SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-58305; File No. SR-NASDAQ-2008-063)

August 5, 2008

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Modify the Rules Governing the Requirements for Market Maker Quotations on the NASDAQ Options Market

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 July 15, 2008, The NASDAQ Stock Market LLC ("NASDAQ") 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 NASDAQ. NASDAQ has designated the proposed rule change as constituting a non-controversial rule change under Rule 19b-4(f)(6) under the Act,\(^3\) which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Nasdaq proposes to modify Chapter VII, Section 6 of the Nasdaq rules governing the requirements for market maker quotations on the NASDAQ Options Market ("NOM"). The text of the proposed rule change is below. Proposed new language is *italicized*; proposed deletions are in brackets.\(^4\)

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\(^4\) Changes are marked to the rule text that appears in the electronic Nasdaq Manual found at [http://nasdaq.complinet.com](http://nasdaq.complinet.com).
Chapter VII, Sec. 6 Market Maker Quotations

(a) **Size Associated with Quotes.** A Market Maker's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the Market Maker is willing to buy or sell. The best bid and best offer entered by a Market Maker must have a size of at least [ten (10)] one (1) contract[s].

(b) – (e) No Change.

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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 these statements may be examined at the places specified in Item IV below. NASDAQ 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**

On March 12, 2008, the Commission approved SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080, proposals to create the NASDAQ Options Market or NOM.\(^5\) NOM has been performing above expectations since NASDAQ launched trading on March 31, 2008. There are multiple firms registered as market makers and over two dozen additional firms providing liquidity through NOM’s system. NOM’s market share of listed options continues to grow although NOM trades only a small percentage of all available options classes and series. Despite this early success,

NASDAQ continues to monitor the market to identify instances where market efficiency can be enhanced.

NASDAQ believes that the efficiency of its market can be enhanced by permitting market makers to enter quotations for one or more contracts rather than requiring that they enter quotations for 10 or more contracts in series in which they are registered. NASDAQ projects that modifying the quotations requirements in this manner will encourage more options trading firms to register as market makers on NOM and to provide more liquidity to NOM participants. An overall increase in liquidity will benefit investors and serve the public interest.

The NOM Rules will continue to ensure that market makers actively quote. For example, NOM Rule Chapter VII, Section 6(d)(i) states that, on a daily basis, a market maker must maintain continuous two-sided quotations and participate in the pre-opening phase in 75% of the options series in which the market maker is registered. In addition, NOM provides functionality that allows registered market makers to automatically input a quotation on the side of the market that has been depleted. Moreover, pursuant to paragraph (d)(ii) of Section 6, Nasdaq Regulation may call upon a market maker registered in a particular series to maintain continuous bids or offers. Thus, Nasdaq may require a market maker to continuously quote if it is the only registered market maker in the series.

NASDAQ believes that this proposal is consistent with the Act and also with the Commission’s well-settled position that the Act does not mandate any particular market model:

The Commission agrees that the Act does not mandate a particular market model for national securities exchanges, and believes that many different types of market models could satisfy the requirements of the Act. The Commission does not believe that the Act requires an exchange to have market makers. Although Market Makers could be an important source of liquidity on NOM, they likely will not be the only source. In particular, the NOM System is designed to match buying and selling interest of all Participants on NOM. The Commission therefore believes that the NOM structure is consistent with the Act.6

6 Id. at 14527 (footnotes omitted).
The Commission went on to note that “[i]n its release adopting Regulation ATS, the Commission rejected the suggestion that a guaranteed source of liquidity was a necessary component of an exchange” and that the approved rules of the Archipelago Exchange did not include a market maker requirement.\(^7\)

Nasdaq’s proposal is also consistent with the current practice of the NYSE/Arca Exchange of permitting options market makers to enter quotations for one contract. The NYSE/Arca Options Market Maker Orientation Manual states that a market maker quotation must be entered for a minimum of one contract:

All Market Makers must contribute to the maintenance of a fair and orderly market. Market Makers must honor the number of contracts entered into the system in all series of options classes within their Appointment. Any change to a quote (including reduction of volume) causes the quote to lose priority. **The minimum size is one contract.** Neither LMMs or MMs are required to quote on the Opening Auction. (emphasis added)\(^8\)

Nasdaq proposes to adopt the same requirement and to make it transparent by including it in Nasdaq’s official rule manual.

2. **Statutory Basis**

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^9\) in general and with Section 6(b)(5) of the Act,\(^10\) in particular, in that it is designed 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

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\(^7\) Id. at note 92.


general, to protect investors and the public interest; and are not designed to permit unfair
discrimination between customers, issuers, brokers, or dealers.

The proposed changes are consistent with the statute in that they are designed to
facilitate transactions in options on the Nasdaq Options Market by encouraging participants to
provide liquidity through Nasdaq’s system. If the proposal succeeds in attracting additional
liquidity providers and additional liquidity, the Nasdaq system will then match more buying
and selling interest between and among all NOM participants.

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

Nasdaq does not believe that the proposed rule change will result in any burden on
competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the
contrary, the proposal is designed to enhance competition and is based upon the rules of another
national securities exchange that trades standardized options.

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

Nasdaq has designated this rule filing as non-controversial under Section 19(b)(3)(A) of
the Act,\textsuperscript{11} and Rule 19b-4(f)(6) thereunder.\textsuperscript{12} Nasdaq believes that the rule change should take
effect immediately upon filing because it will effect a change that: (1) does not significantly
affect the public interest or the protection of investors, and (2) does not impose any significant
burden on competition, and (3) does not become operative for 30 days after the date of this

\textsuperscript{12} 17 CFR 240.19b-4(f)(6).
filing. As such, the proposal is effective upon filing with the Commission. Nasdaq intends to make this rule proposal operative 30 days after the date of filing.

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate the 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 the 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
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-NASDAQ-2008-063 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-2008-063. 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 Web site (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 inspection and copying 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
office of NASDAQ. 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-2008-063 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.13

Florence E. Harmon
Acting Secretary