SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64616; File No. SR-NASDAQ-2011-077)

June 7, 2011

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change to Adopt a Risk Monitor Mechanism

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 1, 2011, The NASDAQ Stock Market LLC ("NASDAQ") 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 NASDAQ. 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

NASDAQ is filing with the Securities and Exchange Commission ("Commission") a proposal for the NASDAQ Options Market ("NOM") to amend Chapter VI, Trading Systems, to adopt new Section 19, Risk Monitor Mechanism, to provide a risk monitor mechanism for all NOM Participants.[3]

This change is scheduled to be implemented on NOM on or about August 1, 2011; the Exchange will announce the implementation schedule by Options Trader Alert, once the rollout schedule is finalized.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 The term "Options Participant" or "Participant" means a firm or organization that is registered with the Exchange pursuant to Chapter II of the NOM Rules for purposes of participating in options trading on NOM as a "Nasdaq Options Order Entry Firm" or "Nasdaq Options Market Maker."

The text of the proposed rule change is available at nasdaq.cchwallstreet.com, at NASDAQ's principal office, 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, NASDAQ 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 Item IV below. NASDAQ 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 change is to reflect in NOM's rules that Participants will be able to establish new risk control parameters. Specifically, NASDAQ proposes to adopt new Chapter VI, Section 19, Risk Monitor Mechanism, which is very similar to NASDAQ OMX PHLX ("PHLX") Rule 1093 (as explained in detail below) and is intended to bring this aspect of PHLX's technological functionality to NOM. The Risk Monitor Mechanism provides protection from the risk of multiple executions across multiple series of an option. The risk to Participants is not limited to a single series in an option; Participants have exposure in all series of a particular option, requiring them to offset or hedge their overall position in an option.

In particular, the Risk Monitor Mechanism will be useful for Market Makers,[4] who are required to continuously quote in assigned options. Quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal

4 Unlike the PHLX Risk Monitor Mechanism, the NOM Risk Monitor Mechanism will be available to all Participants, not just Market Makers.

positions that expose the Market Maker to unnecessary market risk. The Risk Monitor Mechanism is intended to assist such Participants in managing their market risk.

Though the Risk Monitor Mechanism will be most useful to Market Makers, the Exchange proposes to offer the functionality to all participant types. There are other firms that trade on a proprietary basis and provide liquidity to the Exchange; these firms could potentially benefit, similarly to Market Makers, from the Risk Monitor Mechanism. The Exchange believes that the Risk Monitor Mechanism should help liquidity providers generally, market makers and other participants alike, in managing risk and providing deep and liquid markets to investors.

Pursuant to new Section 19(a), the Risk Monitor Mechanism operates by the System maintaining a counting program for each Participant, which counts the number of contracts traded in an option by each Participant within a specified time period, not to exceed 15 seconds, established by each Participant (the "specified time period"). The specified time period will commence for an option when a transaction occurs in any series in such option. Furthermore, the System engages the Risk Monitor Mechanism in a particular option when the counting program has determined that a Participant has traded a Specified Engagement Size (as defined below) established by such Participant during the specified time period. When such Participant has traded the Specified Engagement Size during the specified time period, the Risk Monitor Mechanism automatically removes such Participant's orders in all series of the particular option.

As provided in proposed subparagraph (b)(ii), the Specified Engagement Size is determined by the following: (A) For each series in an option, the counting program will determine the percentage that the number of contracts executed in that series represents relative to the Participant’s total size at all price levels in that series ("series percentage"); (B) The counting program will determine the sum of the series percentages in the option issue ("issue percentage"); (C) Once the counting program determines that the issue percentage equals or exceeds a percentage established by the Participant ("Specified Percentage"), the number of executed contracts in the option issue equals the Specified Engagement Size. For example, if a Participant is quoting in four series of a particular option issue, and sets its Specified Percentage at 100%, the Specified Engagement Size would be determined as follows:

Example I

Series	Size	# of Contracts Executed	Percentage
Series 1	100	40	40%
Series 2	50	20	40%
Series 3	200	20	10%
Series 4	150	15	10%
Total	500	95	100%

In this example, the Specified Engagement Size is 95 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 100%.

Example II

Series	Size	# of Contracts Executed	Percentage
Series 1	100	0	0%
Series 2	50	0	0%
Series 3	200	0	0%
Series 4	150	150	100%
Total	500	150	100%

In this example, the Specified Engagement Size is 150 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 100%.

