

SECURITIES AND EXCHANGE COMMISSION
(Release No 34-82062; File No. SR-NASDAQ-2017-119)

November 13, 2017

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

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 November 1, 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 Substance of the Proposed Rule Change

The Exchange proposes to (1) change the volume requirement for purposes of determining eligibility for a transaction fee under the Qualified Market Maker Program; and (2) eliminate one of the tiers of the Nasdaq Growth Program.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 7014 to (1) change the volume requirement for purposes of determining eligibility for a transaction fee under the Qualified Market Maker (“QMM”) Program; and (2) eliminate one of the tiers of the Nasdaq Growth Program.

QMM Program

A QMM is a member that makes a significant contribution to market quality by providing liquidity at the national best bid and offer (“NBBO”) in a large number of stocks for a significant portion of the day.³ In addition, the member must avoid imposing the burdens on Nasdaq and its market participants that may be associated with excessive rates of entry of orders away from the inside and/or order cancellation. The designation reflects the QMM’s commitment to provide meaningful and consistent support to market quality and price discovery by extensive quoting at the NBBO in a large number of securities. In return for its contributions, certain financial benefits are provided to a QMM with respect to its order activity, as described under Rule 7014(e). For example, Nasdaq will provide QMMs a rebate per share executed with respect to all other displayed orders (other than Designated Retail Orders, as defined in Rule 7018) in securities priced at \$1 or more per share that provide liquidity and were for securities listed on the New York Stock Exchange LLC (“NYSE”), securities listed on exchanges other than Nasdaq and NYSE, or securities listed on Nasdaq.

³ See Rule 7014(d).

Nasdaq also charges QMMs a lower rate for executions of orders in securities priced at \$1 or more per share that access liquidity on the Nasdaq Market Center.⁴ Under Rule 7014(e), the Exchange charges a QMM \$0.0030 per share executed for removing liquidity on Nasdaq in Nasdaq-listed securities priced at \$1 or more. The Exchange also charges a QMM \$0.00295 per share executed for removing liquidity on Nasdaq in securities priced at \$1 or more per share that are listed on exchanges other than Nasdaq, if the QMM's volume of liquidity added through one or more of its Nasdaq Market Center MPIDs during the month (as a percentage of Consolidated Volume) is not less than 0.80%.⁵ For a QMM that meets the criteria of Tier 2,⁶ the Exchange assesses a charge of \$0.0029 per share executed for removing liquidity in securities priced at \$1 or more per share listed on exchanges other than Nasdaq if the QMM has a combined Consolidated Volume (adding and removing liquidity) of at least 3.7%.

Nasdaq is now proposing to change the volume threshold needed to qualify for the transaction fee of \$0.00295 per share executed for non-Nasdaq-listed securities for removing liquidity on Nasdaq in securities priced at \$1 or more. Currently, the QMM's volume of liquidity added through one or more of its Nasdaq Market Center MPIDs during the month (as a percentage of Consolidated Volume) must be not less than 0.80%. Nasdaq proposes to increase

⁴ See Rule 7014(e).

⁵ As set forth in Rule 7014(h), the term "Consolidated Volume" has the same meaning as the term has under Rule 7018(a). That term is defined in Rule 7018(a) to mean "the total consolidated volume reported to all consolidated transaction reporting plans by all exchanges and trade reporting facilities during a month in equity securities, excluding executed orders with a size of less than one round lot. For purposes of calculating Consolidated Volume and the extent of a member's trading activity the date of the annual reconstitution of the Russell Investments Indexes shall be excluded from both total Consolidated Volume and the member's trading activity."

⁶ As set forth in Rule 7014(e), the QMM Tier 2 qualification criteria requires a QMM to execute shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent above 0.90% of Consolidated Volume during the month.

this threshold to 0.85%. Nasdaq believes that this increased volume threshold is more closely aligned to the corresponding transaction fee than the current volume threshold. This increase is also reflective of the Exchange's desire to provide incentives to attract order flow to the Exchange in return for significant market-improving behavior. By modestly increasing the volume of liquidity that a QMM must add during the month in order to qualify for the corresponding transaction fee, this change will help ensure that QMMs are providing significant market-improving behavior in return for a reduced fee.

