

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75701; File No. SR-NASDAQ-2015-099)

August 14, 2015

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Nasdaq Rules 7014 and 7018

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 August 12, 2015, The NASDAQ Stock Market LLC (“Nasdaq” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a 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 the Substance of the Proposed Rule Change

Nasdaq is proposing changes to the national best bid or best offer (“NBBO”) program (“NBBO Program”) in Nasdaq Rule 7014, as well as proposed changes to amend Nasdaq Rule 7018, governing fees and credits assessed for execution and routing of securities.

The text of the proposed rule change is available at [nasdaq.cchwallstreet.com](http://nasdaq.cchwallstreet.com) at Nasdaq 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 those statements may be examined at the places specified in Item IV

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

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

below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

Nasdaq proposes to amend a qualification to receive a certain credit for execution and routing of orders in Nasdaq Rule 7018. Specifically, the proposed rule change applies to qualification to receive a credit in Rule 7018(a)(1), (2) and (3) and, respectively, the securities listed on Nasdaq (“Tape C”), the securities listed on the New York Stock Exchange (“NYSE”) (“Tape A”) and on exchanges other than Nasdaq and NYSE (“Tape B”) (collectively, the “Tapes”).

Currently, a \$0.0029 per share executed credit is provided to member firms that add Customer,<sup>3</sup> Professional,<sup>4</sup> Firm,<sup>5</sup> Non-Nasdaq Options Market (“NOM”) market maker<sup>6</sup> and/or broker-dealer<sup>7</sup> liquidity in Penny Pilot Options<sup>8</sup> and/or Non-Penny Pilot Options<sup>9</sup> of 1.25% or more of total industry average daily volume (“ADV”) in the customer clearing range for equity and ETF option contracts per day, in a month on NOM. The Exchange proposes to adjust the

<sup>3</sup> As defined by NASDAQ Options Rules, Chapter XV.

<sup>4</sup> Id.

<sup>5</sup> Id.

<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> The Penny Pilot allows market participants to quote in penny increments in certain series of option classes and is designed to narrow the average quoted spreads in all classes in the Pilot, which may result in customers and other market participants to [sic] trade options at better prices. See NASDAQ Options Rules, Chapter XV, Sec. 2(1).

<sup>9</sup> Id.

criteria from 1.25% to 1.15% or more of total industry ADV. The Exchange believes the revised criteria to receive the credit will provide a greater incentive to Nasdaq market participants to also provide liquidity in NOM.

The Exchange also proposes to amend the NBBO Program under Nasdaq Rule 7014(g). The NBBO Program provides a per share executed rebate<sup>10</sup> with respect to all other displayed orders (other than Designated Retail Orders, as defined in Nasdaq Rule 7018) in securities priced at \$1 or more per share that provide liquidity and establish the NBBO. Nasdaq is proposing to harmonize the qualification criteria a member firm must meet to receive a rebate under the program for all three Tapes. Currently, a member firm may qualify for a \$0.0002 per share executed NBBO Program rebate in the securities of all three Tapes [sic]: (1) Executes shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represents 0.475% or more of Consolidated Volume during the month; or (2) Adds NOM Market Maker liquidity, as defined in Chapter XV, Section 2 of the Nasdaq Options Market rules, in Penny Pilot Options and/or Non-Penny Pilot Options above 0.90% of total industry customer equity and ETF option ADV contracts per day in a month. A member firm may qualify for a \$0.0004 per share executed NBBO Program rebate in Tape A securities in lieu of the \$0.0002 per share executed rebate if it executes shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represents 0.50% or more of Consolidated Volume during the month. The Exchange proposes to increase the level of Consolidated Volume required to qualify for a \$0.0002 per share executed rebate from 0.475% to 0.50%, which is the level of Consolidated Volume required to receive the \$0.0004 per share executed rebate. As a

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<sup>10</sup> The rebate is provided in addition to any rebate or credit payable under Nasdaq Rule 7018(a) and the Investor Support Program and Qualified Market Maker Program under Nasdaq Rule 7014.

consequence of increasing the required level of Consolidated Volume to receive the \$0.0002 per share executed rebate to that of the current \$0.0004 per share executed rebate in Tape A securities, member firms will no longer have an option to qualify for a \$0.0002 per share executed rebate in Tape A securities. In addition, the Exchange is extending the optional NOM-based qualification criteria, currently only available for the \$0.0002 NBBO program rebate, to rebates of \$0.0004 in Tape A securities. As a consequence of these changes, the same qualification criteria will apply to all three Tapes, with only the amount of rebate provided differing. As such, the Exchange is proposing to integrate the current rule text under Rule 7014(g) that sets forth the qualification requirements for each NBBO Program rebate into a single requirement under the rule.

