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 19, 2013, 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 NASDAQ. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. \textit{Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change}

NASDAQ proposes to amend Chapter XV, entitled “Options Pricing,” at Section 2 governing pricing for NASDAQ members using the NASDAQ Options Market (“NOM”), NASDAQ’s facility for executing and routing standardized equity and index options. Specifically, NOM proposes to amend its Routing Fees.

While these amendments are effective upon filing, the Exchange has designated the proposed amendments to be operative on April 1, 2013.

The text of the proposed rule change is available on the Exchange’s website at http://www.nasdaq.cchwallstreet.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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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, the Exchange included statements concerning the purpose of and basis for 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

NASDAQ proposes to amend its Routing Fees at Chapter XV, Section 2(3) of the Exchange Rules in order to recoup costs that the Exchange incurs for routing and executing orders in equity options to various away markets.

Today, the Exchange calculates Routing Fees by assessing certain Exchange costs related to routing orders to away markets plus the away market’s transaction fee. The Exchange assesses a $0.05 per contract\(^3\) fixed Routing Fee when routing orders to NASDAQ OMX PHLX LLC (“PHLX”) and NASDAQ OMX BX, Inc. (“BX Options”)

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3 In a previous rule filing, the Exchange discussed the manner in which it analyzed costs related to routing to BX Options and PHLX and determined the costs are lower as compared to other away markets because NOS is utilized by all three exchanges to route orders. In that filing the Exchange noted that because PHLX, BX Options and NOM all utilize NOS, the cost to the Exchange is less as compared to routing to other away markets. In addition the fixed costs are reduced because NOS is owned and operated by NASDAQ OMX and the three exchanges and NOS share common technology and related operational functions. See Securities Exchange Act Release No. 68718 (January 24, 2013), 78 FR 6386 (January 30, 2013) (SR-NASDAQ-2012-010).
and a $0.11 per contract fixed Routing Fee to all other options exchanges in addition to
the actual transaction fee or rebate paid by the away market. The fixed Routing Fee is
based on costs that are incurred by the Exchange when routing to an away market in
addition to the away market’s transaction fee. For example, the Exchange incurs a fee
when it utilizes Nasdaq Options Services LLC (“NOS”), a member of the Exchange and
the Exchange’s exclusive order router, to route orders in options listed and open for
trading to destination markets. Each time NOS routes to away markets NOS incurs a
clearing-related cost and, in the case of certain exchanges, a transaction fee is also
charged in certain symbols, which fees are passed through to the Exchange. The
Exchange also incurs administrative and technical costs associated with operating NOS,
membership fees at away markets, Options Regulatory Fees (“ORFs”) and technical costs
associated with routing options. The transaction fee assessed by the Exchange is based
on the away market’s actual transaction fee or rebate for a particular market participant at
the time that the order was entered into the Exchange’s trading system. This transaction
fee is calculated on an order-by-order basis, since different away markets charge different
amounts. In the event that there is no transaction fee or rebate assessed by the away
market, the only fee assessed is the fixed Routing Fee. With respect to the rebate, the

4 The $0.11 per contract Fixed Fee would apply to all options exchanges other than
BX Options and PHLX, which are discussed separately in this proposal. The
Exchange anticipates that if other options exchanges are approved by the
Commission after the filing of this proposal, those exchanges would be assessed
the $0.11 per contract fee applicable to “all other options exchanges.”

5 See NASDAQ Rules at Chapter VI, Section 11(e) (Order Routing).

6 The Options Clearing Corporation (“OCC”) assesses a clearing fee of $0.01 per
contract side. See Securities Exchange Act Release No. 68025 (October 10,
Exchange pays a market participant the rebate offered by an away market where there is such a rebate. Any rebate available is netted against a fee assessed by the Exchange.\(^7\)

C2 recently filed a rule change to amend its transaction fees and rebates for simple, non-complex orders, in equity options classes which became operative on February 1, 2013.\(^8\) As a result of that filing the Exchange amended its Pricing Schedule and today assesses non-Customer simple, non-complex orders in equity options (single stock) that are routed to C2 a Routing Fee which includes a fixed cost of $0.11 per contract plus a flat rate of $0.85 per contract, except with respect to Customers.\(^9\) With respect to Customers, the Exchange does not pass the rebate offered by C2, rather, Customer simple, non-complex orders in equity options (single stock) that are routed to C2 are assessed $0.00 per contract.