Nasdaq Growth Program

Nasdaq also proposes to eliminate one of the tiers of the Nasdaq Growth Program ("Growth Program").⁷ Nasdaq introduced the Growth Program in 2016.⁸ The purpose of the Growth Program is to provide a credit per share executed for members that meet certain growth criteria. The credit is designed to provide an incentive to members that do not qualify for other credits under Rule 7018 in excess of the Growth Program credit to increase their participation on the Exchange. The Growth Program provides a member either a \$0.0025 per share executed credit in securities priced \$1 or more per share, or a \$0.0027 per share executed credit in securities priced at \$1 or more if the member meets certain criteria. The credit is provided in lieu of other credits provided to the member for displayed quotes/orders (other than Supplemental Orders or Designated Retail Orders) that provide liquidity under Rule 7018, if the credit under the Growth Program is greater than the credit attained under Rule 7018.

Rule 7014(j) currently provides three ways in which a member may qualify for the \$0.0025 rebate in a given month. First, the member may qualify for this rebate by: (i) adding

⁷ As part of this change, Nasdaq proposes to re-number Rule 7014(j) to reflect this elimination of one of the rebate tiers.

⁸ See Securities Exchange Act Release No. 78977 (September 29, 2016), 81 FR 69140 (October 5, 2016) (SR-NASDAQ-2016-132).

greater than 750,000 shares a day on average during the month through one or more of its Nasdaq Market Center MPIDs; and (ii) increasing its shares of liquidity provided through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume by 20% versus the member's Growth Baseline.⁹ Second, the member may qualify for the \$0.0025 rebate by: (i) adding greater than 750,000 shares a day on average during the month through one or more of its Nasdaq Market Center MPIDs; and (ii) meeting the criteria set forth above (increasing its shares of liquidity provided through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume by 20% versus the member's Growth Baseline) in the preceding month, and maintaining or increasing its shares of liquidity provided through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume as compared to the preceding month. Third, a member may qualify for the Growth Program by: (i) adding greater than 750,000 shares a day on average during the month through one or more of its Nasdaq Market Center MPIDs in three separate months; (ii) increasing its shares of liquidity provided through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume by 20% versus the member's Growth Baseline in three separate months; and (iii) maintaining or increasing its shares of liquidity provided through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume compared to the Growth Baseline established when the member met the criteria for the third month.

⁹ The Growth Baseline is defined as the member's shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume during the last month a member qualified for the Nasdaq Growth Program under current Rule 7014(j)(1)(B)(i) (increasing its Consolidated Volume by 20% versus its Growth Baseline). If a member has not yet qualified for a credit under this program, its August 2016 share of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume will be used to establish a baseline.

As noted above, the term "Consolidated Volume" has the same meaning for Rule 7014 as the term has under Rule 7018(a).

To be eligible for a \$0.0027 per share executed rebate, in lieu of the \$0.0025 per share executed rebate above, a member must (i) add at least 0.04% or more of Consolidated Volume during the month through non-displayed orders through one or more of its Nasdaq Market Center MPIDs; and (ii) increase its shares of liquidity provided through one or more of its Nasdaq Market Center MPIDs in all securities during the month as a percent of Consolidated Volume by at least 50% versus its August 2016 share of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs as a percent of Consolidated Volume.¹⁰

Nasdaq now proposes to eliminate the \$0.0025 rebate and the criteria for determining that rebate. Members will continue [sic] qualify for the \$0.0027 rebate if they meet the criteria for qualifying for that rebate, which remains unchanged.

Nasdaq is making this change to simplify the operation of the Growth Program. To the extent that it is eliminating one of the rebates in the Growth Program, Nasdaq has determined that it is preferable to retain the \$0.0027 rebate and its corresponding requirements. First, by eliminating the \$0.0025 rebate, members that wish to qualify for the remaining \$0.0027 rebate must meet the performance obligations that accompany that rebate, including the requirement that the member add at least 0.04% or more of Consolidated Volume during the month through non-displayed orders through one or more of its Nasdaq Market Center MPIDs. The purpose of the \$0.0027 rebate is to incentivize firms to provide both displayed and non-displayed liquidity. Nasdaq notes that non-displayed orders generally provide improvement to the size of orders executed on the Exchange. As such, eliminating the \$0.0025 rebate will incentivize members to qualify for the remaining \$0.0027 rebate and to meet its corresponding requirement to add non-

¹⁰ As is currently the case, members that were not members of the Exchange in August 2016 may still qualify for the \$0.0027 rebate. For such “new” members, the Exchange will consider their share of liquidity provided in all securities in August 2016 as zero.

displayed size, which, among other things, will improve overall market quality on Nasdaq by increasing the size of executed orders.

