

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71028; File No. SR-NASDAQ-2013-149)

December 9, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to NOM Penny and Non-Penny Pilot Options

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 29, 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. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

NASDAQ proposes to modify 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 the NOM Market Maker³ Non-Penny

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The term “NOM Market Maker” means a Participant that has registered as a Market Maker on NOM pursuant to Chapter VII, Section 2, and must also remain in good standing pursuant to Chapter VII, Section 4. In order to receive NOM Market Maker pricing in all securities, the Participant must be registered as a NOM Market Maker in at least one security.

Pilot Options⁴ Fee for Removing Liquidity and the NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options.⁵

While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on December 2, 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.

⁴ This would include options on Nasdaq-100 Index ("NDX"). For transactions in NDX, a surcharge of \$0.10 per contract will be added to the Fee for Adding Liquidity and the Fee for Removing Liquidity in Non-Penny Pilot Options, except for a Customer who will not be assessed a surcharge.

⁵ The Penny Pilot was established in March 2008 and in October 2009 was expanded and extended through December 31, 2013. See Securities Exchange Act Release Nos. 57579 (March 28, 2008), 73 FR 18587 (April 4, 2008) (SR-NASDAQ-2008-026) (notice of filing and immediate effectiveness establishing Penny Pilot); 60874 (October 23, 2009), 74 FR 56682 (November 2, 2009)(SR-NASDAQ-2009-091) (notice of filing and immediate effectiveness expanding and extending Penny Pilot); 60965 (November 9, 2009), 74 FR 59292 (November 17, 2009)(SR-NASDAQ-2009-097) (notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 61455 (February 1, 2010), 75 FR 6239 (February 8, 2010) (SR-NASDAQ-2010-013) (notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 62029 (May 4, 2010), 75 FR 25895 (May 10, 2010) (SR-NASDAQ-2010-053) (notice of filing and immediate effectiveness adding seventy-five classes to Penny Pilot); 65969 (December 15, 2011), 76 FR 79268 (December 21, 2011) (SR-NASDAQ-2011-169) (notice of filing and immediate effectiveness extension and replacement of Penny Pilot); 67325 (June 29, 2012), 77 FR 40127 (July 6, 2012) (SR-NASDAQ-2012-075) (notice of filing and immediate effectiveness and extension and replacement of Penny Pilot through December 31, 2012); 68519 (December 21, 2012), 78 FR 136 (January 2, 2013) (SR-NASDAQ-2012-143) (notice of filing and immediate effectiveness and extension and replacement of Penny Pilot through June 30, 2013); and 69787 (June 18, 2013), 78 FR 37858 (June 24, 2013) (SR-NASDAQ-2013-082). See also NOM Rules, Chapter VI, Section 5.

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 modify Chapter XV, entitled "Options Pricing," at Section 2(1) governing the rebates and fees assessed for option orders entered into NOM.

The Exchange proposes to increase the NOM Market Maker Fee for Removing Liquidity in Non-Penny Pilot Options from \$0.85 to \$0.86 per contract. The Exchange believes that despite the increase to the Fee for Removing Liquidity the Exchange continues to offer competitive rates to NOM Market Makers.

The Exchange proposes to amend the NOM Market Maker Penny Pilot Options Rebate to Add Liquidity tiers. Today, the Exchange offers a four-tiered Rebate to Add Liquidity in Penny Pilot Options to NOM Market Makers as follows:

Monthly Volume		Rebate to Add Liquidity
Tier 1	Participant adds NOM Market Maker liquidity in Penny Pilot Options of up to 29,999 contracts per day in a month	\$0.25
Tier 2	Participant adds NOM Market	\$0.30

Maker liquidity in Penny Pilot
Options of 30,000 to 59,999
contracts per day in a month

Tier 3	Participant adds NOM Market Maker liquidity in Penny Pilot Options of 60,000 to 79,999 contracts per day in a month	\$0.32
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Tier 4	Participant adds NOM Market Maker liquidity in Penny Pilot Options of 80,000 or more contracts per day in a month	\$0.32 or \$0.38 in the following symbols BAC, GLD, IWM, QQQ and VXX or \$0.40 in SPY
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The Exchange is proposing to amend the qualification for NOM Market Maker Penny Pilot rebate Tiers 1 through 4 to provide that Participants may qualify for each tier by adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options. The Exchange would continue to pay the rebates for each volume tier on transactions in Penny Pilot Options. This amendment would only impact a Participants ability to qualify for a certain rebate tier. The Exchange anticipates that this amendment would provide an opportunity for Participants to qualify for higher rebate tiers for their NOM Market Maker liquidity.

