

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-62543; File No. SR-NASDAQ-2010-075)

July 21, 2010

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by The NASDAQ Stock Market LLC Relating to Fees for Execution of Contracts on the NASDAQ Options Market

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 30, 2010, 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, II, and III 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 modify Exchange Rule 7050 governing pricing for NASDAQ members using the NASDAQ Options Market (“NOM”), NASDAQ’s facility for executing and routing standardized equity and index options. Specifically, NOM proposes to: (i) modify pricing for both Penny Pilot<sup>3</sup> Options and All Other Options with respect to the fees for adding<sup>4</sup>

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Penny Pilot was established in March 2008 and in October 2009 was expanded and extended through December 31, 2010. See Securities Exchange Act Release Nos. 57579 (March 28, 2008), 73 FR 18587 (April 4, 2008)(SR-NASDAQ-2008-026)(notice of filing and immediate effectiveness establishing Penny Pilot); 60874 (October 23, 2009), 74 FR 56682 (November 2, 2009)(SR-NASDAQ-2009-091)(notice of filing and immediate effectiveness expanding and extending Penny Pilot); 60965 (November 9, 2009), 74 FR 59292 (November 17, 2009)(SR-NASDAQ-2009-097)(notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 61455 (February 1, 2010), 75 FR 6239 (February 8, 2010)(SR-NASDAQ-2010-013)(notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); and 62029 (May 4, 2010), 75 FR 25895 (May 10, 2010) (SR-NASDAQ-2010-053)(notice of filing and immediate

and removing liquidity<sup>5</sup> as well as the rebates for adding and removing liquidity; (ii) eliminate the rebates for adding and fees for removing liquidity in options overlying Standard and Poor's Depository Receipts/SPDRs ("SPY"),<sup>6</sup> PowerShares QQQ Trust ("QQQQ")<sup>®</sup> and Ishares Russell 2000 ("IWM"); (iii) eliminate the fee for an order that executes against another order entered by the same firm; and (iv) allow a rebate for Customer orders which execute against other customer orders.

While changes pursuant to this proposal are effective upon filing, the Exchange has designated these changes to be operative for transactions on July 1, 2010.

The text of the proposed rule change is set forth below. Proposed new text is underlined and deleted text is in brackets.

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#### 7050. NASDAQ Options Market

The following charges shall apply to the use of the order execution and routing services of the NASDAQ Options Market for all securities.

##### (1) Fees for Execution of Contracts on the NASDAQ Options Market

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effectiveness adding seventy-five classes to Penny Pilot). See also Exchange Rule Chapter VI, Section 5.

<sup>4</sup> An order that adds liquidity is one that is entered into NOM and rests on the NOM book.

<sup>5</sup> An order that removes liquidity is one that is entered into NOM and that executes against an order resting on the NOM book.

<sup>6</sup> SPY options are based on the SPDR exchange-traded fund ("ETF"), which is designed to track the performance of the S&P 500 Index.

Fees and Rebates (per executed contract)				
	Customer	Firm	Non-NOM Market Maker	NOM Market Maker
Penny Pilot Options:				
Rebate to Add Liquidity	\$0. <del>[25]</del> <u>32</u>	\$0. <del>[25]</del> <u>10</u>	\$0.25	\$0. <del>[25]</del> <u>30</u>
Fee for Removing Liquidity	\$0. <del>[35]</del> <u>40</u>	\$0.45	\$0.45	\$0.45
[IWM, QQQQ, SPY]				
[Rebate to Add Liquidity]	[\$0.30]	[\$0.30]	[\$0.30]	[\$0.30]
[Fee for Removing Liquidity]	[\$0.35]	[\$0.45]	[\$0.45]	[\$0.45]
NDX and MNX				
Rebate to Add Liquidity	\$0.10	\$0.10	\$0.10	\$0.20
Fee for Removing Liquidity	\$0.50	\$0.50	\$0.50	\$0.40
All Other Options:				
Fee for Adding Liquidity	[Free] <del>[\$0.00]</del>	\$0. <del>[30]</del> <u>45</u>	\$0. <del>[30]</del> <u>45</u>	\$0.30
Fee for Removing Liquidity	<del>[-]</del> <u>\$0.40</u>	\$0.4 <del>[0]</del> <u>5</u>	\$0.45	\$0.45
Rebate [for] to [Removing] <u>Add</u> Liquidity[*]	\$0.20	<del>[-]</del> <u>\$0.00</u>	<del>[-]</del> <u>\$0.00</u>	<u>\$0.00</u> <del>[-]</del>

[Transactions in which the same participant is the buyer and the seller shall be charged a net fee of \$0.10 per executed contract.]