Second, Nasdaq notes that, unlike the \$0.0025 rebate, which requires a member to show an increase in Consolidated Volume compared to the member's Growth Baseline, with each successive month maintaining or improving upon that baseline to continue to qualify for the rebate, the \$0.0027 rebate requires an initial significant increase in Consolidated Volume compared to that member's share of liquidity provided in all securities in August 2016, with the member maintaining that level to continue receiving the \$0.0027 rebate. Thus, the measure against which Consolidated Volume is compared remains static month to month under the criteria of the \$0.0027 rebate, whereas it can vary month to month under the qualification criteria for the \$0.0025 rebate. Nasdaq believes that members may therefore be more able to satisfy the criteria to qualify for the \$0.0027 rebate over successive months than the criteria to qualify for the \$0.0025 rebate.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹¹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹² 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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

QMM Program

The Exchange believes that the change to the volume threshold needed to qualify for the \$0.00295 QMM transaction fee is reasonable. The Exchange notes that it is not changing the

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(4) and (5).

amount of fees charged to QMMs, which have been addressed in previous filings,¹³ and believes that those fees continue to be reasonable because they remain unchanged. Nasdaq believes that the change to the volume threshold is reasonable because the increased volume threshold is more closely aligned to the corresponding \$0.00295 transaction fee than the current volume threshold. Nasdaq also believes that this proposed change is reasonable because it will help ensure that QMMs are providing significant market-improving behavior in return for the corresponding fee, by modestly increasing the volume of liquidity that a QMM must add during the month in order to qualify for the reduced transaction fee.

Nasdaq believes that the proposed change to the volume threshold is an equitable allocation and is not unfairly discriminatory because the Exchange will apply the same volume threshold to all members that otherwise qualify for the corresponding fee (e.g., the member quotes at the NBBO at least 25% of the time during regular market hours in an average of at least 1,000 securities per day during the month). The Exchange believes that the new volume threshold will not significantly impact the number of QMMs that will likely qualify for the corresponding transaction fee, since the new volume threshold is a modest increase over the current volume threshold, and members may always elect to qualify for the corresponding fee by adding sufficient liquidity to the Exchange to meet the new volume requirement. Finally, the QMM Program is intended to encourage members to promote price discovery and market quality by quoting at the NBBO for a significant portion of each day in a large number of securities, thereby benefitting Nasdaq and other investors by committing capital to support the execution of orders.

¹³ See, e.g., Securities Exchange Act Release No. 72810 (August 11, 2014), 79 FR 48281 (August 15, 2014) (SR-NASDAQ-2014-078).

Growth Program

The Exchange believes that eliminating the \$0.0025 rebate tier of the Growth Program is reasonable. Nasdaq believes that eliminating this rebate tier and its corresponding requirements to qualify for that tier will simplify the operation of the Growth Program. To the extent that Nasdaq has determined to eliminate one of the current rebate tiers, Nasdaq believes it is reasonable to eliminate the \$0.0025 rebate, rather than the \$0.0027 rebate. By eliminating the \$0.0025 rebate, members that wish to qualify for the remaining \$0.0027 rebate must meet the performance obligations that accompany that rebate, including the requirement that the member add at least 0.04% or more of Consolidated Volume during the month through non-displayed orders through one or more of its Nasdaq Market Center MPIDs. Nasdaq notes that the \$0.0027 rebate is designed to incentivize members to add both displayed and non-displayed liquidity and that, among other things, non-displayed orders generally provide improvement to the size of orders executed on the Exchange. As such, eliminating the \$0.0025 rebate will incentivize members to qualify for the remaining \$0.0027 rebate and to meet its corresponding requirement to add non-displayed size, which will improve overall market quality on Nasdaq by increasing the size of executed orders.

