

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74198; File No. SR-NASDAQ-2015-007)

February 3, 2015

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Rules of The NASDAQ Options Market Regarding Sharing of Risk Settings

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> notice is hereby given that on January 28, 2015, 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 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend the rules of The NASDAQ Options Market (“NOM”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>3</sup> and Rule 19b-4 thereunder,<sup>4</sup> to authorize the Exchange to share any Participant-designated risk settings in the Exchange’s Trading System with the Clearing Participant that clears transactions on behalf of the Participant.<sup>5</sup>

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

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

<sup>5</sup> A “Participant” or “Options Participant” is a firm or organization that is registered with the Exchange pursuant to Chapter II of the NOM Rules for purposes of participating in options trading on NOM as a “Nasdaq Options Order Entry Firm” or “Nasdaq Options Market Maker”. The term “Nasdaq Options Market Maker” or “Options Market Maker” means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and

The text of the proposed rule change is below; proposed new language is italicized; proposed deletions are in brackets.

## **NASDAQ Stock Market Rules**

### **Options Rules**

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## **Chapter VI, Trading Systems**

Sec. 1 – 19 No change.

### Sec. 20 Exchange Sharing of Participant-Designated Risk Settings

The Exchange may share any Participant-designated risk settings in the Trading System with the Clearing Participant that clears transactions on behalf of the Participant.

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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 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.

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responsibilities specified in Chapter VII of the NOM Rules. The terms "Nasdaq Options Order Entry Firm" or "Order Entry Firm" or "OEF" mean those Options Participants representing as agent Customer Orders on NOM and those non-Market Maker Participants conducting proprietary trading. A "Clearing Participant" means a Participant that is self-clearing or a Participant that clears NOM Transactions for other Participants of NOM. The term "Trading System" means the automated trading system used by NOM for the trading of options contracts. See Chapter I, Section 1, Definitions, of the NOM Rules.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to adopt new Section 20, Exchange Sharing of Participant-Designated Risk Settings, in Chapter VI, Trading Systems, of the NOM Rules in order to authorize the Exchange to share any Participant-designated risk settings in Exchange’s Trading System with the Clearing Participant that clears transactions on behalf of the Participant. Pursuant to Chapter II, Participation, Section 2, Requirements for Options Participation, of the NOM Rules, Options Participants must be Options Clearing Participants or establish a clearing arrangement with a Clearing Participant. Every Clearing Participant is responsible for the clearance of transactions involving an options contract that is effected on or through NOM or its facilities or systems (“NOM Transactions”) of each Options Participant that gives up such Clearing Participant’s name pursuant to a letter of authorization, letter of guarantee or other authorization (“Letter of Guarantee”) given by such Clearing Participant to such Options Participant, which authorization must be submitted to Nasdaq.<sup>6</sup> Further, no Options Participant may make any transactions on NOM unless a Letter of Guarantee providing that the issuing Clearing Participant accepts financial responsibilities for all NOM Transactions made by the guaranteed Participant has been issued for such Participant by a Clearing Participant and filed with Nasdaq Regulation.<sup>7</sup>

Thus, while not all Participants are Clearing Participants, all Participants require a Clearing Participant’s consent to clear transactions on their behalf in order to conduct business on the Exchange. Each Participant that transacts through a Clearing Participant on the Exchange

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<sup>6</sup> See Chapter VI, Trading Systems, Section 15, Submission for Clearance, Subsection (a).

<sup>7</sup> See Chapter VII, Section 8, Letters of Guarantee.

executes a Letter of Guarantee which codifies the relationship between the Participant and the Clearing Participant and provides the Exchange with notice of which Clearing Participants have relationships with which Participants. The Clearing Member that guarantees the Participant's transactions on the Exchange has a financial interest in understanding the risk tolerance of the Participant. The proposal would provide the Exchange with authority to directly provide Clearing Participants with information that may otherwise be available to such Clearing Participants by virtue of their relationship with the respective Participants.

At this time, the risk settings covered by this proposal are set forth in Chapter VI, Trading Systems, Section 19, Risk Monitor Mechanism.<sup>8</sup> The Exchange may adopt additional rules providing for Participant-designated risk settings other than those provided in Chapter VI, Section 19 that could be shared with a Participant's Clearing Participant under the proposal, and the Exchange would announce these additional risk settings by issuing an Options Trader Alert.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>10</sup> in particular, in that it is

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<sup>8</sup> See Securities Exchange Act Release No. 64948 (July 22, 2011), 76 FR 45308 (July 28, 2011) (SR-NASDAQ-2011-077). The Mechanism provides protection to participants from the risk of multiple executions across multiple series of an option. Quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose market makers, who are required to continuously quote in assigned options, to potentially significant market risk. Participants may establish a specified time period, not to exceed 15 seconds, within which a counting program will count the number of contracts traded in an option by such Participant. When the Participant has traded a certain number of contracts during the specified time period, the Risk Monitor Mechanism will automatically remove such Participant's quotations from the Exchange's disseminated quotation in all series of the particular option.

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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 general, to protect investors and the public interest.

The proposed rule change will allow the Exchange to directly provide a Participant's designated risk settings to the Clearing Participant that clears trades on behalf of the Participant. Because a Clearing Participant that executes a clearing Letter of Guarantee on behalf of a Participant guarantees all transactions of that Participant, and therefore bears the risk associated with those transactions, it is appropriate for the Clearing Participant to have knowledge of what risk settings the Participant may utilize within the Exchange's trading system. The proposal will permit Clearing Participants who have a financial interest in the risk settings of Participants with whom the Clearing Participant has entered into a clearing Letter of Guarantee to better monitor and manage the potential risks assumed by Clearing Participants, thereby providing Clearing Participants with greater control and flexibility over setting their own risk tolerance and exposure and aiding Clearing Participants in complying with the Act. To the extent a Clearing Participant might reasonably require a Participant to provide access to its risk setting as a prerequisite to continuing to clear trades on the Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Participants and ensures that Clearing Participants are receiving information that is up to date and conforms to the settings active in the Exchange's trading system.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any competitive issues and does not pose an undue burden on non-Clearing Participants because, unlike Clearing Participants, non-Clearing Participants do not guarantee the execution of a Participant's transactions on the Exchange. The proposal is structured to offer the same enhancement to all Clearing Participants, regardless of size, and would not impose a competitive burden on any Participant. Any Participant that does not wish to share its designated risk settings with its Clearing Participant could avoid sharing such settings by becoming a Clearing Participant.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) [sic] of the Act<sup>11</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>12</sup>

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

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(a)(ii).

<sup>12</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

(iii) 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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2015-007 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-2015-007. 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 offices 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-2015-007, 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.<sup>13</sup>

Brent J. Fields  
Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).