The Exchange is proposing to further simplify its Routing Fees by assessing a flat rate of $0.95 per contract on all non-Customer orders routed to any away market. The Exchange would no longer pass any rebate paid by an away market for non-Customer orders. With respect to Customer orders, the Exchange is proposing to continue to assess Customer orders routed to PHLX a fixed fee of $0.05 per contract (“Fixed Fee”) in addition to the actual transaction fee assessed by the away market. This fee is not

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\(^7\) For example, if a Customer order is routed to BOX, and BOX offers a customer rebate of $0.20 per contract, the Exchange would assess a $0.11 per contract fixed fee which would net against the rebate ($0.20 per contract in this example). The market participant for whom the Customer contract was routed would receive a $0.09 per contract rebate.


changing. With respect to Customer orders that are routed to BX Options, the Exchange will not assess a Routing Fee and will not pass the rebate. Today, BX Options pays a Customer Rebate to Remove Liquidity as follows: Customers are paid $0.12 per contract in IWM, SPY and QQQ, $0.32 per contract in All Other Penny Pilot Options and $0.70 per contract in Non-Penny Pilot Options.\textsuperscript{10} The Exchange is proposing to not assess a Routing Fee when routing orders to BX Options because that exchange pays a rebate. Instead of netting the customer rebate paid by BX Options against the fixed fee,\textsuperscript{11} the Exchange would simply not assess a fee. Although market participants routing to BX Options will not receive a credit, as is the case today, market participants will not pay a Customer Routing Fee when their orders are routed to BX Options with this proposal. The Exchange proposes to assess a Customer Routing Fee of $0.11 per contract (“Fixed Fee”) in addition to the actual transaction fee when routing to an options exchange other than PHLX and BX Options, as is the case today. The Exchange is amending the payment of rebates and will no longer pay rebates when routing Customer orders to an away market, instead the Exchange will not assess a Routing Fee if a Customer order is routed to an away market that pays a rebate.

As with all fees, the Exchange may adjust these Routing Fees in response to competitive conditions by filing a new proposed rule change.

\textsuperscript{10} See BX Options Rules at Chapter XV, Section 2(1).

\textsuperscript{11} BX Options does not assess a Customer a Fee to Remove Liquidity in any symbols today. See Chapter V, Section 2(1) of the BX Options Rules.
2. **Statutory Basis**

NASDAQ believes that its proposal to amend its pricing is consistent with Section 6(b) of the Act\(^{12}\) in general, and furthers the objectives of Section 6(b)(4) of the Act,\(^{13}\) in particular, in that it is an equitable allocation of reasonable fees and other charges among its Participants.

The Exchange believes that its proposal to amend its non-Customer Routing Fees from a fixed fee plus actual transaction charges to a flat rate is reasonable because the flat rate makes it easier for market participants to anticipate the Routing Fees which they would be assessed at any given time. The Exchange believes that assessing all non-Customer orders the same flat rate will provide market participants with certainty with respect to Routing Fees. While, each destination market’s transaction charge varies and there is a cost incurred by the Exchange when routing orders to away markets, including clearing costs, administrative and technical costs associated with operating NOS, membership fees at away markets, ORFs and technical costs associated with routing options, the Exchange believes that the proposed Routing Fees will enable it to recover the costs it incurs to route non-Customer orders to away markets. Other exchanges similarly assess a fixed rate fee to route non-Customer orders.\(^{14}\)