[\*No rebate will be paid when a customer order executes against another customer order.]

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The text of the proposed rule change is available on the Exchange's Web site at <http://www.nasdaqomx.cchwallstreet.com>, 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 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

NASDAQ is proposing to modify Rule 7050 governing the fees assessed for options orders entered into NOM. Specifically, NASDAQ is proposing to modify pricing for both Penny Pilot Options and All Other Options with respect to the fees for adding and removing liquidity as well as the rebates for adding liquidity. These amendments to the fees are part of the Exchange's continued effort to attract and enhance participation in NOM. By amending its fees, NASDAQ

seeks to encourage industry market makers to participate as registered market makers on NOM in order to attract additional liquidity.

Currently, NASDAQ distinguishes between options that are included in the Penny Pilot and those that are not.

#### Penny Options – Adding Liquidity

The Exchange currently pays a rebate of \$0.25 per executed contract to members providing liquidity through NOM in options included in the Penny Pilot and in the capacity of “Customer”, “firm”, “NOM Market Maker”<sup>7</sup> or “Non-NOM Market Maker”<sup>8</sup>. The Exchange proposes to amend these fees as follows: Customers would be rebated \$0.32 per contract instead of \$0.25 per contract; a firm would be rebated \$0.10 per contract instead of \$0.25 per contract; and a NOM Market Maker would be rebated \$0.30 per contract instead of \$0.25 per contract.<sup>9</sup>

#### Penny Options – Removing Liquidity

The Exchange assesses a fee to members removing liquidity through NOM in options included in the Penny Pilot and charges a fee of \$0.35 per executed contract to Customers for removing such liquidity and a fee of \$0.45 per executed contract to members in the capacity of firm, NOM Market Maker and Non-NOM Market Maker for removing liquidity. The Exchange

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<sup>7</sup> A NOM Market Maker must be registered as such pursuant to Chapter VII, Section 2 of Exchange rules, and must remain in good standing pursuant to Chapter VII, Section 2. In order to receive NOM Market Maker pricing in all securities, the firm must be registered as a NOM Market Maker in at least one security.

<sup>8</sup> A Non-NOM Market Maker is a registered market maker on another options market that appends the market maker designation to orders executed on NOM.

<sup>9</sup> A Non-NOM Market Maker would continue to be rebated \$0.25 per contract.

proposes to amend these fees as follows: Customers would be assessed \$0.40 per contract instead of \$0.35 per contract.<sup>10</sup>

#### Non-Penny Options – Adding Liquidity

The Exchange assesses a fee of \$0.30 per executed contract to members providing liquidity through NOM in options not included in the Penny Pilot (under the category of All Other Options) in the capacity of firm, NOM Market Maker and Non-NOM Market Maker. The Exchange currently assesses no execution fees for members adding liquidity through NOM, in All Other Options, with an account type Customer, and will continue to assess no fee. The Exchange proposes to amend these fees for adding liquidity as follows: a firm would be assessed \$0.45 per contract instead of \$0.30 per contract; and a Non-NOM Market Maker would be assessed a fee of \$0.45 per contract instead of \$0.30 per contract.<sup>11</sup>

#### Non-Penny Options – Removing Liquidity

The Exchange assesses fees to members removing liquidity through NOM in All Other Options and charges a fee of \$0.40 per executed contract to members removing liquidity in the capacity of firm and a fee of \$0.45 per executed contract to members removing liquidity in the capacity of NOM Market Maker and Non-NOM Market Maker. The Exchange currently assesses no execution fees for members removing liquidity through NOM, in All Other Options, with an account type Customer. The Exchange proposes to amend these fees for removing

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<sup>10</sup> A firm, NOM Market Maker and Non-NOM Market Maker would continue to be assessed \$0.45 per contract.

<sup>11</sup> The fees currently assessed on NOM Market Makers for adding liquidity in Non-Penny Options (All Other Options) will remain the same.

liquidity as follows: a Customer would be assessed \$0.40 per contract instead of \$0.00 and a firm would be assessed a fee of \$0.45 per contract instead of \$0.40.<sup>12</sup>

#### Non-Penny Options – Rebates

The Exchange currently provides a rebate for removing liquidity through NOM in Non-Penny Options (All Other Options) of \$0.20 per executed contract to members acting in the capacity of Customer. The Exchange proposes to pay a rebate to add liquidity through NOM in All Other Options of \$0.20 per executed contract to members acting in the capacity of Customer and eliminate the rebate for removing liquidity.<sup>13</sup>

#### Elimination of IWM, QQQQ and SPY

The Exchange currently pays a rebate of \$0.30 per executed contract to all members for adding liquidity in options overlying IWM, QQQQ and SPY. The Exchange also currently assesses a fee of \$0.35 per executed contract to members removing liquidity through NOM in options overlying IWM, QQQQ and SPY in the capacity of Customer and a fee of \$0.45 per executed contract to all members removing liquidity in the capacity of firm, NOM Market Maker and Non-NOM Market Maker.

