

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74041; File No. SR-NASDAQ-2014-110)

January 13, 2015

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Order Approving a Proposed Rule Change to Adopt NASDAQ Rule 7015(i) to Offer the New IPO Workstation

I. Introduction

On November 14, 2014, The NASDAQ Stock Market LLC (“NASDAQ” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to offer stand-alone access to the Exchange’s IPO Indicator service. The proposed rule change was published for comment in the Federal Register on December 2, 2014.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Commission recently approved a proposed rule change from the Exchange to offer the IPO Indicator as an enhancement to the NASDAQ Workstation at no additional cost.<sup>4</sup> The Exchange now proposes to adopt Exchange Rule 7015(i) to offer stand-alone access to the IPO Indicator service (“IPO Workstation”) at no cost at this time.<sup>5</sup> That is, a subscription to the full NASDAQ Workstation will not be required to access the IPO Indicator for those subscribing to

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 73683 (November 25, 2014), 79 FR 71490 (“Notice”).

<sup>4</sup> See Securities Exchange Act Release No. 73950 (December 29, 2014), 80 FR 268 (January 5, 2015).

<sup>5</sup> See Notice, supra note 3 at 71491.

the IPO Workstation.<sup>6</sup>

The IPO Indicator, according to the Exchange, is designed to assist member firms in monitoring their orders in the NASDAQ Halt Cross process leading up to the launch of an initial public offering (“IPO”).<sup>7</sup> According to the Exchange, the NASDAQ Halt Cross (“Cross”) is designed to provide for an orderly, single-priced opening of securities subject to an intraday halt, including securities that are the subject of an IPO.<sup>8</sup> Prior to the Cross execution, the Exchange states that market participants enter quotes and orders eligible for participation in the Cross, and the Exchange disseminates certain information regarding buying and selling interest entered and the indicative execution price information, known as the Net Order Imbalance Indicator (“NOII”).<sup>9</sup> The Exchange further states that the NOII is disseminated every five seconds during a designated period prior to the completion of the Halt Cross, in order to provide market participants with information regarding the possible price and volume of the Cross. According to the Exchange, the information provided in the NOII message includes the Current Reference Price<sup>10</sup> and the number of shares of Eligible Interest.<sup>11</sup>

The Exchange also disseminates information about the size and buy/sell direction of an Imbalance,<sup>12</sup> which the Exchange defines as the number of shares of Eligible Interest with a limit

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<sup>6</sup> See id. at 71492.

<sup>7</sup> See id. at 71491.

<sup>8</sup> See id.

<sup>9</sup> See id.

<sup>10</sup> See Exchange Rule 4753(a)(3)(A). The Exchange describes the Current Reference Price as the price at which the Cross would occur if it executed at the time of the NOII’s dissemination. See Notice, supra note 3, at 71491.

<sup>11</sup> See Exchange Rule 4753(a)(5) (defining Eligible Interest as “any quotation or any order that has been entered into the system and designated with a time-in-force that would allow the order to be in force at the time of the Halt Cross”).

<sup>12</sup> See Exchange Rule 4753(a)(1).

price equal to the Current Reference Price that may not be matched with other order shares at a particular price at any given time.<sup>13</sup> The Exchange states that the disseminated information reflects all shares eligible for participation in the Cross, regardless of time-in-force (including non-displayed shares and reserve size) and is meant to indicate the degree to which available liquidity on one or the other side of the market would not be executed if the Cross were to occur at that time.

In the case of an IPO, the Exchange states that the Halt Cross operates as follows: first, the underwriters to the IPO make a determination to launch the IPO during the Pre-Launch Period<sup>14</sup> when the underwriters believe the security is ready to trade.<sup>15</sup> Second, once the underwriter informs the Exchange that it is ready to launch the IPO, the NASDAQ system calculates the Current Reference Price at that time (the “Expected Price”) and displays it to the underwriter.<sup>16</sup> If the underwriter then approves proceeding, the NASDAQ system conducts two validation checks: (1) the NASDAQ system determines whether all market orders will execute in the cross; and (2) whether the Expected Price and the price calculated by the Cross differ by

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<sup>13</sup> See Notice, supra note 3, at 71491. The Exchange states that it also disseminates a Market Order Imbalance, which the Exchange defines as the number of shares of Eligible Interest entered through market orders that would not be matched with other order shares at the time of the dissemination of a NOII, if in fact there are such unexecutable market order shares. See Exchange Rule 4753(a)(2). When there is a Market Order Imbalance, the Exchange notes that it disseminates the imbalance and the buy/sell direction of the imbalance. See Notice, supra note 3, at 71491.

