

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99783; File No. SR-NASDAQ-2024-012)

March 20, 2024

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Options 7, Section 3

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 7, 2024, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“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 amend The Nasdaq Options Market LLC’s (“NOM”) Rules at Options 7, Section 3, Nasdaq Options Market - Ports and Other Services.³

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Exchange initially filed the proposed pricing changes on November 28, 2023 (SR-NASDAQ-2023-050) to be effective on December 1, 2023. On December 5, 2023, the Exchange withdrew SR-NASDAQ-2023-050 and placed it with SR-NASDAQ-2023-054. On January 16, 2023, the Exchange withdrew SR-NASDAQ-2023-054 and submitted SR-NASDAQ-2024-003. On March 7, 2024, the Exchange withdrew SR-NASDAQ-2024-003 and submitted this filing.

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 Exchange proposes to amend Options 7, Section 3, Nasdaq Options Market - Ports and Other Services. Specifically, the Exchange proposes to amend Options 7, Section 3(i) to increase the per port, per month SQF Port⁴ and SQF Purge⁵ Port Fees for all ports over 20 ports (21 and above) from \$500 to \$750.⁶

Today, NOM assesses SQF Ports and SQF Purge Ports a per port, per month fee based on a tiered fee schedule. Specifically, NOM assesses an SQF Port and an SQF Purge Port fee of

⁴ “Specialized Quote Feed” or “SQF” is an interface that allows Market Makers to connect, send, and receive messages related to quotes and Immediate-or- Cancel Orders into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; and (8) opening imbalance messages. The SQF Purge Interface only receives and notifies of purge requests from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series. Immediate-or-Cancel Orders entered into SQF are not subject to the Order Price Protection, Market Order Spread Protection, or Size Limitation in Options 3, Section 15(a)(1) and (a)(2), and (b)(2), respectively. See Options 3, Section 7(e)(1)(B).

⁵ SQF Purge is a specific port for the SQF interface that only receives and notifies of purge requests from the NOM Market Maker.

⁶ The Exchange also proposes a technical amendment to remove an extraneous period in Options 7, Section 3 in the second paragraph.

\$1,500 per port, per month for the first 5 ports (1-5), a \$1,000 per port, per month fee for the next 15 ports (6-20), and a \$750 per port, per month fee for all ports over 20 ports (21 and above).

At this time, the Exchange proposes to amend the per port, per month fee for SQF Ports and SQF Ports above 20 ports (21 and above) from \$500 to \$750 per port, per month. The Exchange is not amending the SQF Port and SQF Purge Port fees for ports below 20 ports.

Pursuant to Options 3, Section 7(e)(1)(B), NOM Market Makers may only enter interest into SQF in their assigned options series. Pursuant to Options 3, Section 7(e)(1)(B), the SQF interface allows NOM Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses to the Exchange. A NOM Market Maker requires only one SQF Port to submit quotes in its assigned options series into NOM. An SQF Purge is a specific port for the SQF interface that only receives and notifies of purge requests from the Market Maker. A NOM Market Maker may submit all quotes through one SQF Port and utilize one SQF Purge Port to view its purge requests. While a NOM Market Maker may elect to obtain multiple SQF Ports and SQF Purge Ports to organize its business,⁷ only one SQF Port and SQF Purge Port is necessary for a NOM Market Maker to fulfill its regulatory quoting obligations.⁸

⁷ For example, a NOM Market Maker may desire to utilize multiple SQF Ports for accounting purposes, to measure performance, for regulatory reasons or other determinations that are specific to that NOM Participant. The Exchange notes that 78% of NOM Market Makers pay the \$1,000 per port, per month fee for 6-20 ports and 39% pay the proposed \$750 per port, per month fee for over 20 ports.

⁸ NOM Market Makers have various regulatory requirements as provided for in Options 2, Section 4. Additionally, NOM Market Makers have certain quoting requirements with respect to their assigned options series as provided in Options 2, Section 5. The Exchange notes that SQF Ports are the only quoting protocol available on NOM and only NOM Market Makers may utilize SQF Ports. The same is true for SQF Purge Ports.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁰ 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.