The Exchange is also proposing to add a new Tier 5 rebate to the Penny Pilot Rebates to Add Liquidity. The Exchange proposes to pay \$0.40 per contract to a Participant that adds NOM Market Maker liquidity of 40,000 or more contracts per day in a month in Penny Pilot Options and/or Non-Penny Pilot Options and also qualifies for Tier 7 or 8 of the Customer and/or Professional Rebate to Add Liquidity in Penny Pilot Options. The Exchange believes the opportunity to earn a higher rebate will encourage Participants to direct a greater amount of NOM Market Maker liquidity to NOM.

The Exchange also proposes to relocate certain text in the fee schedule. The Exchange proposes to relocate the following text: “# The NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options will be paid as noted below.” The Exchange would place the text above the NOM Market Maker tiers in the fee schedule for ease of reference.

2. Statutory Basis

NASDAQ believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act⁶ in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act⁷ 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 or system which NASDAQ operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange’s proposal to increase the NOM Market Maker Fee for Removing Liquidity from \$0.85 to \$0.86 per contract is reasonable because the rate remains competitive with other Non-Penny Pilot Fees for Removing Liquidity. The increase also permits the Exchange to support providing liquidity rebates to Participants executing NOM Market Maker orders.

The Exchange’s proposal to increase the NOM Market Maker Fee for Removing Liquidity from \$0.85 to \$0.86 per contract is equitable and not unfairly discriminatory because the rate remains competitive with other Non-Penny Pilot Fees for Removing Liquidity. NOM Market Makers would continue to be assessed a lower fee as compared

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(4), (5).

to other non-Customer Participants.⁸ NOM Market Makers have obligations to the market and regulatory requirements,⁹ which normally do not apply to other market participants. A NOM Market Maker has an obligation to make continuous markets, engage in course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. Customers would continue to be assessed the lowest fee of \$0.82 per contract. Customer order flow brings unique benefits to the market which benefits all market participants through increased liquidity.

The Exchange's proposal to amend the qualifications for the NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options is reasonable because by providing Participants the opportunity to add NOM Market Maker Penny and/or Non-Penny Pilot Option liquidity to qualify for a rebate tier provides a greater opportunity to qualify for higher rebate tiers. The Exchange would continue to only pay rebates on Penny Pilot volume. By incentivizing Participants to select the Exchange as a venue to post NOM Market Maker liquidity will benefit market participants through increased order interaction.

⁸ All other non-Customer market participants (Professionals, Firms, Non-NOM Market Makers and Broker-Dealers) would continue to be assessed \$0.89 per contract.

⁹ Pursuant to Chapter VII (Market Participants), Section 5 (Obligations of Market Makers), in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Further, all Market Makers are designated as specialists on NOM for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

The Exchange's proposal to amend the qualifications for the NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options is equitable and not unfairly discriminatory because this amendment will be applied to all Participants in a uniform manner. In addition, Participants should continue to qualify for the rebates that they currently receive and may earn increased rebates by qualifying for a higher volume tier as a result of combining Penny and Non-Penny Pilot NOM Market Maker liquidity to qualify for the rebate. The proposal does not misalign the current rebate structure. NOM Market Makers are valuable market participants that provide liquidity in the marketplace and incur costs unlike other market participants. The Exchange believes that NOM Market Makers should be offered the opportunity to earn higher rebates as compared to Non-NOM Market Makers, Firms and Broker Dealers because NOM Market Makers add value through continuous quoting¹⁰ and the commitment of capital. The Exchange believes that encouraging NOM Market Makers to be more aggressive when posting liquidity benefits all market participants through increased liquidity. The Exchange also believes that including Non-Penny volume in calculating on the various NOM Market Maker rebate tiers is equitable and not unfairly discriminatory because NOM Market Makers will continue to earn higher rebates as compared to Firms, Non-NOM Market Makers and Broker-Dealers and will earn the same or lower rebates as compared to Customers and Professionals.¹¹

¹⁰ See note 9.

