

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-92242; File No. SR-NASDAQ-2021-051)

June 23, 2021

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend General 9, Section 18, Payments for Market Making

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 June 14, 2021, 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 General 9, Section 18, Payments for Market Making. 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 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

The Exchange proposes to amend General 9, Section 18, Payments for Market Making to align General 9, Section 18 with FINRA Rule 5250, Payments for Market Making. Specifically, the Exchange proposes to replace General 9, Section 18 with rule text incorporating FINRA Rule 5250 by reference.<sup>3</sup> The Exchange also proposes to incorporate by reference the definition “affiliate” and the related definitions within FINRA Rule 5121 for purposes of FINRA Rule 5250.

By way of background, General 9, Section 18 and FINRA Rule 5250 explicitly prohibit any payment by issuers or issuers’ affiliates and promoters, directly or indirectly, to a member or person associated with a member for publishing a quotation, acting as a market maker, or submitting an application in connection therewith. The respective rules are intended, among other things, to prohibit members from receiving compensation or other payments from an issuer for quoting or making a market in the issuer’s securities and to assure that members act in an independent capacity when publishing a quotation or making a market in an issuer’s securities.

Today, there are several differences between current General 9, Section 18 and FINRA Rule 5250. The Exchange’s proposal to replace General 9, Section 18 with an incorporation by

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<sup>3</sup> The Exchange will separately request an exemption from the rule filing requirements of Section 19(b) of the Act in requesting to incorporate FINRA Rule 5250 and the definition of “affiliate” and the related definitions within FINRA Rule 5121 to the extent General 9, Section 18 is affected solely by virtue of a change to FINRA Rule 5250 or to such definitions within FINRA Rule 5121. The Exchange’s proposed rule change will not become operative unless and until the Commission grants this exemption request.

reference to FINRA Rule 5250 will align Nasdaq's rule to FINRA's rule. The Exchange explains the differences below.

First, by incorporating FINRA Rule 5250, the Exchange would incorporate FINRA's rule which states that members are not precluded from accepting "any payment expressly provided for under the rules of a national securities exchange that are effective after being filed with, or filed with and approved by, the SEC pursuant to the requirements of the Exchange Act." General 9, Section 18 currently does not include this exception. FINRA previously amended Rule 5250<sup>4</sup> to account for cases where a market maker payment is provided for under the rules of an exchange that are effective after being filed with, or filed with and approved by, the Commission pursuant to the requirements of the Act. FINRA noted in its 2013 Rule Change that comity should be afforded to such exchange rulemaking and the payment should not be prohibited under Rule 5250.<sup>5</sup> The 2013 Rule Change cited to Nasdaq's Market Quality Program as an example of such exchange rulemaking.<sup>6</sup> Incorporating this exception from FINRA's rule would ensure consistent regulation of joint members of the Exchange and FINRA.

Second, by incorporating FINRA Rule 5250, the Exchange would also incorporate the defined term "affiliate," and the related definitions within FINRA Rule 5121(f),<sup>7</sup> which differ

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<sup>4</sup> See Securities Exchange Act Release No. 69398 (April 18, 2013), 78 FR 24261 (April 24, 2013) (SR-FINRA-2013-020) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to FINRA Rule 5250 (Payments for Market Making) ("2013 Rule Change").

<sup>5</sup> Id.

<sup>6</sup> See 2013 Rule Change (citing to Securities Exchange Act Release No. 69195). See also Securities Exchange Act Release No. 69195 (March 20, 2013), 78 FR 18393 (March 26, 2013) (SR-NASDAQ-2012-137) (Order Granting Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 3 Thereto, To Establish the Market Quality Program).

<sup>7</sup> FINRA Rule 5250 refers to FINRA Rule 5121 for the definition of "affiliate." FINRA defines the term "affiliate" and the terms used with the definition "affiliate"

from the definition of “affiliate” under current General 9, Section 18(c)(1). FINRA Rule 5250 incorporates the definition of “affiliate” within FINRA Rule 5121(f)(1) which provides, “The term “affiliate” means an entity that controls, is controlled by or is under common control with a member.” The term affiliate refers to “entity” which is defined within FINRA Rule 5121(f)(7) which provides,

For purposes of the definitions of affiliate, conflict of interest and control under this Rule, the term “entity”: (A) includes a company, corporation, partnership, trust, sole proprietorship, association or organized group of persons; and (B) excludes the following: (i) an investment company registered under the Investment Company Act; (ii) a “separate account” as defined in Section 2(a)(37) of the Investment Company Act; (iii) a “real estate investment trust” as defined in Section 856 of the Internal Revenue Code; or (iv) a “direct participation program” as defined in Rule 2310.

