

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80120; File No. SR-NASDAQ-2017-015)

February 28, 2017

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change to Adopt Rule 7017

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 February 17, 2017, 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 and II 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 Substance of the Proposed Rule Change

The Exchange proposes to adopt Rule 7017 to enhance the level of information provided to a member acting as the stabilizing agent for a follow-on offering of additional shares of a security that is listed on Nasdaq.³

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Proposed Rule 7017 defines “Stabilizing Agent,” in pertinent part, as “a Nasdaq member that will engage ... in stabilizing with respect to a security that is the subject of a Follow-On Offering on the day of such offering”, and defines “Follow-On Offering” as “a public offering of additional shares of a security that is already listed on Nasdaq.”

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.

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

1. Purpose

Nasdaq is proposing to adopt Rule 7017 to enhance the level of information provided to a member acting as a Stabilizing Agent for a Follow-On Offering. A Follow-On Offering occurs when an issuer of a security listed on Nasdaq conducts an underwritten public offering of additional shares of the same security.⁴ As is the case with an initial public offering (“IPO”), shares are allocated to investors by the underwriter or underwriting syndicate through a book-building process prior to the day of the offering. However, since the security is already listed and trading in the public markets, the security is not subject to a unique process to establish its initial price following the offering. Rather, the security opens for trading as it would on any other day, with trading during a pre-market period commencing at 4:00 a.m. and an auction process – the Nasdaq Opening Cross (the “Cross”) – that occurs at approximately 9:30 a.m. at the beginning of the regular trading session for the security.

⁴ Proposed Rule 7017 defines “Follow-On Offering Security” as “a security that is the subject of a Follow-On Offering.”

As is the case with an IPO, however, the Stabilizing Agent – usually the lead underwriter – engages in permissible “stabilizing”, as defined in Rule 100 under Regulation M,⁵ for the offering. As provided by Rule 104 under Regulation M,⁶ stabilizing of an offering is permitted only to the extent that the person engaging in the activity complies with the limitations described in that rule. These limitations include a requirement that stabilizing must be solely for the purpose of preventing or retarding a decline in the market price of the security, limitations on the maximum price of a stabilizing bid, and a requirement that a syndicate engaging in an offering maintain no more than one stabilizing bid at the same price and time in a given market.

In the case of a Follow-On Offering, the Stabilizing Agent may enter a stabilizing bid into the market for the purpose of supporting the price of the security on the day of the offering. Thus, the Stabilizing Agent stands ready during the course of the day to commit its capital in support of the Follow-On Offering Security, buying from investors that wish to sell the security to realize short-term gains (or to minimize short-term losses). The Stabilizing Agent thereby serves to dampen volatility in the security and promote the maintenance of a fair and orderly market. In particular, the Stabilizing Agent may enter a stabilizing order in the Cross to dampen volatility at the open, and may enter orders on behalf of customers seeking to buy or sell in the Cross. Because the function performed by the Stabilizing Agent is unique on the day of the offering, Nasdaq has concluded that providing additional information about pre-opening interest in the Follow-On Offering Security to the Stabilizing Agent will help it to optimize the opening of the stock and manage its own risk, thereby assisting in promoting a fair and orderly market. Accordingly, Nasdaq is proposing to introduce the Follow-On Offering Indicator Service (the “Service”), a specialized data product that will be made available solely to the Stabilizing Agent.

⁵ 17 CFR 242.100.

⁶ 17 CFR 242.104.

In advance of the Cross for all securities, including securities that are the subject of a Follow-On Offering, Nasdaq disseminates the Order Imbalance Indicator, an electronic message containing information about the possible price and volume of the Cross. (The Order Imbalance Indicator is described in Rule 4752, and is often referred to as the “Net Order Imbalance Indicator,” or “NOII”.) The NOII is disseminated to market participants every five seconds, beginning at 9:28 a.m. and concluding with the Cross at approximately 9:30 a.m. The Service would, in addition, make the same information contained in the NOII available to the Stabilizing Agent, every five seconds beginning at 9:20 a.m. until the time of the Cross. Specifically, as provided in Rule 4752, the information provided by the NOII includes the Current Reference Price,⁷ the number of shares eligible for execution in the Cross that are paired at the Current Reference Price, the size of any Imbalance,⁸ the buy or sell direction of any Imbalance, indicative prices at which the Cross would occur at that time and the percentage by which such prices are outside the current Nasdaq Market Center best bid or best offer,⁹ and an indication of whether marketable buy or sell orders would remain unexecuted.

⁷ See Rule 4752(a)(2)(A). The Current Reference Price is the single price that is at or within the current Nasdaq Market Center best bid and offer that satisfies stated criteria used to determine the price at which the Cross ultimately would occur, focused on maximizing order interaction.