The Exchange proposes to eliminate the rebate for adding liquidity and the fee for removing liquidity in options overlying IWM, QQQQ and SPY. Members would be assessed the rates currently applicable to Penny Pilot Options going forward. The Exchange no longer believes that these rebates and fees are necessary incentives to promote order flow in these symbols.

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<sup>12</sup> The fees currently assessed on NOM Market Makers and Non-NOM Market Makers for removing liquidity in Non-Penny Options (All Other Options) will remain the same.

<sup>13</sup> The Exchange currently does not provide firms, NOM Market Makers and Non-NOM Market Makers rebates in Non-Penny options (All Other Options) and is not proposing any changes at this time for these members.

## Elimination of Fees

The Exchange currently assesses a net fee of \$0.10 per executed contract when a member order executes against an order entered by the same firm. In other words, a transaction in which the same participant is both the buyer and the seller is currently assessed a net fee of \$0.10 per contract. The Exchange is proposing to eliminate this fee as the Exchange believes that this fee is no longer necessary. The fee was initially enacted to change the distinction between orders that interact with other members' orders and those that interact with orders from the same firm. At this time, the Exchange believes that this distinction is no longer necessary to compete for order flow.

Similarly, the Exchange proposes to eliminate the text which states that "No rebate will be paid when a customer order executes against another customer order." The Exchange believes that this distinction is no longer necessary and that the elimination of this language will afford Customers additional rebates and create additional incentives to enhance participation in NOM.

While changes pursuant to this proposal are effective upon filing, the Exchange has designated these changes to be operative for transactions on July 1, 2010.

## 2. Statutory Basis

NASDAQ believes that the proposed rule changes are consistent with the provisions of Section 6 of the Act,<sup>14</sup> in general, and with Section 6(b)(4) of the Act,<sup>15</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which NASDAQ operates or controls. The Exchange believes the proposed amendments to the fees and rebates for adding and

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<sup>14</sup> 15 U.S.C. 78f.

<sup>15</sup> 15 U.S.C. 78f(b)(4).



removing liquidity are equitable and reasonable because they are within the range of fees assessed by other exchanges employing similar pricing schemes and that the proposed fees apply fairly to all similarly situated participants on NOM for reasons discussed in greater detail below.

With respect to the proposed rebates for adding liquidity in Penny Options, the Exchange believes that its proposal to increase the current rebate of \$0.25 per contract to \$0.32 per contract for customers is both reasonable and equitable because the rebate is consistent with other rebates being paid in certain symbols at NYSE Arca, Inc. (“NYSE Arca”).<sup>16</sup> Moreover, the Exchange is seeking to provide the appropriate incentives to broker-dealers acting as agent for customer orders to select the Exchange as a venue to post customer limit orders. The Exchange also proposes to increase the current rebate of \$0.25 per contract to \$0.30 per contract for NOM Market Makers. The Exchange believes that this increase is equitable and reasonable because the proposed increase is within the range of similar fees assessed by other exchanges, such as the price differential for market makers and other broker-dealer on other exchanges. Specifically, the rate differential between NOM Market Makers and Non-NOM Market Makers is currently similar to pricing distinctions employed at, the International Securities Exchange, Inc. (“ISE”)<sup>17</sup>, which assesses a Non-ISE Market Maker<sup>18</sup> \$0.45 per contract for trading in equity options, while an ISE Market Maker at the lowest tier (highest rate) is assessed \$0.18 per contract.<sup>19</sup> Finally, the Exchange has decreased the rebate from \$0.25 per contract to \$0.10 per contract for Firms. As with the other proposed changes, the Exchange believes that this proposal is reasonable

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<sup>16</sup> See NYSE Arca’s Fee Schedule.

<sup>17</sup> See ISE’s Schedule of Fees.

<sup>18</sup> A Non-ISE Market Maker means a market maker as defined in Section 3(a)(38) of the Act registered in the same options class on another options exchange. See ISE’s Schedule of Fees.

<sup>19</sup> See ISE’s Schedule of Fees.

because it is within the range of fees assessed at other exchanges and the proposed price differential is similar to other price differentials on other exchanges. For example, a Firm Proprietary order at ISE is assessed a maker fee of \$0.10 per contract while a Market Maker Plus receives a \$0.10 per contract rebate in ISE's select symbols.<sup>20</sup> In addition to the fair price differential, the Exchange believes its proposed fee changes are just and equitable because market makers have obligations to the market place and regulatory burdens placed on them that other broker-dealers trading for their own account do not currently endure.

