

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-94492; File No. SR-NASDAQ-2022-020)

March 23, 2022

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 4756(a)(3), in Light of Planned Changes to the System as well as to Address Existing Issues

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 March 11, 2022, 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 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 4756(a)(3), in light of planned changes to the System as well as to address existing issues, as described further below. 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

Presently, the Exchange is making functional enhancements and improvements to specific Order Types<sup>3</sup> and Order Attributes<sup>4</sup> that are currently only available via the RASH Order entry protocol.<sup>5</sup> Specifically, the Exchange will be upgrading the logic and implementation of these Order Types and Order Attributes so that the features are more streamlined across the Nasdaq Systems and order entry protocols, and will enable the Exchange to process these Orders more quickly and efficiently. Additionally, this System upgrade will pave the way for the Exchange to enhance the OUCH Order entry protocol<sup>6</sup> so that Participants may enter such Order

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<sup>3</sup> An “Order Type” is a standardized set of instructions associated with an Order that define how it will behave with respect to pricing, execution, and/or posting to the Nasdaq Book when submitted to Nasdaq. See Equity 1, Section 1(a)(7).

<sup>4</sup> An “Order Attribute” is a further set of variable instructions that may be associated with an Order to further define how it will behave with respect to pricing, execution, and/or posting to the Nasdaq Book when submitted to Nasdaq. See id.

<sup>5</sup> The RASH (Routing and Special Handling) Order entry protocol is a proprietary protocol that allows members to enter Orders, cancel existing Orders and receive executions. RASH allows participants to use advanced functionality, including discretion, random reserve, pegging and routing. See [http://nasdaqtrader.com/content/technicalsupport/specifications/TradingProducts/rash\\_sb.pdf](http://nasdaqtrader.com/content/technicalsupport/specifications/TradingProducts/rash_sb.pdf).

<sup>6</sup> The OUCH Order entry protocol is a Nasdaq proprietary protocol that allows subscribers to quickly enter orders into the System and receive executions. OUCH accepts limit Orders from members, and if there are matching Orders, they will execute. Non-matching Orders are added to the Limit Order Book, a database of available limit Orders, where they are matched in price-time priority. OUCH only provides a method for members to send Orders and receive status updates on those Orders. See <https://www.nasdaqtrader.com/Trader.aspx?id=OUCH>.

Types and Order Attributes via OUCH, in addition to the RASH Order entry protocol.<sup>7</sup> The Exchange plans to implement its enhancement of the OUCH protocol sequentially, by Order Type and Order Attribute.<sup>8</sup>

To support and prepare for these upgrades and enhancements, the Exchange previously submitted four rule filings to the Commission that amended its rules pertaining to, among other things, Market Maker Peg Orders, Orders with Reserve Size, Orders with Pegging and Trade Now Attributes, and Discretionary Orders.<sup>9</sup> The Exchange now proposes to amend Rule 4756(a)(3), which governs the entry of Orders, so that it aligns with how the System, once upgraded, will handle the partial cancellation of Orders to reduce their share size. The proposed filing also addresses issues with the existing Rule text and the current implementation of that Rule text by the System.

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<sup>7</sup> The Exchange designed the OUCH protocol to enable members to enter Orders quickly into the System. As such, the Exchange developed OUCH with simplicity in mind, and it therefore lacks more complex order handling capabilities. By contrast, the Exchange specifically designed RASH to support advanced functionality, including discretion, random reserve, pegging and routing. Once the System upgrades occur, then the Exchange intends to propose further changes to its Rules to permit participants to utilize OUCH, in addition to RASH, to enter order types that require advanced functionality.

<sup>8</sup> The Exchange notes that its sister exchanges, Nasdaq BX and Nasdaq PSX, plan to file similar proposed rule changes with the Commission shortly. However, certain Order Types affected by the proposed rule change are associated with the Nasdaq Opening and Closing Crosses (LOC, MOC, LOO, MOO, IO, and OIO Orders, discussed below), and thus are not applicable to either Nasdaq BX or Nasdaq PSX.

<sup>9</sup> See Securities Exchange Act Release No. 34-93245 (October 4, 2021), 86 FR 56302 (October 8, 2021) (SR-NASDAQ-2021-075); Securities Exchange Act Release No. 34-92180 (June 15, 2021), 86 FR 33420 (June 24, 2021) (SR-NASDAQ-2021-044); Securities Exchange Act Release No. 34-91109 (February 11, 2021), 86 FR 10141 (February 18, 2021) (SR-NASDAQ-2020-090); Securities Exchange Act Release No. 34-90389 (November 10, 2020), 85 FR 73304 (November 17, 2020) (SR-NASDAQ-2020-071).

In pertinent part, existing Rule 4756(a)(3) states as follows, with respect how the Exchange handles partial Order cancellations to reduce share size:

In addition, a partial cancellation of an Order to reduce its share size will not affect the priority of the Order on the book; provided, however, that such a partial cancellation may not be made with respect to an MOO Order, an LOO Order, an OIO Order, an MOC Order, an LOC Order, an IO Order, or a Pegged Order (including a Discretionary Order that is Pegged).