¹¹ The Tier 1 NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options is the same rebate as the Tier 1 Customer and Professional rebate in Penny Pilot Options. The Exchange pays the highest Tier 1 Rebates to Add Liquidity in Penny Pilot Options of \$0.25 per contract to Customers, Professionals and NOM Market Makers for transacting one qualifying contract as compared to other market participants. Firms, Non-NOM Market Makers and Broker-Dealers

The Exchange believes that continuing to offer NOM Market Makers the opportunity to receive higher rebates as compared to Firms, Non-NOM Market Makers and Broker-Dealers is equitable and not unfairly discriminatory because all Participants may qualify for the NOM Market Maker rebate tiers and every Participant is entitled to a rebate solely by adding one contract of NOM Market Maker liquidity on NOM. Also, as mentioned, the NOM Market Maker would receive the same rebate in Tier 1 as compared to Customers and Professionals and a higher rebate in all other tiers as compared to a Firm, Non-NOM Market Maker or Broker-Dealer because of the obligations¹² borne by NOM Market Makers as compared to other market participants. Encouraging NOM Market Makers to add greater liquidity benefits all Participants in the quality of order interaction.

The Exchange's proposal to offer a new Tier 5 NOM Market Maker Penny Pilot Options Rebate to Add Liquidity is reasonable because the new rebate should incentivize Participants to select the Exchange as a venue to post NOM Market Maker liquidity. This added liquidity will benefit market participants through increased order interaction.

The Exchange's proposal to offer a new Tier 5 NOM Market Maker Penny Pilot Options Rebate to Add Liquidity is equitable and not unfairly discriminatory because this amendment will be applied to all Participants in a uniform manner.

receive a \$0.10 per contract Penny Pilot Option Rebate to Add Liquidity. In addition, Participant that adds Firm, Non-NOM Market Maker or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 15,000 contracts per day or more in a given month will receive a Rebate to Add Liquidity in Penny Pilot Options of \$0.20 per contract.

¹² See note 9.

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

NASDAQ 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 believes that incentivizing NOM Market Makers to post liquidity on NOM benefits market participants through increased order interaction. Also, NOM Market Makers have obligations¹³ to the market which are not borne by other market participants and therefore the Exchange believes that NOM Market Makers are entitled to such higher rebates. Permitting Participants to add either Penny or Non-Penny Pilot Market Maker liquidity should further encourage NOM Market Makers to post liquidity on NOM.

The proposed amendments do not misalign the current rebate structure because NOM Market Makers will continue to earn higher rebates as compared to Firms, Non-NOM Market Makers and Broker-Dealers and will earn the same or lower rebates as compared to Customers and Professionals. The Exchange believes the differing outcomes, rebates and fees created by the Exchange's proposed pricing incentives contributes to the overall health of the market place for the benefit of all Participants that willing choose to transact options on NOM. In addition, NOM Market Makers will have the opportunity to earn even higher rebates. For the reasons specified herein, the Exchange does not believe this proposal creates an undue burden on competition.

Additionally, NOM Market Maker would continue to be assessed a lower Non-Penny Pilot Fee for Removing Liquidity as compared to other non-Customer Participants.¹⁴ Customers would continue to be assessed the lowest Non-Penny Pilot Fee

¹³ See note 9.

¹⁴ All other non-Customer market participants (Professionals, Firms, Non-NOM Market Makers and Broker-Dealers) would continue to be assessed \$0.89 per

for Removing Liquidity fee because of the benefits that Customer order flow brings to other market participants through increased liquidity.

The Exchange operates in a highly competitive market comprised of twelve U.S. options exchanges in which many sophisticated and knowledgeable market participants can readily and do send order flow to competing exchanges if they deem fee levels or rebate incentives at a particular exchange to be excessive or inadequate. These market forces support the Exchange belief that the proposed rebate structure and tiers proposed herein are competitive with rebates and tiers in place on other exchanges. The Exchange believes that this competitive marketplace continues to impact the rebates present on the Exchange today and substantially influences the proposals set forth above.

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.¹⁵ 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.

¹⁵ contract.
15 U.S.C. 78s(b)(3)(A)(ii).

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-2013-149 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-2013-149. 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-2013-149, 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.¹⁶

Kevin M. O'Neill
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).