

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79791; File No. SR-NASDAQ-2017-002)

January 13, 2017

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 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 January 3, 2017, 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchange’s transaction fees at Rule 7018(a) to (1) add a new credit of \$0.0030 per share for members that meet specified volume requirements on both Nasdaq and the Nasdaq Options Market (“NOM”) when adding liquidity; (2) add a new credit of \$0.0030 per share for members that meet specified volume requirements on Nasdaq when adding liquidity and that qualify for Tier 4 of the Market Access and Routing Subsidy (“MARS”) program on NOM; and (3) change the current volume requirements needed to qualify for two different credits when adding liquidity in securities that are listed on exchanges other than Nasdaq or the New York Stock Exchange LLC (“NYSE”).

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

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

The text of the proposed rule change is available on the Exchange's Website at <http://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

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

The purpose of the proposed rule change is to amend the Exchange's transaction fees at Rule 7018(a) to make three changes. Specifically, the Exchange proposes to (1) add a new credit of \$0.0030 per share for members that meet specified volume requirements on both Nasdaq and NOM when adding liquidity; (2) add a new credit of \$0.0030 per share for members that meet specified volume requirements on Nasdaq when adding liquidity and that qualify for Tier 4 of the MARS program on NOM; and (3) change the current volume requirements needed to qualify for two different credits when adding liquidity in securities that are listed on exchanges other than Nasdaq or the NYSE. These changes are described below.

Credit for Adding Liquidity on Nasdaq and NOM

The first change will add a new credit to members that meet a specified volume threshold on Nasdaq for displayed quotes/orders (other than Supplemental Orders or Designated Retail

Orders) that add liquidity, and that also meet a specified volume threshold on NOM when adding liquidity. Specifically, a member will receive a credit of \$0.0030 per share executed if the member (1) adds liquidity through one or more of its Nasdaq Market Center MPIDs during the month that, in all securities, represents at least 0.125% of Consolidated Volume during the month, and (2) adds Customer,<sup>3</sup> Professional,<sup>4</sup> Firm,<sup>5</sup> Non-NOM Market Maker<sup>6</sup> and/or Broker-Dealer<sup>7</sup> liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 1.15% or more of total industry ADV in the customer clearing range for Equity and ETF option contracts per day during the month on the Nasdaq Options Market. Thus, to qualify under the new proposed credit, an Exchange member must also be a NOM Participant and meet the NOM credit criteria described above, in addition to the proposed requirement that the member have more than 0.125% of Consolidated Volume during the month through one or more of its Nasdaq Market Center MPIDs.

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<sup>3</sup> The term “Customer” 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 defined in Chapter I, Section 1 of the NOM rules.

<sup>4</sup> A “Professional” is defined in Chapter I, Section 1 of the NOM rules as “any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).”

<sup>5</sup> The term “Firm” or (“F”) applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC.

<sup>6</sup> The term “Non-NOM Market Maker” or (“O”) is a registered market maker on another options exchange that is not a NOM Market Maker. A Non-NOM Market Maker must append the proper Non-NOM Market Maker designation to orders routed to NOM.

<sup>7</sup> The term “Broker-Dealer” or (“B”) applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

The new credit tier will be available for transactions in securities of all three Tapes.<sup>8</sup> The new credit tier is therefore being added to Rules 7018(a)(1), (2), and (3), which provide the fees and credits for execution and routing of orders in Nasdaq-listed securities, New York Stock Exchange (“NYSE”)-listed securities, and securities not listed on Nasdaq or NYSE, respectively.

#### Credit for Adding Liquidity on Nasdaq and Qualifying for MARS Tier 4

The second change will add a new credit tier to a member for displayed quotes/orders (other than Supplemental Orders or Designated Retail Orders) that provide liquidity on Nasdaq, if the member also qualifies for Tier 4 of NOM’s MARS program, as provided by NOM Rules Chapter XV Section 6. Specifically, the Exchange is proposing to provide a \$0.0030 per share executed credit to a member that provides liquidity in all securities during the month through one or more of its Nasdaq Market Center MPIDs representing more than 0.50% of Consolidated Volume during the month. The member must also qualify for Tier 4 of the NOM’s MARS program during the month. The MARS program provides different tiers of rebates or “MARS Payments” to Participants that qualify for the program. The specified MARS Payment is paid on all executed Eligible Contracts that add liquidity, which are routed to NOM through a participating NOM Participant’s System and meet the requisite Eligible Contracts ADV.<sup>9</sup> The

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<sup>8</sup> Tape C securities are those that are listed on the Exchange, Tape A securities are those that are listed on NYSE, and Tape B securities are those that are listed on exchanges other than Nasdaq or NYSE.

