

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71697; File No. SR-NASDAQ-2014-021)

March 12, 2014

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Routing Fees

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 March 4, 2014, 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 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 proposes to modify Chapter XV, entitled “Options Pricing,” at Section 2 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 amend its Customer Routing Fees.

The text of the proposed rule change is available on the Exchange’s Website at <http://www.nasdaq.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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

In its filing with the Commission, the Exchange 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. 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

The purpose of this filing is to amend the Routing Fees in Chapter XV, Section 2(3) to recoup costs incurred by the Exchange to route orders to away markets.

Today, the Exchange assesses a Non-Customer a \$0.95 per contract Routing Fee to any options exchange. The Customer³ Routing Fee for option orders routed to NASDAQ OMX PHLX LLC (“PHLX”) is a \$0.05 per contract Fixed Fee in addition to the actual transaction fee assessed. The Customer Routing Fee for option orders routed to NASDAQ OMX BX, Inc. (“BX Options”) is \$0.00 per contract. The Customer Routing Fee for option orders routed to all other options exchanges⁴ (excluding PHLX and BX Options) is a fixed fee of \$0.20 per contract (“Fixed Fee”) in addition to the

³ The term “Customer” or (“C”) applies to any transaction that is identified by a Participant for clearing in the Customer range at The Options Clearing Corporation (“OCC”) which is not for the account of broker or dealer or for the account of a “Professional” (as that term is defined in Chapter I, Section 1(a)(48)).

⁴ Including BATS Exchange, Inc. (“BATS”), BOX Options Exchange LLC (“BOX”), the Chicago Board Options Exchange, Incorporated (“CBOE”), C2 Options Exchange, Incorporated (“C2”), International Securities Exchange, LLC (“ISE”), the Miami International Securities Exchange, LLC (“MIAX”), NYSE Arca, Inc. (“NYSE Arca”), NYSE MKT LLC (“NYSE Amex”) and Topaz Exchange, LLC (“Gemini”).

actual transaction fee assessed. If the away market pays a rebate, the Routing Fee is \$0.00 per contract.

With respect to the fixed costs, the Exchange incurs a fee when it utilizes Nasdaq Options Services LLC (“NOS”),⁵ a member of the Exchange and the Exchange’s exclusive order router.⁶ Each time NOS routes an order to an away market, NOS is charged a clearing fee⁷ and, in the case of certain exchanges, a transaction fee is also charged in certain symbols, which fees are passed through to the Exchange. The Exchange currently recoups clearing and transaction charges incurred by the Exchange as well as certain other costs incurred by the Exchange when routing to away markets, such as administrative and technical costs associated with operating NOS, membership fees at away markets, Options Regulatory Fees (“ORFs”), staffing and technical costs associated with routing options. The Exchange assesses the actual away market fee at the time that the order was entered into the Exchange’s trading system. This transaction fee is calculated on an order-by-order basis since different away markets charge different amounts.

⁵ The Exchange filed a proposed rule change to utilize Nasdaq Execution Services, LLC (“NES”) for outbound order routing. See Securities Exchange Act Release No. 71419 (January 28, 2014), 79 FR 6253 (February 3, 2014) (SR-NASDAQ-2014-007). This filing has not yet been implemented. The Exchange intends to implement this filing in mid-March 2014.

⁶ In May 2009, the Exchange adopted Rule 1080(m)(iii)(A) to establish NOS, a member of the Exchange, as the Exchange’s exclusive order router. See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). NOS is utilized by the Exchange’s fully automated options trading system, PHLX XL[®].

⁷ The Options Clearing Corporation (“OCC”) assesses \$0.01 per contract side.

The Exchange is proposing to assess market participants routing Customer orders to PHLX a \$0.10 per contract Fixed Fee in addition to the actual transaction fee assessed. Today the Exchange assesses a \$0.05 per contract Fixed Fee in addition to the actual transaction fee assessed with respect to Customer orders routed to PHLX. The Exchange would increase the Fixed Fee for Customer orders routed to PHLX from \$0.05 to \$0.10 per contract to recoup an additional portion of the costs incurred by the Exchange for routing these orders.