If a Participant is quoting in four series of a particular option, and sets its Specified Percentage at 200%, the Specified Engagement Size would be determined as follows:

Example III

Series	Size	# of Contracts Executed	Percentage
Series 1	100	80	80%
Series 2	50	40	80%
Series 3	200	40	20%
Series 4	150	30	20%
Total	500	190	200%

In this example, the Specified Engagement Size is 190 contracts, which is the aggregate number of contracts executed among all series during the specified time period that represents an issue percentage equal to the Specified Percentage of 200%.

The Specified Engagement Size will be automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period (the "Net Offset Specified Engagement Size"). Long call positions will only be offset by short call positions, and long put positions will only be offset by short put positions. For example, a Participant that buys calls and also sells calls in the same option during the specified time period would have a Net Offset Specified Engagement Size as follows:

Example IV

Series	Size	Buy Call	Sell Call	Net Offset Size	Percentage
Series 1	100	60	20	40	40%
Series 2	100	100	60	40	40%
Series 3	200	150	130	20	10%
Series 4	150	75	60	15	10%
Total	550	385	270	115	100%

Here, the Net Offset Specified Engagement Size for each series is determined by offsetting the number of contracts executed on the opposite side of the market for each series during the specified time period. The Risk Monitor Mechanism shall be engaged once the Net Offset Specified Engagement Size is for a net number of contracts executed among all series in an option issue during the specified time period that represents an issue percentage equal to or greater than the Specified Percentage.

As explained above, the Specified Engagement Size would be based on all price levels. For example, if a Participant is quoting in two series of a particular option, at several price levels in each, and sets its Specified Percentage at 90%, the Specified Engagement Size would be determined as follows:

Example V

Price Level	Series 1 Size	Series 2 Size	# Contracts Executed Series 1	# Contracts Executed Series 2	Percentage
Level 1	100	50	100	50	32.5%
Level 2	100	50	100	50	32.5%
Level 3	150	100	0	100	25%
Level 4	150	200	0	0	
Total	500	400	200	200	
Percentage			40%	50%	90%

In this example, the Specified Engagement Size is 400 contracts, which is the aggregate number of contracts executed among all series, at all price levels, during the specified time period that represents an issue percentage equal to the Specified Percentage of 90%. Although the Participant executed 40% and 50% of the aggregate size displayed in series 1 and series 2, respectively, 100% of the Participant's top price level was executed in both series.

While the Risk Monitor Mechanism is a useful feature that serves an important risk management purpose, it operates consistent with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, proposed paragraph (c) provides that any marketable orders or quotes that are executable against a Participant's quotation that are received prior to the time the Risk Monitor Mechanism is engaged will be automatically executed at the price up to the Participant's size, regardless of whether such an execution results in executions in excess of the Participant's Specified Engagement Size. Accordingly, the Risk Monitor Mechanism cannot be used to circumvent a Participant's firm quote obligation.

If a Participant is quoting in two series of a particular option, at several price levels in each, and sets its Specified Percentage at 90%, one contra side order can result in executions in excess of the Specified Engagement Size. Specifically, if a market order to sell 500 contracts is received in Series 1, the order will execute against all four levels that the Participant is quoting, as follows:

Example VI

Price Level	Series 1 Size	Series 2 Size	# Contracts Executed Series 1	# Contracts Executed Series 2	Percentage
Level 1	100	50	100	0	20%
Level 2	100	50	100	0	20%
Level 3	150	100	150	0	25%
Level 4	150	200	150	0	25%
Total	500	400	200	0	
Percentage			100%	0%	100%

Although the Participant's Specified Percentage is 90%, the contra side order executes in its entirety and the Risk Protection Mechanism is engaged after the resulting executions have surpassed the Specified Engagement Size.

Proposed Section 19(d) further provides that the system will automatically reset the counting program and commence a new specified time period when:

(i) a previous counting period has expired and a transaction occurs in any series in such option; or

(ii) the Participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[5] in general, and furthers the objectives of Section 6(b)(5) of the Act[6] in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms 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 the proposal is appropriate and reasonable, because it offers additional functionality for Participants to manage their risk.

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

NASDAQ does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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5 15 U.S.C. 78f(b).

6 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were neither solicited nor 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 (i) as the Commission may designate up to 90 days of such date 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. Please include File No. SR-NASDAQ-2011-077 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2011-077. 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 such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the

Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2011-077 and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[7]

Cathy H. Ahn
Deputy Secretary

[7] 17 CFR 200.30-3(a)(12).