The Exchange believes that the elimination of the \$0.0025 rebate tier is an equitable allocation and is not unfairly discriminatory. The \$0.0025 rebate tier will be eliminated for all members. Additionally, all members may continue to qualify for the remaining \$0.0027 rebate tier if they meet the qualifying criteria, e.g., the member adds at least 0.04% or more of Consolidated Volume during the month through non-displayed orders through one or more of its Nasdaq Market Center MPIDs. The Exchange believes that eliminating the \$0.0025 rebate tier, while maintaining the \$0.0027 rebate tier, will not significantly impact the number of members

that will qualify for the Growth Program. Unlike the \$0.0025 rebate, which requires a member to show an increase in Consolidated Volume compared to the member's Growth Baseline, with each successive month maintaining or improving upon that baseline to continue to qualify for the rebate, the \$0.0027 rebate requires an initial significant increase in Consolidated Volume compared to that member's share of liquidity provided in all securities in August 2016, with the member maintaining that level to continue receiving the \$0.0027 rebate. Thus, the measure against which Consolidated Volume is compared remains static month to month under the criteria of the \$0.0027 rebate, whereas it can vary month to month under the qualification criteria for the \$0.0025 rebate. Nasdaq believes that members may therefore be more able to satisfy the criteria to qualify for the \$0.0027 rebate over successive months than the criteria to qualify for the \$0.0025 rebate.

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 change to the volume threshold for the QMM Program does 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. The Exchange will apply the same new volume threshold to all members, and does not believe that the new volume threshold will significantly impact the number of QMMs that will likely qualify for the corresponding transaction fee, since the new volume threshold is a modest increase over the current volume threshold, and members may always elect to qualify for the corresponding fee by adding sufficient liquidity to the Exchange to meet the new volume requirement. As such, the Exchange believes that the proposed volume threshold will not negatively impact who will qualify for the corresponding transaction fee, but will rather have a positive impact on overall market quality as QMMs increase their participation in the market to qualify for those fees. If, however, the Exchange is incorrect and the changes proposed herein are unattractive to QMMs, it is likely that Nasdaq will lose market share as a result. Accordingly, Nasdaq does not believe that the proposed change will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

Similarly, Nasdaq believes that the elimination of the \$0.0025 rebate tier for the Growth Program does 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. Nasdaq notes that the \$0.0025 rebate tier will be eliminated for all members. Additionally, all members may continue to qualify for the remaining \$0.0027 rebate tier if they meet the qualifying criteria, e.g., the member adds at least 0.04% or more of Consolidated Volume during the month through non-displayed orders through one or more of its

Nasdaq Market Center MPIDs. The Exchange believes that eliminating the \$0.0025 rebate tier, while maintaining the \$0.0027 rebate tier, will not significantly impact the number of members that will qualify for the Growth Program. Unlike the \$0.0025 rebate, which requires a member to show an increase in Consolidated Volume compared to the member's Growth Baseline, with each successive month maintaining or improving upon that baseline to continue to qualify for the rebate, the \$0.0027 rebate requires an initial significant increase in Consolidated Volume compared to that member's share of liquidity provided in all securities in August 2016, with the member maintaining that level to continue receiving the \$0.0027 rebate. Thus, the measure against which Consolidated Volume is compared remains static month to month under the criteria of the \$0.0027 rebate, whereas it can vary month to month under the qualification criteria for the \$0.0025 rebate. Nasdaq believes that members may therefore be more able to satisfy the criteria to qualify for the \$0.0027 rebate over successive months than the criteria to qualify for the \$0.0025 rebate. Ultimately, if members conclude that the qualification requirements for the remaining tier in the Growth Program are set too high, or the rebate too low, it is likely that the Exchange will realize very little benefit from the Growth Program. Accordingly, the Exchange does not believe that this proposed change 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.¹⁴

¹⁴ 15 U.S.C. 78s(b)(3)(A)(ii).

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, 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-2017-119 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-2017-119. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2017-119, 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.¹⁵

Eduardo A. Aleman
Assistant Secretary

¹⁵ 17 CFR 200.30-3(a)(12).