Today the Exchange does not assess a fee with respect to Customer orders routed to BX Options. The Exchange noted in a previous rule change routing proposal that it would not assess a fee for Customer orders routed to BX Options because the Exchange retains the rebate that is paid by that market.⁸ In other words, the Exchange today does not assess a Routing Fee when routing Customer orders to BX Options because that exchange pays a rebate and instead of netting the customer rebate paid by BX Options against a fixed fee, the Exchange simply does not assess a fee. The Exchange is proposing to assess a \$0.10 per contract Fixed Fee when routing Customer orders to BX Options in order to recoup a portion of the costs incurred by the Exchange for routing these orders. The Exchange does not assess the actual transaction fee assessed by BX Options, rather the Exchange only assesses the Fixed Fee, because the Exchange would continue to retain the rebate to offset the cost to route orders to BX Options. This is not

⁸ See Securities Exchange Act Release No. 69391 (April 18, 2013), 78 FR 24282 (April 24, 2013) (SR-NASDAQ-2013-064).

the case for all orders routed to BX Options because not all Customer orders receive a rebate.⁹

Similarly, the Exchange is proposing to amend the Customer Routing Fee assessed when routing to all other options exchanges, if the away market pays a rebate, from a \$0.00 to a \$0.10 per contract Fixed Fee, in order to recoup an additional portion of the costs incurred by the Exchange for routing these orders. The Exchange does not assess the actual transaction fee assessed by the away market, rather the Exchange only assess the Fixed Fee, because the Exchange would continue to retain the rebate to offset the cost to route orders to these away markets. Today, the Exchange incurs certain costs when routing to away markets that pay rebates. The Exchange desires to recoup additional costs at this time.

2. Statutory Basis

NASDAQ believes that its proposal to amend its fees is consistent with Section 6(b) of the Act¹⁰ in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act¹¹ 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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

⁹ BX Options pays a Customer Rebate to Remove Liquidity as follows: Customers are paid \$0.32 per contract in All Other Penny Pilot Options (excluding BAC, IWM, QQQ, SPY and VXX) and \$0.70 per contract in Non-Penny Pilot Options. See BX Options Rules at Chapter XV, Section 2(1).

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4), (5).

The Exchange believes that amending the Customer Routing Fee for orders routed to PHLX from a Fixed Fee of \$0.05 to \$0.10 per contract, in addition to the actual transaction fee, is reasonable because the Exchange desires to recoup an additional portion of the cost it incurs when routing Customer orders to PHLX. Today, the Exchange assesses orders routed to PHLX a lower Fixed Fee for routing Customer orders as compared to the Fixed Fee assessed to other options exchanges. The Exchange is proposing to increase the Fixed Fee to recoup additional costs that are incurred by the Exchange in connection with routing these orders on behalf of its members.

The Exchange believes that amending the Customer Routing Fee for orders routed to BX Options from a Fixed Fee of \$0.00 to \$0.10 per contract is reasonable because the Exchange desires to recoup an additional portion of the cost it incurs when routing Customer orders to BX Options, similar to the amount of Fixed Fee it proposes to assess for orders routed to PHLX. The Exchange is proposing to assess a Fixed Fee to recoup additional costs that are incurred by the Exchange in connection with routing these orders on behalf of its members. While the Exchange would continue to retain any rebate paid by BX Options, the Exchange does not assess the actual transaction fee that is charged by BX Options for Customer orders.

The Exchange believes that continuing to assess lower Fixed Fees to route Customer orders to PHLX and BX Options, as compared to other options exchanges, is reasonable as the Exchange is able to leverage certain infrastructure to offer those markets lower fees as explained further below. Similarly, the Exchange believes that amending the Customer Routing Fee to other away markets, other than PHLX and BX Options, in the instance the away market pays a rebate from a Fixed Fee of \$0.00 to \$0.10

per contract is reasonable because the Exchange desires to recoup an additional portion of the cost it incurs when routing orders to these away markets. While the Exchange would continue to retain any rebate paid by these away markets, the Exchange does not assess the actual transaction fee that is charged by the away market for Customer orders. The Fixed Fee for Customer orders is an approximation of the costs the Exchange will be charged for routing orders to away markets. As a general matter, the Exchange believes that the proposed fees for Customer orders routed to markets which pay a rebate, such as BX Options and other away markets, would allow it to recoup and cover a portion of the costs of providing optional routing services for Customer orders because it better approximates the costs incurred by the Exchange for routing such orders. While each destination market's transaction charge varies and there is a cost incurred by the Exchange when routing orders to away markets, including, OCC clearing costs, administrative and technical costs associated with operating NOS, membership fees at away markets, ORFs and technical costs associated with routing options, the Exchange believes that the proposed Routing Fees will enable it to recover the costs it incurs to route Customer orders to away markets.