## 2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>11</sup> in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,<sup>12</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 and 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 regulating, clearing, settling, processing information with respect to, and 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

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<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b)(4) and (5).

interest; and are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Nasdaq believes that the proposed changes to Nasdaq Rule 7018(a)(1), (2) and (3) to amend a qualification to receive the \$0.0029 per share executed credit applied to securities of all three Tapes provided to member firms that add Customer, Professional, Firm, Non-NOM market maker and/or broker-dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 1.15% (decreasing from current 1.25%) or more of total industry ADV in the customer clearing range for equity and ETF option contracts per day, in a month on NOM is reasonable because the Exchange believes the revised criteria to receive the credit will provide a greater incentive to Nasdaq market participants to also provide liquidity in NOM. The Exchange also believes that the proposed rule changes [sic] is equitable and not unfairly discriminatory because the amended qualification to receive the credit is applied uniformly to securities of all three Tapes and it is immediately available to all market participants that qualify.

The Exchange believes the proposed changes that harmonize the criteria required to qualify for a rebate under the NBBO Program are reasonable because they will continue to provide incentives to market participants to improve the NBBO and increase their participation on the Exchange. In particular, increasing the Consolidated Volume required to qualify for a \$0.0002 per share executed rebate under Rule 7014(g)(1) from 0.475% to 0.5% represents a modest increase to the requirement in return for the rebate, which the Exchange believes will continue to provide incentive to market participants with attainable criteria. Moreover, the Exchange believes that it is reasonable to apply a higher Consolidated Volume requirement to receive a rebate in Tape B and C securities notwithstanding that the amount of the rebate is lower than that of Tape A because the market in terms of setting the NBBO in Tape B and C securities

is sufficiently robust to support higher requirements. As such, the Exchange believes that requiring member firms to provide more market-improving Consolidated Volume in return for the rebate is reasonable. The Exchange also believes that extending the NOM-based means by which a member firm may qualify for a rebate under Rule 7014(g)(2) to the \$0.0004 rebate in Tape A securities under the program is reasonable because it will provide market participants another means by which they may qualify for a rebate, which is [sic] currently available as an option to qualify for the \$0.0002 rebate.

Additionally, Nasdaq believes the proposed changes to Rule 7014(g) are equitable and not unfairly discriminatory because all members that qualify under the conditions described above are eligible to receive the rebate under the NBBO Program. The NBBO Program is intended to encourage members to add liquidity at prices that benefit all Nasdaq market participants and the Nasdaq market itself, and enhance price discovery. Also, the Exchange believes that increasing the level of Consolidated Volume required to receive a rebate in Tape B and C securities under the NBBO Program is equitable and not unfairly discriminatory because it is the same level of Consolidated Volume currently required to qualify for a \$0.0004 per share executed rebate in Tape A securities. As such, all market participants will receive a rebate if they meet the same Consolidated Volume requirement. The Exchange believes that making the NOM-based qualifying criteria of Rule 7014(g)(2) available to member firms in Tape A securities is an [sic] equitable and not unfairly discriminatory because all member firms will have the option to qualify under this criteria. In sum, the Exchange believes that these proposed rule changes are equitable and not unfairly discriminatory because they apply uniform criteria to all member firms in return for a rebate from the Exchange, the rate at which is set by the

Exchange based on the Tape of the security in which it seeks to incentivize market participants to improve the NBBO.

Finally, Nasdaq notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, Nasdaq must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Nasdaq believes that the proposed rule change reflects this competitive environment because it is designed, in part, to increase rebates for members that enhance the quality of Nasdaq's market.

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

Nasdaq does not believe that the proposed rule changes will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.<sup>13</sup> Nasdaq notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, Nasdaq must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices [sic].

Nasdaq believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited or even non-existent. In this instance, the changes to Nasdaq Rules 7014 and 7018 do not impose a burden on competition because the NBBO

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<sup>13</sup> 15 U.S.C. 78f(b)(8).

Program, as amended, still offers economically advantageous credits and is reflective of the need for exchanges to offer and to let the financial incentives to attract order flow evolve, and the change to one of the qualifications to receive a credit in Nasdaq Rule 7018(a)(1), (2) and (3) does not impose a burden on competition because Nasdaq's execution services are completely voluntary and subject to extensive competition both from other exchanges and from off-exchange venues. While the Exchange does not believe that the proposed changes will result in any burden on competition, if the changes proposed herein are unattractive to market participants it is likely that Nasdaq will lose market share as a result.

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

The foregoing change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>14</sup>. 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.

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

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(ii).



- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2015-099 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-2015-099. 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 offices 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-2015-099, 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>15</sup>

Robert W. Errett  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).