

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-90654; File No. SR-NASDAQ-2020-084)

December 14, 2020

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend NOM's Pricing Schedule at Options 7, Section 2 and Options 7, Section 3

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 December 1, 2020, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III, 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's ("NOM") Pricing Schedule at Options 7, Section 2, "Nasdaq Options Market Fees and Rebates" and Options 7, Section 3, "Nasdaq Options Market - Ports and Other Services."

The text of the proposed rule change is available on the Exchange's Website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange proposes to amend NOM’s Pricing Schedule at Options 7, Section 2, “Nasdaq Options Market Fees and Rebates” and Options 7, Section 3, “Nasdaq Options Market - Ports and Other Services.” Each change will be described below.

Options 7, Section 2

Today, the Exchange pays certain Rebates to Add Liquidity in Penny Symbols according to the below table.

Rebates to Add Liquidity in Penny Symbols

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6
Customer ^{1,8,9,10}	(\$0.20)	(\$0.25)	(\$0.42)	(\$0.43)	(\$0.45)	(\$0.48) ⁷
Professional ^{1,9,10}	(\$0.20)	(\$0.25)	(\$0.42)	(\$0.43)	(\$0.45)	(\$0.48)
Broker-Dealer Firm	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)
Non-NOM Market Maker	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)
NOM Market Maker ³	(\$0.20)	(\$0.25)	(\$0.30) ⁴	(\$0.32) ⁴	(\$0.44) ¹¹	(\$0.48)

Specifically, NOM Market Maker Rebates to Add Liquidity in Penny Symbols are paid according to the below tier qualifications.

Monthly Volume

Tier 1 Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of up to 0.10% of total industry

customer equity and ETF option average daily volume (“ADV”) contracts per day in a month

- Tier 2** Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 0.10% to 0.20% of total industry customer equity and ETF option ADV contracts per day in a month
- Tier 3** Participant: (a) adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 0.20% to 0.60% of total industry customer equity and ETF option ADV contracts per day in a month; or (b)(1) transacts in all securities through one or more of its Nasdaq Market Center MPIDs that represent 0.70% or more of Consolidated Volume (“CV”) which adds liquidity in the same month on The Nasdaq Stock Market, (2) transacts in Tape B securities through one or more of its Nasdaq Market Center MPIDs that represent 0.18% or more of CV which adds liquidity in the same month on The Nasdaq Stock Market, and (3) executes greater than 0.01% of CV via Market-on-Close/Limit-on-Close (“MOC/LOC”) volume within The Nasdaq Stock Market Closing Cross in the same month
- Tier 4** Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month
- Tier 5** Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.40% of total industry customer equity and ETF option ADV contracts per day in a month and transacts in all securities through one or more of its Nasdaq Market Center MPIDs that represent 0.40% or more of Consolidated Volume (“CV”) which adds liquidity in the same month on The Nasdaq Stock Market
- Tier 6** Participant: (a)(1) adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month, (2) executes Total Volume of 250,000 or more contracts per day in a month, of which 30,000 or more contracts per day in a month must be removing liquidity, and (3) adds Firm, Broker-Dealer and Non-NOM Market Maker liquidity in Non-Penny Symbols of 10,000 or more contracts per day in a month; or (b)(1) adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, and (2) executes Total Volume of 250,000 or more contracts per day in a month, of which 15,000 or more contracts per day in a month must be removing liquidity

The Exchange proposes to amend Penny Pilot NOM Market Maker Tier 4 which currently provides, “Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month.”³ The Exchange proposes to amend Penny Pilot NOM Market Maker Tier 4 to provide, “Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% of total industry customer equity and ETF option ADV contracts per day in a month.” This proposed rule change will not impact NOM’s pricing. Today, NOM Market Maker Rebates to Add Liquidity in Penny Symbols are paid per the highest tier achieved.⁴ Current Penny Pilot NOM Market Maker Tier 5 requires Participants to add NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.40% of total industry customer equity and ETF option ADV contracts per day in a month and transact in all securities through one or more of its Nasdaq Market Center MPIDs that represent 0.40% or more of Consolidated Volume (“CV”) which adds liquidity in the same month on The Nasdaq Stock Market in order to achieve a rebate.⁵ Therefore, a Participant that adds NOM Market

³ Penny Pilot NOM Market Maker Tier 4 pays a rebate of \$0.43 per contract to Customers and Professionals, \$0.10 per contract to Broker-Dealers, Firms and Non-NOM Market Makers and \$0.32 per contract to NOM Market Makers. Further, pursuant to footnote 4, Participants who achieve the NOM Market Maker Tier 3 or Tier 4 Rebate to Add Liquidity will receive \$0.40 per contract to add liquidity in the following symbols: AAPL, SPY, QQQ, IWM, and VXX.

⁴ See note 3 of Options 7, Section 2.

⁵ Penny Pilot NOM Market Maker Tier 5 pays a rebate of \$0.45 per contract to Customers and Professionals, \$0.10 per contract to Broker-Dealers, Firms and Non-NOM Market Makers and \$0.44 per contract to NOM Market Makers. Further, pursuant to footnote 11, NOM Participants that qualify for the Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbols and add NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.50% of total industry customer equity and ETF option ADV contracts per day in a month, will receive a \$0.46 per contract rebate to add liquidity in Penny Symbols as Market Maker in lieu of the Tier 5 rebate.

Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month volume would qualify for Penny Pilot NOM Market Maker Tier 4 today, and may qualify for Penny Pilot NOM Market Maker Tier 5 if the additional criteria was met. Penny Pilot NOM Market Maker Tier 6 requires, among other things, that a Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month.⁶

The Exchange believes that this proposal will bring greater clarity to the Penny Pilot NOM Market Maker tiers as any volume above 0.60% would qualify a Participant for Penny Pilot NOM Market Maker Tier 4, as is the case today unless the Participant qualified for Penny Pilot NOM Market Maker Tiers 5 or 6, as is also the case today. Stating, “above 0.60%” within the rule text will make the aforementioned opportunities clearer for all Participants.

Options 7, Section 3

The Exchange proposes to amend Options 7, Section 3, “Nasdaq Options Market - Ports and Other Services,” to remove obsolete text which reflects timeframes which have passed.

⁶ Penny Pilot NOM Market Maker Tier 6 provides, “Participant: (a)(1) adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month, (2) executes Total Volume of 250,000 or more contracts per day in a month, of which 30,000 or more contracts per day in a month must be removing liquidity, and (3) adds Firm, Broker-Dealer and Non-NOM Market Maker liquidity in Non-Penny Symbols of 10,000 or more contracts per day in a month; or (b)(1) adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, and (2) executes Total Volume of 250,000 or more contracts per day in a month, of which 15,000 or more contracts per day in a month must be removing liquidity.”

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁷ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,⁸ 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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's proposed changes to its Pricing Schedule are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for options securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’....”⁹

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the

⁷ 15 U.S.C. 78 f(b).

⁸ 15 U.S.C. 78f(b)(4) and (5).

⁹ NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”¹⁰

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for options security transaction services. The Exchange is only one of sixteen options exchanges to which market participants may direct their order flow. Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules. As such, the proposal represents a reasonable attempt by the Exchange to increase its liquidity and market share relative to its competitors.

Options 7, Section 2

The Exchange’s proposal to amend Penny Pilot NOM Market Maker Tier 4 to change the current volume requirement from “Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month” to “Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% of total industry customer equity and ETF option ADV contracts per day in a month,” is reasonable. This proposed rule change will not impact NOM’s pricing. Today, NOM Market Maker Rebates to Add Liquidity in Penny Symbols are paid per the highest tier achieved.¹¹ Current Penny Pilot

¹⁰ Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

¹¹ See note 3 of Options 7, Section 2.

NOM Market Maker Tier 5 requires Participants to add NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.40% of total industry customer equity and ETF option ADV contracts per day in a month and transact in all securities through one or more of its Nasdaq Market Center MPIDs that represent 0.40% or more of CV which adds liquidity in the same month on The Nasdaq Stock Market in order to achieve a rebate.¹² Therefore, a Participant that adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month volume would qualify for Penny Pilot NOM Market Maker Tier 4 today, and may qualify for Penny Pilot NOM Market Maker Tier 5 if the additional criteria was met. Penny Pilot NOM Market Maker Tier 6 requires, among other things, that a Participants adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month.¹³ This proposal will make clear that any volume above 0.60% would qualify a Participant for Penny Pilot NOM Market Maker Tier 4, as is the case today, unless the Participant qualified for Penny Pilot NOM Market Maker Tiers 5 or 6, as is also the case today. Any NOM Market Maker may qualify for a NOM Market Maker Penny Pilot rebate provided the requisite criteria has been met.

The Exchange's proposal to amend Penny Pilot NOM Market Maker Tier 4 to change the current volume requirement from "Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month" to "Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% of total industry

¹² See note 5.

¹³ See note 6.

customer equity and ETF option ADV contracts per day in a month,” is equitable and not unfairly discriminatory as all NOM Market Makers may uniformly qualify for these NOM Market Maker Penny Pilot rebates, provided they submit the requisite qualifying criteria. NOM Market Makers add value through continuous quoting¹⁴ and are subject to additional requirements and obligations¹⁵ that other market participants are not. Incentivizing Market Makers to provide greater liquidity benefits all market participants through the quality of order interaction.

Options 7, Section 3

The Exchange’s proposal to amend Options 7, Section 3, “Nasdaq Options Market - Ports and Other Services,” is reasonable, equitable and not unfairly discriminatory as the rule text is obsolete in that the text reflects timeframes which have passed.

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.

Inter-market Competition

The proposal does not impose an undue burden on inter-market competition. The Exchange believes its proposal remains competitive with other options markets and will offer market participants another choice of where to transact options. 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

¹⁴ See Options 2, Section 5.

¹⁵ See Options 2, Section 4.

Exchange must continually adjust its fees to remain competitive with other exchanges 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.

Intra-market Competition

The proposed amendments do not impose an undue burden on intra-market competition.

The Exchange's proposal to amend Penny Pilot NOM Market Maker Tier 4 to change the current volume requirement from "Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month" to "Participant adds NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.60% of total industry customer equity and ETF option ADV contracts per day in a month," does not impose an undue burden on competition as all NOM Market Makers may uniformly qualify for these NOM Market Maker Penny Pilot rebates, provided they submit the requisite qualifying criteria. NOM Market Makers add value through continuous quoting¹⁶ and are subject to additional requirements and obligations¹⁷ that other market participants are not. Incentivizing Market Makers to provide greater liquidity benefits all market participants through the quality of order interaction.

Options 7, Section 3

¹⁶ See Options 2, Section 5.

¹⁷ See Options 2, Section 4.

The Exchange's proposal to amend Options 7, Section 3, "Nasdaq Options Market - Ports and Other Services," does not impose an undue burden on competition as the rule text is obsolete in that the text reflects timeframes which have passed.

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)(ii) of the Act.¹⁸

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 should be approved or 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

¹⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2020-084 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-2020-084. 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-2020-084 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.¹⁹

J. Matthew DeLesDernier
Assistant Secretary

¹⁹ 17 CFR 200.30-3(a)(12).