\(^{14}\) BATS Exchange, Inc. (“BATS”) assesses non-Customer fixed rates of $0.57 and $0.95 per contract when routing to away markets. See BATS BZX Exchange Fee Schedule. The Chicago Board Options Exchange Incorporated (“CBOE”) assesses non-Customer orders a $0.50 per contract routing fee in addition to the customary CBOE execution charges. See CBOE’s Fees Schedule.
The Exchange believes that its proposal to amend the non-Customer Routing Fees from a fixed fee plus actual transaction charges to a flat rate is equitable and not unfairly discriminatory because the Exchange would uniformly assess the same Routing Fees to all non-Customer market participants. Under its flat fee structure, taking all costs to the Exchange into account, the Exchange may operate at a slight gain or a slight loss for non-Customer orders routed to and executed at away markets. The proposed Routing Fee for non-Customer orders is an approximation of the maximum fees the Exchange will be charged for such executions, including costs, at away markets. As a general matter, the Exchange believes that the proposed fees will allow it to recoup and cover its costs of providing routing services for non-Customer orders. The Exchange believes that the fixed rate non-Customer Routing Fee is equitable and not unfairly discriminatory because market participants have the ability to directly route orders to an away market and avoid the Routing Fee. Participants may choose to mark the order as ineligible for routing to avoid incurring these fees.\(^{15}\) The Exchange routes orders to away markets where the Exchange’s disseminated bid or offer is inferior to the national best bid (best offer) ("NBBO") price and based on price first.\(^{16}\)

The Exchange believes that its proposal to not pass a rebate that is offered by an away market for non-Customer orders is reasonable because to the extent that another market is paying a rebate, the Exchange will assess a $0.95 per contract fee as its total cost in each instance. The Routing Fee is transparent and simple. If a market participant desires the rebate, the market participant has the option to direct the order to that away

\(^{15}\) See NASDAQ Rules at Chapter VI, Section 11(e) (Order Routing).

\(^{16}\) Id.
market. Other options exchanges today do not pass the rebate. The Exchange believes that its proposal to not pass a rebate that is offered by an away market for non-Customer orders is equitable and not unfairly discriminatory because the Exchange would not pay such a rebate on any non-Customer order.

The Exchange believes that amending the Customer Routing Fee to BX Options from $0.05 per contract in addition to the actual transaction fee to $0.00 is reasonable, because, unlike PHLX, BX Options pays a Customer Rebate to Remove Liquidity as follows: Customers are paid $0.12 per contract in IWM, SPY and QQQ, $0.32 per contract in All Other Penny Pilot Options and $0.70 per contract in Non-Penny Pilot Options. The Exchange believes that not assessing a fee for routing orders to BX Options, instead of netting the customer rebate paid by BX Options against the fixed fee is reasonable because although market participants routing orders to BX Options will not receive a credit, as is the case today with respect to Customer orders routed to BX Options, the Routing Fee will be more transparent. Market participants will not pay a Customer Routing Fee when routing orders to BX Options with this proposal instead of the $0.05 per contract fee netted against the rebate, as is the case today. The Exchange believes that the proposed Customer Routing Fee to BX Options is equitable and not

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17 See CBOE’s Fees Schedule and International Securities Exchange LLC’s (“ISE”) Fee Schedule.
18 The PHLX Customer Routing Fee is not being amended by this proposal. The Exchange would continue to assess Customer orders routed to PHLX a $0.05 per contact Fixed Fee along plus the actual transaction fee.
19 See BX Options Rules at Chapter XV, Section 2(1).
20 BX Options does not assess a Customer a Fee to Remove Liquidity in any symbols today. See Chapter V, Section 2(1) of the BX Options Rules.
unfairly discriminatory because the proposal would apply uniformly to all market participants.

Further, the Exchange believes that it is reasonable to also not assess a Customer Routing Fee when routing to all other options exchanges, except PHLX and BX Options, if the away market pays a rebate. The Exchange will continue to assess a Fixed Fee of $0.11 per contract plus the actual transaction charge assessed by the away market when routing to all other options exchanges, except PHLX and BX Options, but instead of paying the rebate, as is the case today, the Exchange will not assess a Customer Routing Fee to that away market because the Exchange will collect the rebate to offset the fee. The Exchange believes that market participants will have more certainty as to the Customer Routing Fee that will be assessed by the Exchange. The Exchange believes that the proposed pricing for the Customer Routing Fee to all other away markets, except PHLX and BX Options, is equitable and not unfairly discriminatory because while the Exchange may operate at a slight gain or a slight loss when routing Customer orders to the away market, depending on the rebate paid by the away market, the proposal would apply uniformly to all market participants when routing to an away market that pays a rebate.