<sup>14</sup> The Exchange explains that the Pre-Launch Period is the second phase of a two-phase process that NASDAQ uses for launching IPOs. See id. According to the Exchange, the Pre-Launch Period follows a 15-minute Display Only Period and is of no fixed duration. See id. In addition, the Exchange states that the NOII is disseminated every five seconds during both periods. See id.

<sup>15</sup> See id.

<sup>16</sup> See id.

an amount in excess of the price band selected by the underwriter.<sup>17</sup> According to the Exchange, if either of the validation checks fails, the security will not be released for trading and the Pre-Launch Period will continue until all requirements are met.<sup>18</sup>

The Exchange proposes to offer the IPO Indicator to provide information about the number and price at which shares of a member firm's orders entered for execution in an IPO Halt Cross ("IPO shares") would execute in an IPO if it were to price at the present time.<sup>19</sup> Under the proposal, the IPO Indicator will now be offered as a stand-alone service and would use the NOII information of an IPO security together with information about the member firm's orders on NASDAQ in the IPO security.<sup>20</sup> The Exchange notes that, similar to accessing the IPO Indicator from the NASDAQ Workstation as the Exchange currently offers,<sup>21</sup> subscribing member firms will be able to access the IPO Indicator from the main IPO Workstation screen.<sup>22</sup> Under the proposal, the Exchange states that member firms using the IPO Indicator would be able to see the Current Reference Price, the number of paired shares, the number of imbalance shares, the total number of IPO shares the subscribing member firm has entered for execution in the IPO Halt Cross, the nature of such shares (buy or sell), and the number of IPO shares that would be executed in the Halt Cross at that time for each of those categories.<sup>23</sup> In addition, the Exchange states that subscribing member firms using the IPO Indicator would also be able to see details

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<sup>17</sup> See Notice, supra note 3, at 71491.

<sup>18</sup> See id. Alternatively, the underwriter may, with the concurrence of the Exchange, determine to postpone and reschedule the IPO. See id.

<sup>19</sup> See id.

<sup>20</sup> The Exchange states that the information provided by the IPO Indicator is limited to the subscribing member firm's orders. See id.

<sup>21</sup> See supra note 4 and accompanying text.

<sup>22</sup> See Notice, supra note 3, at 71491.

<sup>23</sup> See id.

about its IPO shares presented by individual orders or order blocks, which would include the number of IPO shares in a particular order or order block, the number and percentage of IPO shares of the order or order block that would be executed in the Halt Cross if it occurred at any given time in the process, based on the NOII disseminated every five seconds, and the price at which the order or order block was submitted.<sup>24</sup>

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>25</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>26</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and Section 6(b)(8) of the Act,<sup>27</sup> which requires that the rules of the exchange do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

As described above, the Exchange proposes to adopt Exchange Rule 7015(i) to offer stand-alone access to the IPO Indicator. The Commission notes that it recently approved a proposed rule change that allows the Exchange to provide the IPO Indicator through the

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<sup>24</sup> See id.

<sup>25</sup> In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>26</sup> 15 U.S.C. 78f(b)(5).

<sup>27</sup> 15 U.S.C. 78f(b)(8).

NASDAQ Workstation.<sup>28</sup> Offering the IPO indicator through the IPO Workstation will provide all member firms that are interested in subscribing to the IPO indicator a means to access it, at no cost at this time, in lieu of paying for a full NASDAQ Workstation subscription.<sup>29</sup> Accordingly, the Commission believes that the proposed rule change adopting the IPO Workstation is designed to protect investors and the public interest by providing member firms with more information regarding their orders submitted for participation in an IPO Halt Cross.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>30</sup> that the proposed rule change (SR-NASDAQ-2014-110) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>31</sup>

Brent J. Fields  
Secretary

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<sup>28</sup> See supra note 4 and accompanying text.

<sup>29</sup> See Notice, supra note 3 at 71492. The Exchange notes that not all member firms subscribe to the NASDAQ Workstation and prospective users of the IPO indicator may not desire to pay for a full NASDAQ Workstation subscription for the sole purpose of assessing the IPO indicator.

<sup>30</sup> 15 U.S.C. 78s(b)(2).

<sup>31</sup> 17 CFR 200.30-3(a)(12).