Finally, the term affiliate refers to “control” which is defined within FINRA Rule 5121(f)(6) which provides,

The term control means: (i) beneficial ownership of 10 percent or more of the outstanding common equity of an entity, including any right to receive such securities within 60 days of the member's participation in the public offering; (ii) the right to 10 percent or more of the distributable profits or losses of an entity that is a partnership, including any right to receive an interest in such distributable profits or losses within 60 days of the member's participation in the public offering; (iii) beneficial ownership of 10 percent or more of the outstanding preferred equity of an entity, including any right to receive such preferred equity

within 60 days of the member's participation in the public offering; or (iv) the power to direct or cause the direction of the management or policies of an entity.

(B) The term "common control" means the same natural person or entity controls two or more entities.

In contrast, General 9, Section 18(c)(1) defines affiliate as follows,

(A) The term "affiliate" shall mean a company which controls, is controlled by, or is under common control with a member; (B) The term affiliate is presumed to include, but is not limited to, the following for purposes of subparagraph (A), above: (i) a company will be presumed to control a member if the company beneficially owns 10 percent or more of the outstanding voting securities of a member which is a corporation, or beneficially owns a partnership interest in 10 percent or more of the distributable profits or losses of a member which is a partnership; (ii) a member will be presumed to control a company if the member and persons associated with the member beneficially own 10 percent or more of the outstanding voting securities of a company which is a corporation, or beneficially own a partnership interest in 10 percent or more of the distributable profits or losses of a company which is a partnership; (iii) a company will be presumed to be under common control with a member if: a. The same natural person or company controls both the member and company by beneficially owning 10 percent or more of the outstanding voting securities of a member or company which is a corporation, or by beneficially owning a partnership interest in 10 percent or more of the distributable profits or losses of a member or company which is a partnership; or b. A person having the power to direct or

cause the direction of the management or policies of the member or the company also has the power to direct or cause the direction of the management or policies of the other entity in question.

Incorporating FINRA's rule would ensure a consistent definition of "affiliate" and, therefore, consistent regulation of joint members of the Exchange and FINRA.

Third, by incorporating FINRA Rule 5250, the Exchange would remove General 9, Section 18(c)(1)(C). General 9, Section 18(c)(1)(C) provides,

The provisions of subparagraphs (A) and (B) hereof notwithstanding, none of the following shall be presumed to be an affiliate of a member for purposes of this Rule: (i) an investment company registered with the Commission pursuant to the Investment Company Act of 1940, as amended; (ii) a "separate account" as defined in Section 2(a)(37) of the Investment Company Act of 1940, as amended; (iii) a "real estate investment trust" as defined in Section 856 of the Internal Revenue Code; (iv) a "direct participation program" as defined in Equity 10, Section 1; and (v) a corporation, trust, partnership or other entity issuing financing instrument-backed securities which are rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

Unlike General 9, Section 18, FINRA Rule 5121(f)(7) does not by rule exclude a corporation, trust, partnership or other entity issuing financing instrument-backed securities which are rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories from the definition of "entity." Incorporating FINRA's rule, including the applicable definition in FINRA Rule 5121, would ensure consistent definition of "affiliate" and consistent regulation of joint members of the Exchange and FINRA.

## 2. Statutory Basis

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 and to protect investors and the public interest. The Exchange's proposal to replace General 9, Section 18 with rule text incorporating by reference FINRA Rule 5250, including the applicable provisions of FINRA Rule 5121 as referenced in FINRA Rule 5250, is consistent with the Act. The Exchange's proposal will align Nasdaq's rule to FINRA's rule and remove differences as between the two rules.

Aligning General 9, Section 18 to FINRA Rule 5250 would ensure consistent regulation of joint members of the Exchange and FINRA.

### 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 proposed amendments do not impose an undue burden on competition as the proposal will align the Exchange's General 9, Section 18 to FINRA Rule 5250 and ensure consistent regulation of joint members of the Exchange and FINRA.

### 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;

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

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

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 Act<sup>10</sup> and Rule 19b-4(f)(6) thereunder.<sup>11</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 to determine whether the proposed rule change 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
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2021-051 on the subject line.

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

<sup>11</sup> 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.



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-2021-051. 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-2021-051 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>12</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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