The Exchange believes that increasing the fee for SQF Ports and SQF Purge Ports over 20 ports (21 and above) from \$500 to \$750 per port, per month is reasonable because SQF Ports and SQF Purge Ports over 20 ports are unnecessary for a NOM Market Maker to fulfill its regulatory requirements.¹¹ A NOM Market Maker requires only one SQF Port to submit quotes in its assigned options series into NOM. A NOM Market Maker may submit all quotes through one SQF Port and utilize one SQF Purge Port to view its purge requests. While a NOM Market Maker may elect to obtain multiple SQF Ports and SQF Purge Ports to organize its business,¹² only one SQF Port and SQF Purge Port is necessary for a NOM Market Maker to fulfill its regulatory quoting obligations. Participants may choose a greater number of SQF Ports or SQF Purge Ports, beyond one port, depending on that Participant's particular business model. Additionally, the Exchange believes the proposed SQF Port and SQF Purge Port fee increases are reasonable for two reasons.

First, SQF Ports are a secure method for Market Makers to submit quotes into the Exchange's match engine and for the Exchange to send messages related to those quotes to

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

¹¹ See NOM Options 2, Sections 4 and 5.

¹² For example, a NOM Market Maker may desire to utilize multiple SQF Ports for accounting purposes, to measure performance, for regulatory reasons or other determinations that are specific to that Participant.

Market Makers. NOM must manage the security and message traffic, among other things, for each port. Amending the SQF Port and SQF Purge Port tiered fees to manage a Market Maker's costs while also managing the quantity of SQF Ports and SQF Purge Ports issued on NOM has led the Exchange to increase the tier for all ports over 20 ports to \$750 per port, per month. Lowering the fee for SQF Ports and SQF Purge Ports over 20 ports allows the Exchange to manage message traffic and message rates associated with the current number of outstanding SQF Port and SQF Purge Ports and consider the Exchange's ability to process messages. The ability to manage ports through pricing permits the Exchange to scale its needs with respect to processing messages in an efficient manner. The Exchange notes that Cboe Exchange, Inc. ("Cboe") limits usage on each port and assesses fees for incremental usage.¹³

Second, the Exchange notes that multiple ports are not necessary, however, to the extent that some Market Makers elect to obtain multiple ports, the Exchange is offering to lower their fees for SQF Ports and SQF Purge Ports over 20 ports, per month. NOM believes that lowering costs for ports beyond 20 ports allows for efficiencies and permits Market Makers to increase their number of ports beyond the 20 ports. Lowering the SQF Port and SQF Purge Port fees, per month, beyond 20 ports allows those Market Makers that want to obtain a larger number of SQF Port and SQF Purge ports to do so at a lower cost. In this case, the Exchange is raising the current SQF Port and SQF Purge Port Fee for over 20 ports from \$500 to \$750 per port, per month. Despite the increase, Market Makers will continue to pay less for over 20 SQF Port and SQF Purge Ports per month if they desire to obtain multiple ports on NOM. BOX Exchange

¹³ Each Cboe Binary Order Entry ("BOE") or FIX Logical Port incur the logical port fee indicated when used to enter up to 70,000 orders per trading day per logical port as measured on average in a single month. For each incremental usage of up to 70,000 per day per logical port will incur an additional logical port fee of \$800 per month. BOE or FIX Logical Ports provide users the ability to enter order/quotes. See Cboe's Fees Schedule.

LLC (“BOX”) assesses \$1,000 per month for all SAIL Ports for Market Making and \$500 per month per port up to 5 ports for order entry and \$150 per month for each additional port.¹⁴

Miami International Securities Exchange’s (“MIAX”) MIAX Express Interface (“MEI”) Fee levels are based on a tiered fee structure based on the Market Maker’s total monthly executed volume during the relevant month.¹⁵

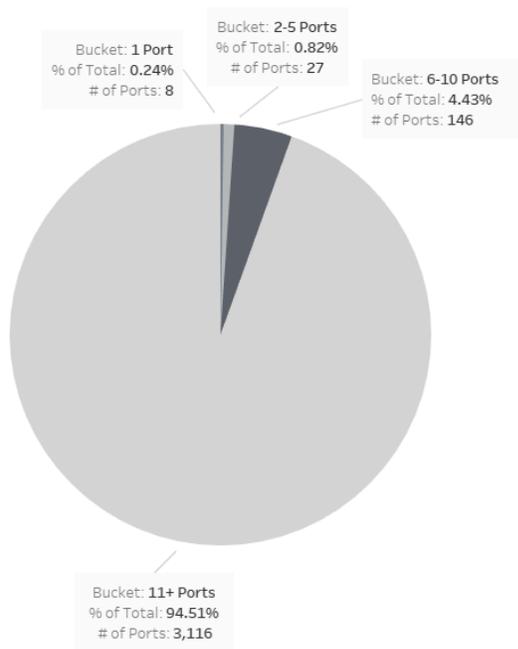
The number of ports that members choose to purchase varies widely. Today, on NOM, 3 Market Makers have 1 SQF Port/SQF Purge Port, 1 Market Maker has 2-5 SQF Ports/SQF Purge Ports, 3 Market Makers have between 6-10 SQF Ports/SQF Purge Ports, and 11 Market Makers have more than 10 SQF Ports/SQF Purge Ports. The chart below represents the number of SQF Ports and SQF Purge Ports that are subscribed to by members across the six Nasdaq affiliated options markets.

