for setting risk levels at the sub-ID of an MPID. Additionally, the proposal allows for the clearing member, in addition to the Participant, to set and adjust the values before the beginning of a trading day as well as set and adjust them during the trading

⁶ Pursuant to Nasdaq Rule 4701 (c), a "Participant" is defined as an entity that fulfills the obligations contained in Rule 4611 regarding participation in the System, and shall include: (1) "Nasdaq ECNs," members that meet all of the requirements of Rule 4623, and that participates in the System with respect to one or more System Securities; (2) "Nasdaq Market Makers" or "Market Makers", members that are registered as Nasdaq Market Makers for purposes of participation in the System on a fully automated basis with respect to one or more System securities; and (3) "Order Entry Firms," members that are registered as Order Entry Firms for purposes of entering orders in System Securities into the System. This term shall also include any Electronic Communications Network or Alternative Trading System (as such terms are defined in Regulation NMS) that fails to meet all the requirements of Rule 4623.

day. This is similar to Interpretations and Policies .03(b) of BZX Rule 11.13 and NYSE Rule 7.19(b)(3)(A).

The Exchange is proposing under Rule 6130(c) to allow clearing members, if designated pursuant to Rule 6130(d), to receive notifications when the total value of executed orders, and if applicable, unexecuted orders associated with an MPID exceeds 50, 75, 85, 90, and 95 percent of the applicable risk level values. This rule is similar to Interpretations and Policies .03(d) of BZX Rule 11.13 and NYSE Rule 7.19(b)(4).

A clearing member guarantees transactions executed on Nasdaq for members with whom it has entered into a clearing arrangement, and therefore bears the risk associated with those transactions. Because clearing members bear the risk on behalf of their Participant, the Exchange believes that it is appropriate for the clearing member to have knowledge of what risk settings the Participant may utilize within the Exchange's trading system, as well as the option to set and adjust the risk levels. Therefore, the Exchange proposes to make the proposed optional risk settings in Rule 6130 available to clearing members, if so authorized by the Participant.

Proposed Rule 6130(d) would allow for a Participant that does not self-clear to allocate responsibility for establishing and adjusting the risk levels to a clearing member that clears transactions on behalf of the Participant. A Participant may request to sign up for the Kill Switch optional setting by contacting NasdaqSubscriber Services or by completing a Front End Request form.⁷ In order to allocate responsibility to a clearing member, a Participant must provide the Exchange with authorization, either by providing NasdaqSubscriber Services with written authorization or by requesting the appropriate user role and permission for the clearing member

⁷ The Front End Request form is available at <https://www.nasdaqtrader.com/EASP/TraderEASP.aspx?id=FrontEndForm>.

via the Front End Request form. The Participant may adjust the user role and permissions at any time. If a Participant chooses to designate responsibility to its clearing member, the Participant may view any risk levels established by the clearing member pursuant to proposed Rule 6130(d). Additionally, by allocating responsibility to its clearing member, the Participant consents to the Exchange taking action as provided for in proposed Rule 6130(e). Even if a clearing member is designated, a Participant will continue to be notified by the Exchange of any action taken regarding its trading activity. By allowing Participants to allocate the responsibility for establishing and adjusting such risk settings to its clearing member, the Exchange believes clearing members may reduce potential risks that they assume when clearing for Participants of the Exchange. A Participant may revoke responsibility allocated to its clearing member at any time by following the same process described above that is used to grant the clearing member authorization.

BZX and NYSE also provide similar designations to its clearing members pursuant to Interpretations and Policies .03(c) of BZX Rule 11.13 and NYSE Rule 7.19(b)(2). However, unlike NYSE, the Exchange does not allow for multiple risk level values to be in place at one time.

The Exchange also proposes to renumber current Rule 6130(d) as Rule 6130(e) and retitle it to more accurately describe the provision by removing “Operation” and replacing it with “Breach Action and Reinstatement.” Additionally, the Exchange is proposing to clarify that when a pre-established risk level is breached, the Kill Switch will be triggered. With the limited exceptions noted below the Kill Switch will operate at all times and on all orders when the Nasdaq System is open. When a risk level is breached, order entry for the breached MPID is disabled and all unexecuted orders are cancelled, with the exception of cancellations prohibited

by Nasdaq Rules 4752, 4753 and 4754. The Kill Switch function will not cancel orders directed to a Nasdaq Cross during the period leading up to the Cross when order cancellation is prohibited (i.e. between 9:28 a.m. ET to the time of the Nasdaq Opening Cross; between 3:50 p.m. ET to the time of the Nasdaq Closing Cross). Either the Participant or the clearing member may contact the Exchange to request reactivation of the MPID before trading will be reauthorized.

