

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62468; File No. SR-NASDAQ-2010-074)

July 7, 2010

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1, to Adopt Rule 4753(c) as a Six Month Pilot in 100 NASDAQ-Listed Securities

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 18, 2010, The NASDAQ Stock Market LLC (“Nasdaq” or the “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 Nasdaq. On June 25, 2010, Nasdaq filed Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

NASDAQ is proposing to adopt Rule 4753(c) as an initial six month pilot in 100 NASDAQ-listed securities.

The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in brackets.³

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4753. Nasdaq Halt and Imbalance Crosses

(a) – (b) No change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Changes are marked to the rule text that appears in the electronic manual of NASDAQ found at <http://nasdaq.cchwallstreet.com>.

(c) Beginning August 1, 2010, for a period of six months, [B]between 9:30 a.m. and 4:00 p.m. EST, the System will automatically monitor System executions to determine whether the market is trading in an orderly fashion and whether to conduct an Imbalance Cross in order to restore an orderly market in a single Nasdaq Security.

(1) An Imbalance Cross shall occur if the System executes a transaction in a Nasdaq Security at a price that is beyond the Threshold Range away from the Triggering Price for that security. The Triggering Price for each Nasdaq Security shall be the price of any execution by the System in that security within the prior 30 seconds. The Threshold Range shall be determined as follows:

| Execution Price | Thresh[h]old Range Away From Triggering Price |
|----------------------------|--|
| \$1.75 and under | 15% |
| Over \$1.75 and up to \$25 | 10% |
| Over \$25 and up to \$50 | 5% |
| Over \$50 | 3% |

(2) If the System determines pursuant to subsection (1) above to conduct an Imbalance Cross in a Nasdaq Security, the System shall automatically cease executing trades in that security for a 60-second Display Only Period. During that 60-second Display Only Period, the System shall:

- (A) maintain all current quotes and orders and continue to accept quotes and orders in that System Security; and
- (B) Disseminate by electronic means an Order Imbalance Indicator every 5 seconds.

(3) At the conclusion of the 60-second Display Only Period, the System shall re-open the market by executing the Nasdaq Halt Cross as set forth in subsection (b)(2) - (4) above.

(4) No change.

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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. The text of these statements may be examined at the places specified in Item IV below, and is set forth in Sections A, B, and C below.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

NASDAQ is proposing to adopt Rule 4753(c), a volatility-based pause in trading in individual NASDAQ-listed securities traded on NASDAQ ("NASDAQ Securities"). NASDAQ is proposing to adopt the rule initially as a six-month pilot in 100 NASDAQ Securities beginning August 1, 2010.

Background

NASDAQ's efficient market structure allows the price of a security to change quickly in response to information and market demand. Allowing trading to react quickly is generally beneficial to investors. In some circumstances, however, abrupt and significant movements in the price at which a security is traded can indicate aberrant volatility, which is harmful to investors. On August 19, 2008, the Commission approved new Rule 4753(c), which established a volatility-based halt process on a one-year pilot basis for an initial 100 NASDAQ-listed

securities.⁴ Subsequent to the Commission's approval, NASDAQ implemented a market order price collar to address aberrant volatility in lieu of immediately implementing the Rule 4753(c) pilot.⁵ Although these collars are designed to address volatility by reducing the risk that market orders will execute at prices that are significantly worse than the national best bid and offer, they had limited effect on May 6, 2010 because of the limited number of market orders involved in trading that day on NASDAQ.

In light of the unprecedented aberrant volatility witnessed on May 6, 2010, and the limited effect that NASDAQ's market collars had in dampening such volatility, NASDAQ believes that the Rule 4753(c) halt process is needed to protect its listed securities and market participants from such volatility in the future. Accordingly, as described below, NASDAQ is proposing to adopt Rule 4753(c) again as a six month pilot for 100 NASDAQ-listed securities.

NASDAQ's Approach: Rule 4753(c)

NASDAQ originally adopted Rule 4753(c) to promote the protection of investors by providing a meaningful pause in NASDAQ Securities on NASDAQ in the midst of abrupt and significant price movements, while permitting trading to move freely in rapid and stable markets.⁶ As the events of May 6, 2010 show, severe and rapid price dislocation can occur in

⁴ Securities Exchange Act Release No. 58386 (August 19, 2008), 73 FR 50380 (August 26, 2008) (SR-NASDAQ-2007-067).