¹⁴ See BOX’s Fee Schedule.

¹⁵ MEI is a connection to MIAX systems that enables Market Makers to submit simple and complex electronic quotes to MIAX. MIAX caps its MEI Ports. For these Monthly MIAX MEI Fees levels, if the Market Maker’s total monthly executed volume during the relevant month is less than 0.060% of the total monthly executed volume reported by OCC in the market maker account type for MIAX-listed option classes for that month, then the fee will be \$14,500 instead of the fee otherwise applicable to such level. See MIAX’s Fee Schedule.

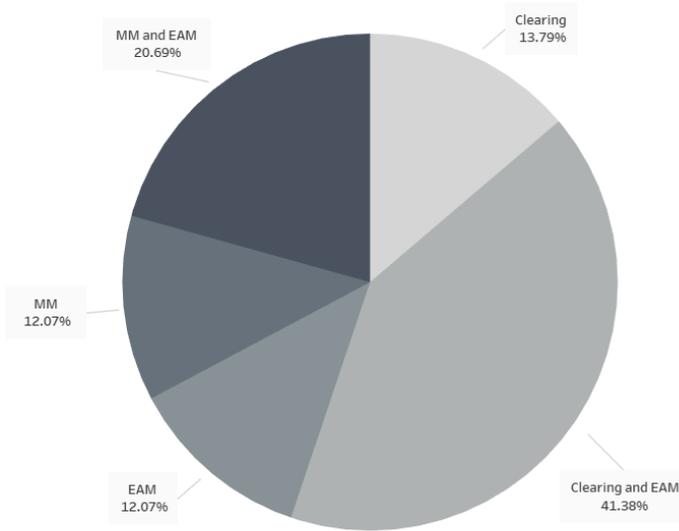
SQF & SQF Purge Ports Across Nasdaq Exchanges

Data as of March 1, 2024



The Exchange believes that increasing the fee for SQF Ports and SQF Purge Ports over 20 ports (21 and above) from \$500 to \$750 per port, per month is equitable and not unfairly discriminatory because all NOM Market Makers would be assessed the same fees for SQF Ports and SQF Purge Ports to the extent that these NOM Market Makers have subscribed to more than 20 SQF Ports or SQF Purge Ports. NOM Market Makers are the only market participants that are assessed SQF Port and SQF Purge Port fees because they are the only market participants that are permitted to quote on the Exchange. SQF Ports and SQF Purge Ports are only utilized in the Market Maker's assigned options series. The following chart represents the classification of NOM Members and the percentage of Market Makers.

NOM Member Type Distribution
March 2024



Unlike other market participants, NOM Market Makers are subject to market making and quoting obligations.¹⁶ These liquidity providers are critical market participants in that they are the only market participants that provide liquidity to NOM on a continuous basis. Providing NOM Market Makers a means to cap their cost related to quoting and enabling all Market Makers to acquire SQF Ports and SQF Purge Ports at a lower cost beyond 20 ports enables these market participants to provide the necessary liquidity to NOM at lower costs. Therefore, because NOM Market Makers fulfill a unique role on the Exchange, are the only market participant required to submit quotes as part of their obligations to operate on the Exchange, and, in light of that role, they are eligible for certain incentives. The proposed SQF Port and SQF Purge Fee cap is designed to continue to incent NOM Market Makers to quote on NOM, thereby promoting liquidity, quote competition, and trading opportunities.