<sup>9</sup> To qualify for the program, the Participant’s routing system (“System”) is required to: (1) enable the electronic routing of orders to all of the U.S. options exchanges, including NOM; (2) provide current consolidated market data from the U.S. options exchanges; and (3) be capable of interfacing with NOM’s API to access current NOM match engine functionality. Further, the Participant’s System must also cause NOM to be the one of the top three default destination exchanges for (a) individually executed marketable orders if NOM is at the national best bid or offer (“NBBO”), regardless of size or time or (b) orders that establish a new NBBO on NOM’s Order Book, but allow any user to manually override NOM as a default destination on an order-by-order basis. Any NOM Participant would be permitted to avail itself of this arrangement, provided that its order

purpose of MARS is to pay a subsidy to NOM Participants that provide certain order routing functionalities to other NOM Participants and/or use such functionalities themselves.<sup>10</sup> To qualify for the Tier 4 MARS Payment, a Participant must have routed at least 20,000 Eligible Contracts daily in a month that are executed and that added liquidity. Thus, to qualify under the new proposed credit under Rule 7018(a), an Exchange member must also be a NOM Participant and meet the NOM MARS credit criteria described above, in addition to the proposed requirement that the member provides more than 0.50% of Consolidated Volume during the month through one or more of its Nasdaq Market Center MPIDs.

The new credit will be available for transactions in securities of all three Tapes and accordingly the new credit tier is being added to Rules 7018(a)(1), (2), and (3), which provide the fees and credits for execution and routing of orders in Nasdaq-Listed securities, NYSE-listed securities, and securities not listed on Nasdaq or NYSE, respectively.

#### Change to Credit for Transactions in Tape B Securities

The Exchange is also proposing to change two of the volume-based credits that are currently offered for displayed quotes/orders (other than Supplemental Orders or Designated Retail Orders) that provide liquidity on Nasdaq in Tape B Securities. Currently, in addition to

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routing functionality incorporates the features described above and satisfies NOM that it appears to be robust and reliable. The Participant remains solely responsible for implementing and operating its System. See NOM Rules, Chapter XV Section 6.

To qualify for a MARS Payment tier, a NOM Participant that has System Eligibility, as described above, must have routed the requisite number of Eligible Contracts daily in a month (“Average Daily Volume”), which were executed on NOM. For the purpose of qualifying for the MARS Payment, Eligible Contracts may include Firm, Non-NOM Market Maker, Broker-Dealer, or Joint Back Office or “JBO” equity option orders that add liquidity and are electronically delivered and executed. Eligible Contracts do not include Mini Option orders. Id.

<sup>10</sup> See Securities Exchange Act Release No. 79251 (November 7, 2016), 81 FR 79536 (November 14, 2016) (SR-NASDAQ-2016-149).

other credits that it may receive for providing liquidity, the member will receive a credit of \$0.0001 per share executed if it provides liquidity in securities that are listed on exchanges other than NASDAQ or NYSE during the month representing at least 0.045% but less than 0.075% of Consolidated Volume during the month through one or more of its Nasdaq Market Center MPIDs. Nasdaq proposes to change these thresholds, so that the member will receive a credit of \$0.0001 per share executed if it provides liquidity in securities that are listed on exchanges other than NASDAQ or NYSE during the month representing at least 0.06% but less than 0.12% of Consolidated Volume during the month through one or more of its Nasdaq Market Center MPIDs.

Nasdaq proposes a similar change to the next credit tier for members that provide liquidity in securities that are listed on exchanges other than Nasdaq or NYSE. Currently, in addition to other credits that it may receive for providing liquidity, the member will receive a credit of \$0.0002 per share executed if it provides liquidity in securities that are listed on exchanges other than NASDAQ or NYSE during the month representing at least 0.075% of Consolidated Volume during the month through one or more of its Nasdaq Market Center MPIDs. Nasdaq proposes to change this threshold, so that the member will receive a credit of \$0.0002 per share executed if it provides liquidity in securities that are listed on exchanges other than NASDAQ or NYSE during the month representing at least 0.12% of Consolidated Volume during the month through one or more of its Nasdaq Market Center MPIDs.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>12</sup> in particular, in

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

that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Credit for Adding Liquidity on Nasdaq and NOM

The Exchange believes that the \$0.0030 credit if the member meets the specified volume levels for adding liquidity on Nasdaq and NOM is reasonable. As with other credits that the Exchange provides, the credit is designed to encourage increased activity on Nasdaq and NOM. The Exchange believes that the proposed volume thresholds and the proposed credit are reasonable because they further the Exchange's goal of incentivizing greater activity by members on both Nasdaq and NOM while imposing proportionate requirements that are not unrealistic for members to achieve.