⁵ This process cancels any portion of most unpriced orders that would execute either on NASDAQ or when routed to another market center at a price that is the greater of \$0.25 or 5 percent worse than the NBBO at the time NASDAQ receives the order. See Securities Exchange Act Release No. 60371 (July 23, 2009), 74 FR 38075 (July 30, 2009) (SR-NASDAQ-2009-070).

⁶ NASDAQ has other similar processes that serve to protect investors during periods of abnormal trading activity. NASDAQ Rule 4120 authorizes NASDAQ Regulation to halt trading in a security based upon news or an emergency in the market. NASDAQ Regulation also has the ability under NASDAQ Rule 11890 to break trades in order to protect the integrity of the market.

securities with no connection to the fundamental soundness of the underlying companies. Such dislocation may be caused by operational and structural factors beyond the control of issuers and individual markets. NASDAQ's Rule 4753(c) process is designed to protect NASDAQ securities and market participants from aberrant volatility, which can quickly spread like a contagion from market to market, to allow time to reestablish a rational market in NASDAQ Securities.

NASDAQ's proposed Rule 4753(c) process automatically suspends trading in individual NASDAQ Securities that are the subject of abrupt and significant intraday price movements between 9:30 a.m. and 4 p.m. Eastern Standard Time. The Rule 4753(c) process is triggered automatically when the execution price of a NASDAQ Security moves more than a fixed amount away from a pre-established "triggering price" for that security. The Triggering Price for each NASDAQ Security is the price of any execution by the System⁷ in that security within the previous 30 seconds. For each NASDAQ Security, the System continually compares the price of each execution in the System against the prices of all System executions in that security over the 30 seconds.

Proposed Rule 4753(c) has tiered triggering price range percentages that are based on the execution price of a security. NASDAQ has observed that, on a percentage basis, lower priced stocks normally trade in a wider range than stocks with higher prices. For example, during the first quarter of 2010, a period of relatively low market volatility, stocks priced under \$1.75 had an average range (percent difference from high to low over the course of the day) of 9%, stocks priced \$1.75 up to \$24.99 had an average range of 4%. Stocks priced \$25 to \$49.99 had an average range of 3%. Stocks priced above \$50 had an average range of 2%. The purpose of

⁷ As defined in Rule 4751(a).

Rule 4753(c) is not to inhibit trading within the normal range, but rather to pause trading in instances of aberrant volatility. As a consequence, NASDAQ selected percentage tiers that allow for a wider range in lower priced securities, with decreasing ranges on a percentage basis as price increases.

When the Rule 4753(c) process is triggered, NASDAQ institutes a formal trading halt during which time NASDAQ systems are prohibited from executing orders.⁸ Members, however, may continue to enter quotes and orders, which are queued during a 60-second Display Only Period. At the conclusion of the Display Only Period, the queued orders are executed at a single price, pursuant to Rule 4753.

Current Environment

In light of the events of May 6, 2010, NASDAQ believes that circumstances warrant the implementation of Rule 4753(c), in addition to the market collar protections currently in place.⁹ NASDAQ believes that implementing Rule 4753(c) will serve to protect market participants from aberrant volatility such as that which occurred on May 6, 2010. NASDAQ also believes that Rule 4753(c) will serve as a complement to the recently-approved cross-market single stock pause to be adopted by the U.S. national securities exchanges.¹⁰ NASDAQ notes that there are

⁸ A halt pursuant to Rule 4753(c) is not considered a regulatory halt and, therefore, it does not trigger a market-wide trading halt under Section X of the NASDAQ UTP Plan. As a result, other markets are permitted to continue trading a NASDAQ stock that is undergoing a Market Re-Opening on NASDAQ. During the Rule 4753(c) process, NASDAQ's quotations are marked "closed," signaling to other markets that quotes and orders routed to NASDAQ will not be executed. A Rule 4753(c) trade is reported to the network processor as a single-price re-opening that is exempt from trade through restrictions pursuant to Rule 611(b)(3).

