SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64948; File No. SR-NASDAQ-2011-077)

July 22, 2011

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

I. Introduction

On June 1, 2011, The NASDAQ Stock Market LLC ("Exchange" or "NASDAQ") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to adopt a new risk monitor mechanism. The proposed rule change was published for comment in the Federal Register on June 13, 2011.[3] The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

NASDAQ proposes to adopt new Chapter VI, Section 19, Risk Monitor Mechanism[4] to provide protection from the risk of multiple executions across multiple series of an option. The Exchange proposes to offer the Risk Monitor Mechanism functionality to all Participant types to help liquidity providers generally, Market Makers and other participants alike, in managing risk and providing deep and liquid markets to investors. The Exchange believes that the Risk Monitor Mechanism will be most useful for Market Makers,[5] who are required to continuously

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 64616 (June 7, 2011), 76 FR 34281 ("Notice").

4 The proposal is very similar to NASDAQ OMX PHLX ("PHLX") Rule 1093 and is intended to bring this aspect of PHLX's technological functionality to NOM.

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

quote in assigned options. Quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal 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. The Exchange also believes that firms that trade on a proprietary basis and provide liquidity to the Exchange could potentially benefit, similarly to Market Makers, from the Risk Monitor Mechanism.

Pursuant to proposed 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.

While the Risk Monitor Mechanism serves an important risk management purpose, the Exchange states that 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.

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.

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act[6] and the rules and regulations thereunder applicable to a national securities exchange.[7] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[8] which requires, among other

6 15 U.S.C. 78f.

7 In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

8 15 U.S.C. 78f(b)(5).

things, that the Exchange's rules be 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, 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 Commission believes that the proposed rule change should provide NOM Participants assistance in effectively managing their quotations.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[9] that the proposed rule change (SR-NASDAQ-2011-077) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[10]

Elizabeth M. Murphy
Secretary

9 15 U.S.C. 78s(b)(2).

10 17 CFR 200.30-3(a)(12).