The Exchange believes that amending the Customer Routing Fee for orders routed to PHLX from a Fixed Fee of \$0.05 to \$0.10 per contract, in addition to the actual transaction fee, is equitable and not unfairly discriminatory because the Exchange would assess the same Fixed Fee to all orders routed to PHLX in addition to the transaction fee assessed by that market. With respect to BX Options, the Exchange would uniformly assess a \$0.10 per contract Fixed Fee for all orders routed to BX Options and would continue to uniformly not assess the actual transaction fee, as is the case today. The

Exchange would uniformly assess a \$0.10 per contract Fixed Fee to orders routed to NASDAQ OMX exchanges because the Exchange is passing along the saving realized by leveraging NASDAQ OMX's infrastructure and scale to market participants when those orders are routed to PHLX or BX Options and is providing those saving to all market participants. Furthermore, it is important to note that when orders are routed to an away market they are routed based on price first.¹² The Exchange believes that it is equitable and not unfairly discriminatory to assess a fixed cost of \$0.10 per contract to route orders to PHLX and BX Options because the cost, in terms of actual cash outlays, to the Exchange to route to those markets is lower. For example, costs related to routing to PHLX and BX Options are lower as compared to other away markets because NOS is utilized by all three exchanges to route orders.¹³ NOS and the three NASDAQ OMX options markets have a common data center and staff that are responsible for the day-to-day operations of NOS. Because the three exchanges are in a common data center, Routing Fees are reduced because costly expenses related to, for example, telecommunication lines to obtain connectivity are avoided when routing orders in this instance. The costs related to connectivity to route orders to other NASDAQ OMX exchanges are lower than the costs to route to a non-NASDAQ OMX exchange. When routing orders to non-NASDAQ OMX exchanges, the Exchange incurs costly connectivity charges related to telecommunication lines, membership and access fees, and other related costs when routing orders.

¹² See NASDAQ Rules at Chapter VI, Section 11(e) (Order Routing).

¹³ See Chapter VI, Section 11 of the BX Options. See also PHLX Rule 1080(m)(iii)(A).

The Exchange believes that amending the Customer Routing Fee to other away markets, other than PHLX and BX Options, in the instance the away market pays a rebate from a Fixed Fee of \$0.00 to \$0.10 per contract is equitable and not unfairly discriminatory because the Exchange would assess a lower Routing Fee, as compared to away markets that do not pay a rebate, because the Exchange retains the rebate that is paid by that market. The Exchange would assess the same Fixed Fee when routing Customer orders to a NASDAQ OMX exchange that pays a rebate as it would to route an order to an away market (non-NASDAQ OMX exchange) that pays a rebate. These proposals would apply uniformly to all market participants when routing to an away market that pays a rebate, other than PHLX and BX Options. Market participants may submit orders to the Exchange as ineligible for routing or “DNR” to avoid Routing Fees.¹⁴ Also, orders are routed to an away market based on price first.¹⁵

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

NASDAQ 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. The Exchange does not believe that the proposal creates a burden on intra-market competition because the Exchange is applying the same Routing Fees to all market participants in the same manner dependent on the routing venue, with the exception of Customers. The Exchange will continue to assess separate Customer Routing Fees. Customers will continue to receive the lowest fees as compared to non-Customers when

¹⁴ See note 12.

¹⁵ See note 12.

routing orders, as is the case today. Other options exchanges also assess lower Routing Fees for customer orders as compared to non-customer orders.¹⁶

The Exchange's proposal would allow the Exchange to continue to recoup its costs when routing Customer orders to PHLX or BX Options as well as away markets that pay a rebate when such orders are designated as available for routing by the market participant. The Exchange continues to pass along savings realized by leveraging NASDAQ OMX's infrastructure and scale to market participants when Customer orders are routed to PHLX and BX Options and is providing those savings to all market participants. Today, other options exchanges also assess fixed routing fees to recoup costs incurred by the exchange to route orders to away markets.¹⁷

Market participants may submit orders to the Exchange as ineligible for routing or “DNR” to avoid Routing Fees.¹⁸ It is important to note that when orders are routed to an away market they are routed based on price first.¹⁹

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.

¹⁶ BATS assesses lower customer routing fees as compared to non-customer routing fees per the away market. For example BATS assesses ISE customer routing fees of \$ 0.30 per contract and an ISE non-customer routing fee of \$ 0.57 per contract. See BATS BZX Exchange Fee Schedule.

¹⁷ See CBOE's Fees Schedule and ISE's Fee Schedule.

¹⁸ See note 12.

¹⁹ See note 12.

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.²⁰ 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. Please include File Number SR-NASDAQ-2014-021 on the subject line.

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-2014-021. This file number should be included on the subject line if e-mail is used. To help the Commission process

²⁰ 15 U.S.C. 78s(b)(3)(A)(ii).

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; 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-2014-021 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

Kevin M. O'Neill
Deputy Secretary

²¹ 17 CFR 200.30-3(a)(12).