The Exchange has also amended its fees for removing liquidity in Penny Options. The Exchange increased the fee for removing liquidity that is assessed to broker-dealers for customer orders from \$0.35 per contract to \$0.40 per contract. The Exchange believes that this amendment is reasonable and equitable because it is still less than the fee of \$0.45 per contract that is currently assessed on Firms, NOM Market Makers and Non-NOM Market Makers and \$0.05 less than the fees for removing liquidity at NYSEArca in Penny Options.<sup>21</sup>

The Exchange has also proposed to amend its fees in non-Penny Options (All Other Options). Specifically, the Exchange has increased its fees for adding liquidity for both Firms and Non-NOM Market Makers from \$0.30 per contract to \$0.45 per contract. The Exchange believes that these fees are reasonable because they are within the range of fees assessed in the industry. Further, the Exchange believes that it is equitable because the price differential exists currently on ISE. At ISE, a Non-ISE Market Maker (FARMM) is assessed a \$0.20 per contract make fee in the select symbols, while a Market Maker is assessed \$0.10 per contract.<sup>22</sup> As mentioned previously, there are also existing price differentials on ISE as between an ISE

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<sup>20</sup> See ISE's Schedule of Fees.

<sup>21</sup> See NYSE Arca's Fee Schedule.

<sup>22</sup> See ISE's Schedule of Fees.

Market Maker and a Non-ISE Market Maker. As discussed, market makers have certain obligations to the market and regulatory requirements, which normally do not apply to Firms and Broker Dealers.<sup>23</sup>

Additionally, the Exchange is proposing to assess to a customer a \$0.40 per contract fee for removing liquidity. Currently, customer orders do not pay for removing liquidity. The Exchange believes that this fee proposal is reasonable because it is within the range of rates being assessed to other market participants and to broker-dealers for executing customer order in Penny Options at other exchanges. The Exchange also believes that this fee proposal is equitable because it is \$0.05 per contract less the fees being assessed on Firms, NOM Market Makers and Non-NOM Market Makers. The Exchange also proposes to increase the fee for removing liquidity that is being assessed on Firms from \$0.40 per contract to \$0.45 per contract. The Exchange believes that this proposal is both reasonable and equitable because it is the exact fee currently being assessed on NOM Market Makers and Non-NOM Market Makers. Keeping rates reasonable for customer orders is necessary to provide incentives for customer order flow in a mature, highly competitive market place. Finally, the Exchange is amending All Other Options to convert its rebate for removing liquidity to a rebate for adding liquidity. The Exchange proposes to pay a rebate to customer orders for adding liquidity of \$.20. The Exchange was previously paying customer orders that removed liquidity \$.20. The Exchange believes that this proposal is reasonable because customers are still receiving a rebate, but for adding versus removing liquidity. Also, the Exchange believes that the proposal is equitable because broker-dealers acting as agent for customer orders will be eligible to receive rebates similar to rebates

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<sup>23</sup> See Exchange Rules Section VII, Market Participants, Sections 5, Obligations of Market Makers, and Section 6, Market Maker Quotations.

found on other exchange for certain symbols. Also, the rebate serves to incentivize increased customer order flow to be sent to the Exchange for the benefit of all market participants.

The Exchange also believes that its proposal to eliminate the rebate to add liquidity and fee for removing liquidity for options overlying IWM, QQQQ and SPY is both reasonable and equitable because the Exchange is proposing to remove these fees for all participants. The same applies to the Exchange proposal to eliminate the \$0.10 net fee for executed contracts which applies to transactions in which the same participant is the buyer and the seller as it was rarely assessed.

NASDAQ is one of eight options market in the national market system for standardized options. It is a mature, robust market that is highly competitive. Joining NASDAQ and electing to trade options is entirely voluntary. Under these circumstances, NASDAQ's fees must be competitive, fair and just in order for NASDAQ to attract order flow, execute orders, and grow as a market. NASDAQ thus believes that its fees are equitable, fair and reasonable and consistent with the Exchange Act.

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.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>24</sup> and paragraph (f)(2) of Rule 19b-4<sup>25</sup> thereunder. At any time within 60 days of the filing

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

of the proposed rule change, the Commission may summarily abrogate 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.

#### 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-2010-075 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2010-075. 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

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<sup>25</sup> 17 CFR 240.19b-4(f)(2).

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 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; 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-2010-075 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>26</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>26</sup> 17 CFR 200.30-3(a)(12).