The Exchange also believes that the proposed volume thresholds and the proposed credit are reasonable because they are consistent with other volume-based credits that the Exchange offers to members for displayed quotes/orders (other than Supplemental Orders or Designated Retail Orders) that provide liquidity. Nasdaq currently offers a variety of credits for displayed quotes/orders (other than Supplemental Orders or Designated Retail Orders) that add liquidity, some of which are linked to activity on NOM and some of which relate to activity on Nasdaq only, which range from \$0.0015 per share executed to \$0.00305 per share executed, and which apply progressively more stringent requirements in return for higher per share executed credits. Here, the member would receive a \$0.0030 per share credit for adding liquidity of at least 0.125% of Consolidated Volume on Nasdaq, and adding Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny

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

Pilot Options of 1.15% or more of total industry ADV in the customer clearing range for Equity and ETF option contracts per day during the month on NOM. In comparison, the Exchange currently offers a credit of \$0.00295 per share executed for members 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% or more of total industry ADV in the customer clearing range for Equity and ETF option contracts per day in a month on NOM. By way of further comparison, the Exchange provides a \$0.0030 per share executed credit if a member has shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent more than 0.75% of Consolidated Volume during the month and the member provides a daily average of at least 5 Million shares of non-displayed liquidity. Nasdaq believes that the proposed thresholds and credit are consistent with the credits that it currently offers both for activity on Nasdaq and NOM and on Nasdaq alone, and are therefore reasonable.

The Exchange also believes that this proposed credit of \$0.0030 is equitable and not unfairly discriminatory. The Exchange is proposing an additional opportunity for members to receive a credit in return for market-improving behavior. The proposed requirements for qualifying for the credit are proportionate to the amount of the proposed credit and equitably reflect the purpose of the proposed credit, which is to incentivize members to transact greater volume on Nasdaq and NOM. Nasdaq is proposing to allow members to qualify for the credit by adding liquidity on NOM in a variety of capacities – as a Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer – in both Penny Pilot and Non-Penny Pilot Options in Equity and ETF options. All similarly situated members are equally capable of qualifying for the proposed credit if they choose to meet the requirements of the new credit, and the same credit

will be paid to all members that qualify for it. Nasdaq members that are not currently NOM participants are eligible to become NOM participants by amending their membership application to add NOM.<sup>13</sup> Finally, Nasdaq notes that it currently offers other credits that relate to activity on NOM, and other credits that do not relate to activity on NOM.<sup>14</sup> As such, members will continue to have opportunities to qualify for similar credits based on market participation not tied to NOM.

#### Credit for Adding Liquidity on Nasdaq and Qualifying for MARS Tier 4

The Exchange believes that the \$0.0030 credit if the member meets the specified volume levels on Nasdaq and qualifies for Tier 4 of the NOM MARS program is reasonable. The proposed volume thresholds and the proposed credit are reasonable because they further the Exchange's goal of incentivizing greater activity on Nasdaq and NOM by members while imposing proportionate requirements that are not unrealistic for members to achieve. Nasdaq believes that requiring a member to qualify for MARS in order to qualify for the credit, as opposed to meeting a different volume-based requirement on NOM, is reasonable because MARS is designed to encourage members to provide certain order routing functionalities to other NOM Participants and/or use such functionalities themselves, and the proposed credit further incentivizes such behavior.

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<sup>13</sup> Upon approval, the Nasdaq member would be charged the NOM Participant Fee of \$1,000 per month, as set forth in Chapter XV, Section 10 of the NOM Rules.

<sup>14</sup> As noted above, Nasdaq currently offers a credit of \$0.00295 per month if member adds 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% or more of total industry ADV in the customer clearing range for Equity and ETF option contracts per day in a month on NOM. In comparison, Nasdaq also offers a credit of \$0.00305 per share executed for a member with shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent more than 1.25% of Consolidated Volume during the month.