The first clause of this text states the general rule that participants may instruct the Exchange to partially cancel their Orders to reduce share size, and when handling such partial cancellation instructions, the Exchange will adjust the size of the Orders without affecting their existing priority. The second clause states an exception to this general rule, which the Exchange intends to mean that when the Exchange processes partial cancellations of Market On Open (“MOO”), Limit on Open (“LOO”), Opening Imbalance Only (“OIO”), Market on Close (“MOC”), Limit on Close (“LOC”), and Imbalance Only Orders (“IO”), as well as Orders with the Pegging Attribute (including Discretionary Orders with Pegging) that participants enter via RASH or FIX or QIX (as opposed to OUCH or FLITE), the partially cancelled Orders will lose their priority.

Going forward, planned upgrades will provide for the Exchange to process partial cancellations of all Order Types and Attributes entered through all of its available and applicable Order Entry Protocols, including RASH, OUCH, FIX, QIX and FLITE,<sup>10</sup> and it will do so without loss of priority, such that the existing exception to the general rule in 4756(a)(3) will no longer be necessary. Thus, the Exchange proposes to eliminate this exception by deleting the following text from the Rule: “provided, however, that such a partial cancellation may not be made with respect to an MOO Order, an LOO Order, an OIO Order, an MOC Order, an LOC

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<sup>10</sup> The Exchange notes that while the QIX Order Entry Protocol still exists, the Exchange plans to retire it in the near future and has begun transitioning participants away from its use.

Order, an IO Order, or a Pegged Order (including a Discretionary Order that is Pegged).” This proposal will provide better outcomes to participants by enabling them to reduce the share size of their Orders without the need to sacrifice the priority of their Orders.

The Exchange believes that it is reasonable to allow the partial cancellation of an Order without the Order losing priority because the participant that entered the Order continues to express its willingness to trade at the price entered when the Order first came onto the Book. Moreover, if the Order is displayed, other participants quoting at the same price are aware of the priority of their Orders relative to the partially cancelled Order. While a partial cancellation may provide these other participants with greater opportunities to provide a fill, the Exchange does not believe that it would be reasonable for these participants to jump ahead of an Order with time priority merely because the size of the Order has been reduced. Similarly, if the partially cancelled Order is non-displayed, other participants would have no awareness of its price, its original size, or its reduced size. Again, while other participants at that price may have an increased opportunity to provide a fill when the Order’s size is reduced, they would not have an expectation that the priority of their Orders would change vis-à-vis that of an Order that arrived on the Book at an earlier time.

Moreover, the Exchange notes that the proposal will simplify and harmonize the Exchange’s processing of partial cancellations across its Order Entry Protocols.

Additionally, the proposed Rule change will address ambiguities in the existing Rule text. The existing Rule text does not state expressly the Exchange’s current practice of restricting the loss of priority following a partial cancellation to LOO, MOO, MOC, LOC, and Pegged Orders when such Orders are entered through RASH or FIX or QIX. The existing language suggests that partial cancellations of these Orders cause a loss of priority in all cases, regardless of the

Exchange's Order Entry Protocol utilized to enter the Orders. In fact, the Exchange does process partial cancellations of these Orders without loss of priority when the Orders are entered through OUCH and FLITE. The proposed Rule change will address this issue by providing for consistent handling of partial cancellations across all Orders and all applicable and available Order Entry Protocols and by eliminating exceptions in the existing Rule text.

Similarly, the existing Rule is ambiguous as to the intended scope of its exception to the general rule for "Pegged Orders." Although the Rule states that the exception applies to "Pegged Orders (including a Discretionary Order that is Pegged)," the Exchange does not intend for Orders with Midpoint Pegging to be part of this exception, and it applies the Rule accordingly. In other words, the Exchange processes partial cancellations for Orders with Midpoint Pegging (i.e., Midpoint Peg Post-Only Orders, Midpoint Extended Life Orders, and Midpoint Extended Life Plus Continuous Book Orders, as well as Non-Display Orders assigned the Midpoint Peg Attribute) without loss of priority. The Exchange recognizes that the Rule text does not specifically address Orders with Midpoint Pegging. Again, the proposed Rule change will eliminate this issue going forward because the Exchange will adopt consistent handling of partial cancellations across all Orders and available and applicable Order Entry Protocols.

Finally, the proposed Rule change will address a problem that the Exchange has uncovered with the manner in which the System presently processes OIO and IO Orders entered through RASH and FIX and QIX. As noted above, the Exchange intends for the existing Rule to mean that partially cancelled OIO and IO Orders entered through RASH or FIX or QIX lose priority. Nevertheless, the Exchange discovered, during the course of preparing its upgrades that the System presently processes partial cancellations of OIO and IO Orders entered through RASH or FIX or QIX without loss of priority. The Exchange believes that the proposed Rule

will render the existing Rule text problem moot, and will better serve participants by improving the efficiency of their activity on the Exchange as well as their potential outcomes.