As a reminder, pursuant to current Rule 6200, the Exchange will continue to share any Participant risk settings in the trading system that are specified in Rule 6130 and IM-6200-1 with the clearing member that clears transactions on behalf of the Participant even if the clearing member is not designated. Under current IM-6200-1, the Exchange offers certain risk settings applicable to a Participant on the Exchange. Proposed Rule IM-6200-1(h) would allow for a Participant to limit the maximum dollar amount that the Participant may associate with an order placed on the Exchange. This risk setting is similar to the risk control provided by NYSE pursuant to Rule 7.19(a)(3). When the Maximum Single Order Notional Check is enabled, if a Participant breaches this risk setting, the single order will be rejected by the system. The action taken is similar to NYSE Rule 7.19(c)(2).

The Exchange is also proposing to make the following non-substantive conforming changes:

- Capitalize the term “Participant” when referenced throughout the rule.
- Remove the term “open orders” and replace with “unexecuted orders”.
- Remove all references to the acronym “NNRE” throughout the rule in conjunction with the removal of the reference to “Net Notional Risk Exposure.”

- Renumber IM-6200-1 to conform to the addition of proposed Rule IM-6200-1(h).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁹ 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.

Specifically, the Exchange believes the proposed amendment will remove impediments to and perfect the mechanism of a free and open market and a national market system because it provides functionality for a Participant to manage its risk exposure under Rule 6130 and IM-6200-1, while also providing a notification system under Rule 6130(c) that would help to ensure the Participant and its clearing member are aware of developing issues. In addition, the proposed amendments to Rule 6130 would provide clearing members, who have assumed certain risks of Participants, greater control over risk tolerance and exposure on behalf of their correspondent Participant, while helping to ensure that both Participant and its clearing member are aware of developing issues.

A clearing member guarantees transactions executed on Nasdaq for members with whom it has entered into a clearing arrangement, and therefore bears the risk associated with those transactions. The Exchange therefore believes that it is appropriate for the clearing member to have knowledge of what risk settings the Participant may utilize within the Exchange's trading

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

system, as well as the option to set and adjust the risk levels. The proposal will permit clearing members who have a financial interest in the risk settings of Participants with whom the Participants have entered into clearing arrangements to better monitor and manage the potential risks assumed by clearing members, thereby providing clearing members with greater control and flexibility over setting their own risk tolerance and exposure and aiding clearing members in complying with the Act.

In addition, the Exchange believes that the proposed amendments under Rule 6130 and IM-6200-1 are designed to protect investors and the public interest because the proposed functionalities are a form of risk mitigation that will aid Participants and clearing members in minimizing their financial exposure and reduce the potential for disruptive, market-wide events. The proposed Gross Executed Risk Exposure and Gross Notional Risk Exposure settings are appropriate measures to serve as an additional tool for Participants and clearing members to assist them in identifying risk exposure by identifying when the Participant is reaching its maximum dollar amount for purchases and sales across all symbols. The Exchange also believes the proposed amendments will assist Participants and clearing members in managing their financial exposure which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system. Moreover, a Participant may revoke responsibility allocated to its clearing member at any time.

Further, the Exchange believes that the proposed amendments under Rule 6130 and IM-6200-1 will foster cooperation and coordination with persons facilitating transactions in securities because under Rule 6130(c), the Exchange will provide alerts when a Participant's trading activity reaches certain thresholds and under IM-6200-1, the Exchange will limit the

Participant's maximum dollar amount placed on an order. As such, the Exchange may help clearing members monitor the risk levels of corresponding Participants.

Finally, the Exchange believes that the proposed rule changes do not unfairly discriminate among the Exchange's Participants because use of the risk settings under Rule 6130 and IM-6200-1(h) are optional and available to all Participants, and not a prerequisite for participation on the Exchange. In addition, because all orders on the Exchange would pass through the risk checks, there would be no difference in the latency experienced by Participants who have opted to use the risk settings versus those who have not opted to use them.¹⁰

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 fact, the Exchange believes that the proposal will have a positive effect on competition because, it would allow the Exchange to offer risk management functionality that is comparable to functionality being offered by other national securities exchanges.¹¹ Moreover, by providing Participants and their clearing members additional means to monitor and control risk, the proposed rule may increase confidence in the proper functioning of the markets and contribute to additional competition among trading venues and broker-dealers. Rather than impede competition, the proposal is designed to facilitate more robust risk management by Participants and clearing

¹⁰ All Exchange orders pass through a basic risk checks regardless of whether a Participant opts into a risk setting.

¹¹ See Securities Exchange Act Release Nos. 88904(May 19, 2020) 85 FR 31560 (May 26, 2020) (SR-NYSEArca-2020-43); 88776 (April 29, 2020) 85 FR 26768 (May 5, 2020) (SR-NYSE-2020-17) (Approval Order); 88599 (April 8, 2020) 85 FR 20793 (April 14, 2020) (SR-CboeBZX-2020-006) (Approval Order).

members, which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system.

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) of the Act¹² and Rule 19b-4(f)(6) thereunder.¹³

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 to determine whether the proposed rule change should be approved or disapproved.

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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.

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-2020-034 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-2020-034. 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-2020-034 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.¹⁴

J. Matthew DeLesDernier
Assistant Secretary

¹⁴ 17 CFR 200.30-3(a)(12).