The Exchange believes that it is reasonable, equitable and not unfairly discriminatory to continue to assess Customer orders that are routed to PHLX a Fixed Fee of $0.05 per contract and orders that are routed to other away markets, other than PHLX and BX Options, a Fixed Fee of $0.11 per contract because the cost, in terms of actual cash outlays, to the Exchange to route to PHLX (and BX Options)\(^{21}\) is lower. For

\(^{21}\) With this proposal, the Exchange would not assess the $0.05 per contract Fixed
example, costs related to routing to PHLX are lower as compared to other away markets because NOS is utilized by all three exchanges to route orders. NOS and the three NASDAQ OMX options markets have a common data center and staff that are responsible for the day-to-day operations of NOS. Because the three exchanges are in a common data center, Routing Fees are reduced because costly expenses related to, for example, telecommunication lines to obtain connectivity are avoided when routing orders in this instance. The costs related to connectivity to route orders to other NASDAQ OMX exchanges are de minimis. When routing orders to non-NASDAQ OMX exchanges, the Exchange incurs costly connectivity charges related to telecommunication lines and other related costs when routing orders. The Exchange believes it is reasonable, equitable and not unfairly discriminatory to pass along savings realized by leveraging NASDAQ OMX’s infrastructure and scale to market participants when those orders are routed to PHLX.

Finally, the Exchange believes that it is reasonable, equitable and not unfairly discriminatory to assess different fees for Customers orders as compared to non-Customer orders because the Exchange has traditionally assessed lower fees to Customers as compared to non-Customers. Customers will continue to receive the lowest fees or no fees when routing orders, as is the case today. Other options exchanges also assess lower Routing Fees for customer orders as compared to non-customer orders.23

Fee for routing orders to BX Options because that exchange pays Customer rebates, which the Exchange would retain to offset its cost.

22 See Chapter VI, Section 11 of the NASDAQ and BX Options Rules and PHLX Rule 1080(m)(iii)(A).

23 BATS assesses lower customer routing fees as compared to non-customer routing fees per the away market. For example BATS assesses ISE customer
B. Self-Regulatory Organization's Statement on Burden on Competition

NASDAQ 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. The Exchange does not believe that the proposal creates intra-market competition because the Exchange is applying the same Routing Fees and credits to all market participants in the same manner dependent on the routing venue, with the exception of Customers. The Exchange has proposed separate Customer Routing Fees. Customers will continue to receive the lowest fees or no fees when routing orders, as is the case today. Other options exchanges also assess lower Routing Fees for customer orders as compared to non-customer orders.²⁴

The Exchange’s proposal would allow the Exchange to recoup its costs when routing orders to away markets when such orders are designated as available for routing by the market participant. The Exchange is passing along savings realized by leveraging NASDAQ OMX’s infrastructure and scale to market participants when those orders are routed to PHLX and is providing those saving to all market participants. Participants may choose to mark the order as ineligible for routing to avoid incurring these fees.²⁵ Today, other options exchanges also assess fixed routing fees to recoup costs incurred by the Exchange to route orders to away markets.²⁶

²⁴ Id.
²⁵ See supra note 15.
²⁶ See CBOE’s Fees Schedule and ISE’s Fee Schedule.
The Exchange operates in a highly competitive market, comprised of eleven exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive. Accordingly, the fees that are assessed by the Exchange must remain competitive with fees charged by other venues and therefore must continue to be reasonable and equitably allocated to those Participants that opt to direct orders to the Exchange rather than competing venues.

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. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. 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-2013-051 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2013-051. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal 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-2013-051, 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.28

Elizabeth M. Murphy
Secretary