In 2022, NYSE Arca, Inc. (“NYSE Arca”) proposed to restructure fees relating to OTPs

¹⁶ See Options 2, Sections 4 and 5.

for Market Makers.¹⁷ In that rule change,¹⁸ NYSE Arca argued that,

Market Makers serve a unique and important function on the Exchange (and other options exchanges) given the quote-driven nature of options markets. Because options exchanges rely on actively quoting Market Makers to facilitate a robust marketplace that attracts order flow, options exchanges must attract and retain Market Makers, including by setting competitive Market Maker permit fees. Stated otherwise, changes to Market Maker permit fees can have a direct effect on the ability of an exchange to compete for order flow. The Exchange also believes that the number of options exchanges on which Market Makers can effect option transactions also ensures competition in the marketplace and constrains the ability of exchanges to charge supracompetitive fees for access to its market by Market Makers.

Further, NYSE ARCA noted that,¹⁹

The Exchange further believes that its ability to set Market Maker permit fees is constrained by competitive forces based on the fact that Market Makers can, and have, chosen to terminate their status as a Market Maker if they deem Market Maker permit fees to be unreasonable or excessive. Specifically, the Exchange notes that a BOX participant modified its access to BOX in connection with the implementation of a proposed change to BOX's Market Maker permit fees. The Exchange has also observed that another options exchange group experienced decreases in market share following its proposed modifications of its access fees (including Market Maker trading permit fees), suggesting that market participants (including Market Makers) are sensitive to changes in exchanges' access fees and may respond by shifting their order flow elsewhere if they deem the fees to be unreasonable or excessive.

There is no requirement, regulatory or otherwise, that any Market Maker connect to and access any (or all of) the available options exchanges. The Exchange also is not aware of any reason why a Market Maker could not cease being a permit holder in response to unreasonable price increases. The Exchange does not assess any termination fee for a Market Maker to drop its OTP, nor is the Exchange aware of any other costs that would be incurred by a Market Maker to do so.

The Exchange likewise believes that its lower SQF Ports and SQF Purge Port monthly fees

¹⁷ See Securities Exchange Act Release No. 95412 (June 23, 2022), 87 FR 38786 (June 29, 2022) (SR-NYSEArca-2022-36). NYSE Arca proposed to increase both the monthly fee per Market Maker OTP and the number of issues covered by each additional OTP because, among other reasons, the number of issues traded on the Exchange has increased significantly in recent years.

¹⁸ Id. at 38788.

¹⁹ Id. at 38790.

beyond 20 ports is constrained by competitive forces and that its proposed modifications to the SQF Port and SQF Purge Fees is reasonably designed in consideration of the competitive environment in which the Exchange operates, by balancing the value of the enhanced benefits available to Market Makers due to the current level of activity on the Exchange with a fee structure that will continue to incent Market Makers to support increased liquidity, quote competition, and trading opportunities on the Exchange, for the benefit of all market participants.

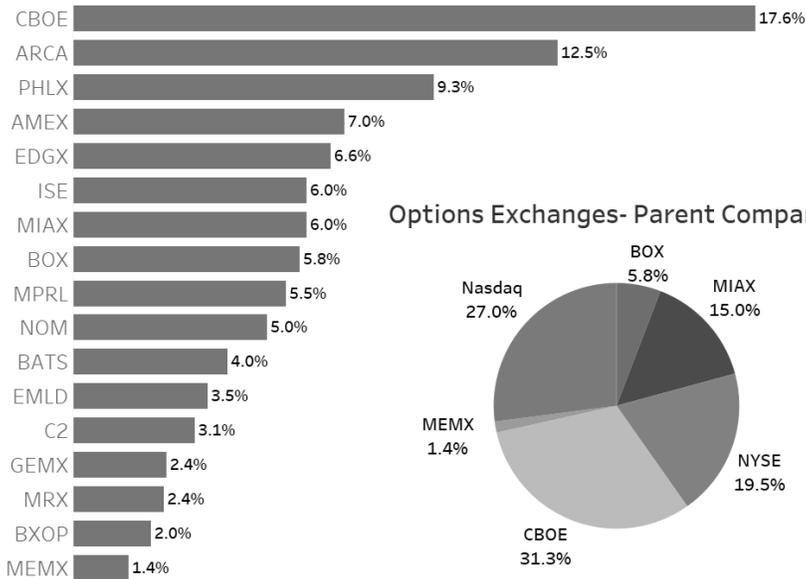
B. Self-Regulatory Organization's Statement on Burden on Competition

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.