⁹ NASDAQ notes that, while the market collar protections were in place during the events of May 6, 2010, only approximately five percent of the volume on NASDAQ was attributable to market orders.

¹⁰ Securities Exchange Act Release No. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) (SR-BATS-2010-014; SR-EDGA-2010-01; SR-EDGX-2010-01; SR-BX-2010-

several differences between the cross-market approach and Rule 4753(c). Specifically, Rule 4753(c) uses tiered threshold range percentages that are based on a security's execution price in determining the price at which a halt would be initiated, whereas the cross market approach does not. Rule 4753(c) also has a shorter time threshold used in determining that a pause in trading should be initiated, and a shorter time during which a security is paused, as compared to the cross-market approach. Rule 4753(c) is applied throughout the trading day, whereas the cross-market approach does [sic] not. Last, while the cross-market approach will help to prevent aberrant volatility, it applies only to S&P 500 Index securities, thus it will not address aberrant volatility in the majority of NASDAQ-listed securities. Adoption of Rule 4753(c) will allow NASDAQ to extend the rule's protections to its listed securities trading on NASDAQ, with such protections initially applying to the 100 pilot securities¹¹ but with the goal of applying the rule to all NASDAQ-listed securities.

The following examples illustrate how Rule 4753(c) would operate in relation to the new cross-market single stock pause. In this sequence of events, the Rule 4753(c) pause is triggered prior to the cross-market trading pause process:

WXYZ is NASDAQ-listed and included in the S&P 500 Index.

- 2:00:00 p.m., WXYZ trades at \$300 on NASDAQ, which is also the consolidated last sale price
- 2:00:30 p.m., WXYZ trades below \$291 on NASDAQ
 - WXYZ is paused pursuant to Rule 4753(c)
 - WXYZ continues to trade elsewhere
- 2:01:30 p.m., WXYZ resumes trading on NASDAQ at \$295
- 2:02:00 p.m., WXYZ trades below 286.15 on NASDAQ

037; SR-ISE-2010-48; SR-NYSE-2010-39; SR-NYSEAmex-2010-46; SR-NYSEArca-2010-41; SR-NASDAQ-2010-061; SR-CHX-2010-10; SR-NSX-2010-05; SR-CBOE-2010-047).

¹¹ Amendment No. 1 indicates that the pilot securities will be the Nasdaq 100 securities.

- WXYZ is again paused pursuant to Rule 4753(c)
- WXYZ continues to trade elsewhere
- 2:03:00 p.m., WXYZ resumes trading on NASDAQ at \$288;
- 2:03:30 p.m., WXYZ trades below 279.36 on NASDAQ;
 - WXYZ is again paused pursuant to Rule 4753(c)
 - WXYZ continues to trade elsewhere
- 2:04:00 p.m., WXYZ consolidated last sale price reaches \$270
 - The cross-market trading pause process is triggered
 - NASDAQ abandons the Rule 4753(c) and now follows the cross-market trading pause process

The following sequence of events illustrates a situation whereby a NASDAQ-listed security that is also covered by the cross-market trading pause process triggers both processes simultaneously:

WXYZ is NASDAQ-listed and included in the S&P 500 Index.

- 2:00:00 p.m., WXYZ trades at \$20 on NASDAQ, which is also the consolidated last sale price;
- 2:00:30 p.m., WXYZ trades at \$17 on NASDAQ;
 - Because the execution price exceeds both the 10 percent tiers of the cross-market pause process and Rule 4753(c), the cross-market process is followed
 - WXYZ is paused on all markets

The following sequence of events illustrates a situation whereby a NASDAQ-listed security may fall greater than 15 percent, yet does not trigger the cross-market trading pause process:

WXYZ is NASDAQ-listed, but not included in the S&P 500 Index.