As with the other new credit that is being offered as part of this proposal, Nasdaq also believes that these proposed volume thresholds and credit are reasonable because they are consistent with credits that Nasdaq currently offers for activity on Nasdaq and NOM and on Nasdaq alone. Here, a member would receive a credit of \$0.0030 per share executed if it provides liquidity on Nasdaq that represents more than 0.50% of Consolidated Volume, and qualifies for Tier 4 of the MARS program during the month. In comparison, a member would receive a rebate of \$0.0027 per share executed if it added liquidity during the month representing more than 0.10% of Consolidated Volume through one or more of its Nasdaq Market Center MPIDs, and added Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Non-Penny Pilot Options of 0.40% or more of total industry ADV in the customer clearing range for Equity and ETF option contracts per day in a month on NOM.

The Exchange also believes that the proposed credit is equitable and not unfairly discriminatory. The Exchange is proposing an additional opportunity for members to receive a credit in return for market-improving behavior. Requiring members to qualify for MARS Tier 4 in addition to meeting the volume requirements on Nasdaq equitably reflects the purpose of the credit, which is to incentivize members to transact greater volume on Nasdaq and NOM and to enhance the use of order routing functionalities for NOM.

As with the other new credit that is being offered as part of this proposal, all similarly situated members are equally capable of qualifying for this proposed credit if they choose to meet the requirements of the new credit, and the same credit will be paid to all members that qualify for it. Nasdaq members that are not currently NOM participants are eligible to become NOM participants by amending their membership application to add NOM. Finally, Nasdaq notes that it currently offers other credits that relate to activity on NOM, while other credits that

do not relate to activity on NOM. As such, members will continue to have opportunities to qualify for similar credits based on market participation not tied to NOM.

Change to Credit for Transactions in Tape B Securities

Nasdaq believes that the change to the current credit for transactions in Tape B Securities is reasonable, equitable and not unfairly discriminatory. Nasdaq notes that the members will continue to receive the same credit – either \$0.0001 or \$0.0002 per share executed – as they currently receive if they meet the volume requirements. Nasdaq believes that the changes to the volume thresholds for both credits are reasonable. The purpose of the credits is to incentivize greater activity on Nasdaq in Tape B Securities. The Exchange believes that the proposed volume thresholds, coupled with the current credits, are reasonable because they are more closely aligned to the Exchange’s goal of incentivizing greater activity by members in Tape B Securities than the current volume thresholds, while imposing requirements that are not unrealistic for members to achieve.

Nasdaq believes that the proposed volume changes to credits for transactions in Tape B Securities are equitable and not unfairly discriminatory. The Exchange believes that the proposed requirements are more proportionate to the amount of the current credits than the current requirements, and more equitably reflect the purpose of the current credits, which is to incentivize members to transact greater volume on Nasdaq in Tape B Securities. Moreover, all similarly situated members are equally capable of qualifying for the credits if they choose to meet the volume requirements, and the same credits will be paid to all members that qualify for them.

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. In terms of inter-market competition, the Exchange 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, the Exchange 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, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed new credits provided to a member for execution of securities of each of the three Tapes, in addition to meeting specified thresholds on NOM, do not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from other exchanges and from off-exchange venues. All similarly situated members are equally capable of qualifying for the credits if they choose to meet the volume requirements, and the same credits will be paid to all members that qualify for them. Members will continue to have opportunities to qualify for similar credits based on market participation not tied to NOM. Moreover, the proposed changes are designed to reward market-improving behavior by providing new credit tiers based on various measures of such behavior, which may encourage other market venues to provide similar

credits to improve their market quality. Thus, the Exchange does not believe that the proposed credits will impose any burden on competition, but may rather promote competition.

Similarly, the changes to the existing credits for transactions in Tape B Securities do not impose a burden on competition because the Exchange's execution services are completely voluntary. All similarly situated members are equally capable of qualifying for the credits if they choose to meet the volume requirements, and the same credits will be paid to all members that qualify for them. In addition, the credits for transactions in Tape B securities are designed to reward market-improving behavior, and the proposed changes are designed to better align the requirements for the credits with the actual credits.

In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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>15</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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action,

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

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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2017-002 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-2017-002. 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 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-2017-002, 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>16</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).