The Exchange intends to implement the foregoing changes during the Second Quarter of 2022. The Exchange will issue an Equity Trader Alert at least 7 days in advance of implementing the changes.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>12</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 Exchange believes that its proposed amendment to Rule 4756(a)(3) is consistent with the Act. Eliminating the exception to the general Rule providing for the Exchange to process partial cancellations without loss of priority will benefit participants by enabling them to reduce the share size of their Orders without the need to sacrifice the priority of their Orders.

The Exchange believes that it is reasonable to allow the partial cancellation of an Order without the Order losing priority because the participant that entered the Order continues to express its willingness to trade at the price entered when the Order first came onto the Book. Moreover, if the Order is displayed, other participants quoting at the same price are aware of the priority of their Orders relative to the partially cancelled Order. While a partial cancellation may provide these other participants with greater opportunities to provide a fill, the Exchange does

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<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

not believe that it would be reasonable for these participants to jump ahead of an Order with time priority merely because the size of the Order has been reduced. Similarly, if the partially cancelled order is non-displayed, other participants would have no awareness of its price, its original size, or its reduced size. Again, while other participants at that price may have an increased opportunity to provide a fill when the Order's size is reduced, they would not have an expectation that the priority of their Orders would change vis-à-vis that of an Order that arrived on the Book at an earlier time.

Moreover, the proposal will simplify and harmonize the Exchange's processing of partial cancellations across its Order Entry Protocols. This proposed amendment reflects planned upgrades that will allow the Exchange to process partial cancellation of Orders entered through all pertinent and available Order Entry Protocols without loss of priority.

Additionally, the proposed Rule change is consistent with the Act because it will eliminate ambiguities in the existing Rule text that do not fully reflect the Exchange's intended meaning or application of the Rule. As noted above, the existing Rule text does not state that the Exchange limits the loss of priority for partially cancelled Orders to LOO, MOO, MOC, LOC, and Pegged Orders when such Orders are entered through RASH or FIX or QIX. The existing language suggests that partial cancellations of these Orders lose priority in all cases, regardless of the Exchange's Order Entry Protocol utilized to enter the Orders. In fact, the Exchange does process partial cancellations of these Orders without loss of priority when the Orders are entered through OUCH or FLITE. The proposed Rule change will address this issue by providing for consistent handling of partial cancellations across all applicable and available Orders and Order Entry Protocols and by eliminating exceptions in the existing Rule text.

Similarly, the existing Rule does not reflect the Exchange's intent that Orders with Midpoint Pegging are not included in this exception, even though it applies the Rule in this manner. In other words, the Exchange processes partial cancellations for Midpoint Pegging Orders without loss of priority. The Exchange recognizes that the Rule text does not specifically address Orders with Midpoint Pegging. Again, the proposed Rule change will eliminate this issue going forward because the Exchange will adopt consistent handling of partial cancellations across all Orders and applicable and available Order Entry Protocols.

The proposed Rule change is consistent with the Act because it will address a problem that the Exchange has uncovered with the manner in which the System presently processes OIO and IO Orders entered through RASH and FIX and QIX. As noted above, the Exchange intends for the existing Rule to mean that partially cancelled OIO and IO Orders entered through RASH or FIX or QIX lose priority. Nevertheless, during the course of preparing its upgrades, the Exchange discovered that the System presently does process partial cancellations of OIO and IO Orders entered through RASH and FIX and QIX without loss of priority. The Exchange believes that the proposed Rule will render the existing Rule text problem moot, and will better serve participants by improving the efficiency of their activity on the Exchange as well as their potential outcomes. Furthermore, it is consistent with the Act to ensure that the Exchange's Rules and practices are, and remain, in sync.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that its proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As a general principle, the proposed changes are reflective of the significant competition among exchanges and non-exchange venues for order flow. In this regard, proposed changes that facilitate

enhancements to the Exchange's System and Order Entry Protocols as well as those that amend and clarify the Exchange's Rules regarding its Order Types and Attributes, are pro-competitive because they bolster the efficiency, integrity, and overall attractiveness of the Exchange in an absolute sense and relative to its peers.

Moreover, the proposed changes will not unduly burden intra-market competition among various Exchange participants. The Exchange's proposal to allow the partial cancellation of an Order without the Order losing priority will not impact intra-market competition because the participant that entered the Order continues to express its willingness to trade at the price entered when the Order first came onto the Book. Moreover, if the Order is displayed, other participants quoting at the same price are aware of the priority of their Orders relative to the partially cancelled Order. While a partial cancellation may provide these other participants with greater opportunities to provide a fill, the Exchange does not believe that it would be reasonable for these participants to jump ahead of an Order with time priority merely because the size of the Order has been reduced. Similarly, if the partially cancelled Order is non-displayed, other participants would have no awareness of its price, its original size, or its reduced size. Again, while other participants at that price may have an increased opportunity to provide a fill when the Order's size is reduced, they would not have an expectation that the priority of their Orders would change vis-à-vis that of an Order that arrived on the Book at an earlier time.

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 Act<sup>13</sup> and Rule 19b-4(f)(6) thereunder.<sup>14</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 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-2022-020 on the subject line.

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</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-2022-020. 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-2022-020, 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>15</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).