- 2:00:00 p.m., WXYZ trades at \$1.50 on NASDAQ, which is also the consolidated last sale price;
- 2:00:30 p.m., WXYZ trades below \$1.275 on NASDAQ;
 - Although the security dropped more than 10 percent, the cross-market trading pause process would not be triggered, since the security is not included in the S&P 500 Index

- WXYZ is paused pursuant to Rule 4753(c) because the security dropped greater than 15 percent in the prior 30 seconds
- WXYZ continues to trade elsewhere

The examples above show that, although Rule 4753(c) operates independently from the cross-market trading pause process, both trade pause processes work efficiently along side of each other to dampen aberrant volatility.

Other Market's Approach

NASDAQ notes that another market has adopted a similar process whereby the market's listed securities each may be temporarily removed from automatic trading when the trading exceeds certain average daily volume-, price-, and volatility-based criteria.¹² Although dissimilar in process due to the differing nature of the markets, the pause under Rule 4753(c) is designed to achieve the same goal, namely, to apply quantitative criteria to pause trading in a listed security during times of aberrant volatility so that a more representative market may develop. NASDAQ's process differs from the other market's process in that it uses completely transparent criteria and timeframes, which serve to eliminate uncertainty from the trade pause process. For example and as noted above, the Rule 4753(c) process is triggered by execution prices that are clear and available to all market participants, and the pause in trading has a fixed 60 second Display Only period process that cannot be extended.¹³ In addition, the pause will be followed by a "cross" that is predictable and well defined. As a consequence, application of the Rule 4753(c) process is automatic and precise, allowing no place for uncertainty. This will make the transition to this rule predictable and understandable. Most importantly, it will allow NASDAQ to insulate its issuers from volatility injected in the market from exchange halt

¹² NYSE Rule 1000(a)(iv).

¹³ NYSE's LRP process has an indeterminate length, but can last several minutes during which the NYSE is not transmitting a protected quote in the affected security.

programs with subjective criteria. Primary markets with responsibility to listed companies have an obligation and right to take actions to provide additional levels of protection from volatility to companies that list with it [sic].

Summary

In approving Rule 4753(c), the Commission stated that systematically suspending trading in NASDAQ-listed securities that are the subject of abrupt and significant intra-day price movements promotes fair and orderly markets and the protection of investors.¹⁴ NASDAQ believes that adopting Rule 4753(c) is more appropriate now than it was at the time the Commission originally approved Rule 4753(c) given the need to protect investors from aberrant volatility, such as the volatility witnessed on May 6, 2010. Accordingly, NASDAQ is proposing to adopt Rule 4753(c) in identical form as originally approved by the Commission, but as a six month pilot for an initial 100 Nasdaq-listed securities. During this pilot period, NASDAQ will study the impact of the rule on the pilot securities and will provide the Commission with monthly reports detailing its ongoing review of the pilot. These reports will inform the Commission of the number of times Rule 4753(c) is triggered and the security or securities involved, and will describe any patterns that emerge during the pilot period. NASDAQ is also making a technical correction to the table found in Rule 4753(c)(1).

2. Statutory Basis

NASDAQ believes the proposed rule change is consistent with the provisions of Section 6 of the Act,¹⁵ in general and with Section 6(b)(5) of the Act,¹⁶ in particular, which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices,

¹⁴ Supra note 4 at 50381.

¹⁵ 15 U.S.C. 78f.

¹⁶ 15 U.S.C. 78f(b)(5).

promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. The proposed rule change is consistent with these requirements in that it will reduce the negative impacts of sudden, unanticipated volatility in individual NASDAQ Securities, and serve to restore an orderly market in a transparent and uniform manner, enhance the price-discovery process, increase overall market confidence, and promote fair and orderly markets and the protection of investors.

NASDAQ notes that the proposed rule change is identical to the rule change approved by the Commission when it approved Rule 4753(c) in August 2008, except that NASDAQ plans to implement the pilot on a shorter, six month basis. In approving Rule 4753(c), the Commission acknowledged that Rule 4753(c), which systematically suspends trading in NASDAQ-listed securities that are the subject of abrupt and significant intra-day price movements, promotes fair and orderly markets and the protection of investors.¹⁷ NASDAQ notes that the Commission received no comments on the proposed rule change that adopted Rule 4753(c) originally. NASDAQ believes that the lack of comment signaled that market participants considered the proposed new rule to be non-controversial. NASDAQ believes that, given the events of May 6, 2010, adopting Rule 4753(c) as a new pilot will ensure that covered NASDAQ Securities, and market participants trading therein on NASDAQ, are provided the needed protections of the rule.