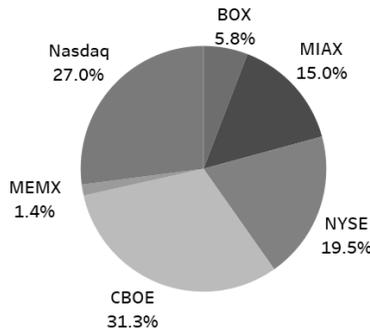
Intermarket Competition

The proposal does not impose an undue burden on intermarket competition. The Exchange believes its proposal remains competitive with other options markets who also offer order entry protocols. 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. The chart below shows the February 2024 market share for multiply listed options by exchange. Of the 17 operating options exchanges, none currently has more than a 17.6% market share. Customers widely distribute their transactions across exchanges according to their business needs and the ability of each exchange to meet those needs through technology, liquidity and functionality.

Options Market Share by Exchange: February 2024



Options Exchanges- Parent Company



Source: OCC, Nadsaq Economic Research

Market share is the percentage of volume on a particular exchange relative to the total volume across all exchanges, and indicates the amount of order flow directed to that exchange. High levels of market share enhance the value of trading and ports.

In such an environment, the Exchange must continually adjust its fees to remain competitive with other 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.

Other exchanges amended certain costs attributed to NOM Market Makers.²⁰ In 2022, MRX proposed a monthly cap for SQF Ports and SQF Purge Ports of 17,500.²¹ MRX noted in

²⁰ See Securities Exchange Act Release No. 95412 (June 23, 2022), 87 FR 38786 (June 29, 2022) (SR-NYSEArca-2022-36).

²¹ See Securities Exchange Act No. 96824(February 7, 2023), 88 FR 8975 (February 10, 2023) (SR-MRX-2023-05) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend MRX Options 7, Section 6).

its rule change that, “Only one SQF quote protocol is required for an MRX Market Maker to submit quotes into MRX and to meet its regulatory requirements.”²² Additionally, BOX assesses \$1,000 per month for all SAIL Ports for Market Making and \$500 per month per port up to 5 ports for order entry and \$150 per month for each additional port.²³ MIAX’s MEI Fee levels are based on a tiered fee structure based on the Market Maker’s total monthly executed volume during the relevant month.²⁴

If the Commission were to apply a different standard of review this proposal than it applied to other exchange fee filings, where Market Maker fees were increased and port fee caps were established, it would create a burden on competition such that it would impair NOM’s ability to compete among other options markets.

Intramarket Competition

The Exchange believes that increasing the fee for SQF Ports and SQF Purge Ports over 20 ports (21 and above) from \$500 to \$750 per port, per month does not impose an undue burden on competition because all NOM Market Makers would be assessed the same fees for SQF Ports and SQF Purge Ports to the extent that these NOM Market Makers have subscribed to more than 20 SQF Ports or SQF Purge Ports. NOM Market Makers are the only market participants that are assessed SQF Port and SQF Purge Port fees because they are the only market participants that are permitted to quote on the Exchange. SQF Ports and SQF Purge Ports are only utilized in

²² Id at 8976.

²³ See BOX’s Fee Schedule.

²⁴ MEI is a connection to MIAX systems that enables Market Makers to submit simple and complex electronic quotes to MIAX. MIAX caps its MEI Ports. For these Monthly MIAX MEI Fees levels, if the Market Maker’s total monthly executed volume during the relevant month is less than 0.060% of the total monthly executed volume reported by OCC in the market maker account type for MIAX-listed option classes for that month, then the fee will be \$14,500 instead of the fee otherwise applicable to such level. See MIAX’s Fee Schedule.

the Market Maker's assigned options series. Unlike other market participants, NOM Market Makers are subject to market making and quoting obligations.²⁵ These liquidity providers are critical market participants in that they are the only market participants that provide liquidity to NOM on a continuous basis. Providing NOM Market Makers a means to cap their cost related to quoting and enabling all Market Makers to acquire SQF Ports and SQF Purge Ports at a lower cost beyond 20 ports enables these market participants to provide the necessary liquidity to NOM at lower costs. Therefore, because NOM Market Makers fulfill a unique role on the Exchange, are the only market participant required to submit quotes as part of their obligations to operate on the Exchange, and, in light of that role, they are eligible for certain incentives. The proposed lower monthly SQF Fee and SQF Purge Port fee is designed to continue to incentivize NOM Market Makers to quote on NOM, thereby promoting liquidity, quote competition, and trading opportunities.

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.²⁶

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,

²⁵ See Options 2, Sections 4 and 5.

²⁶ 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-NASDAQ-2024-012 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-2024-012. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-NASDAQ-2024-012 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Sherry R. Haywood,
Assistant Secretary.

²⁷ 17 CFR 200.30-3(a)(12).