NASDAQ notes that the proposed rule change supplements the cross-market single stock pause to be adopted by the national securities exchanges, which was approved by the

¹⁷ Supra note 4 at 50381.

Commission on June 10, 2010.¹⁸ NASDAQ applauds the Commission's leadership in bringing the national securities exchanges together to achieve a cross-market solution to help address the issues that may have caused the events of May 6, 2010. NASDAQ is continuously assessing actions it can take to further strengthen its market. In this regard, NASDAQ believes that quickly implementing Rule 4753(c) will complement the cross-market single stock pause by serving to better protect all of NASDAQ's listed securities covered by the pilot trading on NASDAQ during times of aberrant volatility, such as the volatility witnessed on May 6, 2010. NASDAQ notes that Rule 4753(c) in no way conflicts with the new cross-market single stock pause, but rather applies, in some cases, more stringent criteria to pause a broader range of securities on NASDAQ only. In addition, should a cross-market single stock pause be initiated in a NASDAQ Security during a Rule 4753(c) pause, the security would be subject to the cross-market single stock pause process.

NASDAQ has an obligation to adopt rules that protect investors and the public interest, which include rules that protect its listed securities and those that trade in them. Instituting Rule 4753(c) will serve to protect market participants within the scope of NASDAQ's authority under the Act. NASDAQ notes that market participants would be able to trade in securities subject to a Rule 4753(c) pause at other market venues, should they so choose.¹⁹

Last, NASDAQ notes that, in approving another market's approach to dealing with abnormal volatility in its listed securities, the Commission stated that precluding automatic executions under certain circumstances is warranted.²⁰ Like that market's process, the proposed

¹⁸ Supra note 10.

¹⁹ Supra note 8.

²⁰ Securities Exchange Act Release No. 53539 (March 22, 2006), 71 FR 16353, 16377-78 (March 31, 2006) (SR-NYSE-2004-05).

change to NASDAQ Rule 4753(c) will extend the rule's halt process to all listed securities traded on NASDAQ and will likewise serve to dampen volatility, thus providing market participants with time to react to achieve a more natural trading pattern of a particular security.

NASDAQ will keep the Commission apprised of the use of Rule 4753(c) as part of NASDAQ's ongoing review of the pilot. In this regard, during the pilot period NASDAQ will provide the Commission with monthly reports detailing the use of Rule 4753(c) and describing any patterns that may develop. As such, NASDAQ believes that the proposed rule change is consistent with the protection of investors and the public interest, and does not raise any novel regulatory issues.

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.

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 35 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 such 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 all aspects of the foregoing, including whether the proposed rule change is consistent with the Act. A stated purpose of the proposal is to protect Nasdaq-listed securities and market participants from “aberrant” volatility, such as that which occurred on May 6, 2010 and may be caused by operational or structural factors beyond the control of issuers and individual markets. To what extent do the price changes that would trigger a trading halt under the proposal indicate the potential existence of “aberrant” volatility, as opposed to the normal operation of the markets? If these price changes indicate potentially “aberrant” volatility, to what extent will the proposal address such volatility in a manner appropriate and consistent with the purposes of the Act? Will a trading halt at Nasdaq under the proposal restrict liquidity or increase volatility in the affected stock, since other markets can continue to trade the stock and may not have comparable volatility halts? In what respects are the consequences of this proposal likely to be similar to, or different from, the effects of other exchange-specific mechanisms that currently restrict trading on the relevant exchange under certain circumstances? More generally, to what extent is it appropriate for different exchanges to adopt different and potentially inconsistent approaches to trading pauses or restrictions that might affect the same stock? To what extent does the answer change based on whether the affected stock is already subject to a market-wide single-stock circuit breaker that applies consistently across all trading venues?

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 Number SR-Nasdaq-2010-074 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-2010-074. 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 Web site (<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 Web site 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 Nasdaq. 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 publicly available. All submissions should refer

to File Number SR-Nasdaq-2010-074 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.²¹

Florence E. Harmon
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).