⁸ See Rule 4752(a)(1). An Imbalance is the number of shares to buy or sell entered for participation in the Cross – specifically, Market on Open (“MOO”) orders, Limit on Open (“LOO”) orders, and regular market hour orders entered prior to 9:28 a.m. (“Early Market Hours orders”) – that may not be matched with other eligible orders at the Current Reference Price.

⁹ See Rule 4752(a)(2)(E). In contrast to the Current Reference Price, which signals a price within the Nasdaq best bid and offer at which order interaction would be maximized, the indicative prices signal the extent to which orders on the book may cause the Cross to occur at a price outside the current bid and offer. Accordingly, it signals the extent to which additional trading interest entered for potential execution in the Cross may alter the final execution price of the Cross. The indicative prices consist of the “Near Clearing Price,” which is the price at which MOO orders, LOO orders, Opening Imbalance Only (“OIO”) orders, Early Market Hours orders, and other orders and quotations on the

In addition, beginning at 9:20 a.m., the Service will provide the Stabilizing Agent with additional information about the shares that it has entered for potential execution in the Cross, similar to the information currently provided through Nasdaq's IPO Indicator Service with respect to the Nasdaq Halt Cross for an IPO. Specifically, the Service will provide the total number of shares entered by the Stabilizing Agent for potential execution in the Cross,¹⁰ the price and buy or sell direction of Follow-On Offering Shares, the number and execution price of buy and sell Follow-On Offering Shares that would be executed in the Nasdaq Opening Cross if it were to price based on the most recent NOII information, and the number of buy and sell Follow-On Offering Shares that would not be executed at the price. The Stabilizing Agent will be able to organize this information on an order-by-order basis, or group it together into blocks of orders designated by the Stabilizing Agent. Nasdaq is not proposing at this time to provide the Stabilizing Agent for a Follow-On Offering with aggregated order book information of the sort that is currently provided through the IPO Book Viewer to the Stabilizing Agent for an IPO.¹¹

Nasdaq believes that providing this information to the Stabilizing Agent will assist it in performing its obligations with respect to the maintenance of a fair and orderly market by giving it more time in which to understand the forces of supply and demand for the Follow-On Offering

Nasdaq Book ("Open Eligible Interest") may execute, and the "Far Clearing Price," which is the price at which MOO orders, LOO orders, OIO orders and Early Market Hours orders may execute.

¹⁰ Proposed Rule 7017 would define "Follow-On Offering Shares" as "the shares of a Stabilizing Agent's orders entered for its own account or on behalf of customers for potential execution in the Nasdaq Opening Cross with respect to a Follow-On Offering Security."

¹¹ See current Rule 7015(j), to be redesignated as Rule 7017(b). The IPO Book Viewer provides the total number, and aggregate size, of orders on the book, grouped in increments of either \$0.05, \$0.10, or \$0.25 at the election of the stabilizing agent.

Security in advance of its opening. This information will, in turn, allow the Stabilizing Agent to respond in a more informed manner to questions from customers and other market participants regarding expectations that an order to buy or sell with a stated price and size may be executable in the Cross. The information will also assist the Stabilizing Agent in making decisions about the appropriate level of capital to commit to support the security once trading commences. Once the Cross executes, the Service will cease to be available, since the information provided is relevant only to the Cross; similar information will not be provided to the Stabilizing Agent with respect to the Nasdaq Closing Cross on that day. Thus, the Stabilizing Agent will not be provided with any information not available to other market participants once the Cross occurs. In proposing to make the information provided through the Service available solely to the Stabilizing Agent, Nasdaq seeks to recognize and support the special obligations and risks undertaken by the Stabilizing Agent, but also to recognize that the market conditions of a Follow-On Offering are not the same as those of an IPO, because the Follow-On Offering Security has an established trading market that is not halted while the Follow-On Offering is occurring. As a result, Nasdaq is seeking to strike a balance between supporting the Stabilizing Agent and the orderly trading of the Follow-On Offering Security without unduly altering the usual process for the daily opening of trading. While Nasdaq believes that the Service as proposed will adequately support the Stabilizing Agent, Nasdaq reserves the right to propose enhancements to the Service in the future based on experience.

Nasdaq believes that the information to be provided through the Service is similar in purpose to the information available to the stabilizing agent for a follow-on offering of a security listed on the New York Stock Exchange (“NYSE”). Currently, as provided in NYSE Rule 104(j), the Designated Market Maker (“DMM”) for a security has access to aggregated and

certain order-specific information about securities for which it is the DMM at all times, including at the time of a follow-on offering. Moreover, the DMM is permitted to share this information with floor brokers to “respond to an inquiry ... in the normal course of business.”¹² When a follow-on offering is being conducted at NYSE, the DMM therefore has access to aggregated order book information and is free to share it with the floor broker for the firm acting as stabilizing agent for the offering.¹³ Thus, the stabilizing agent may use the information to respond to requests from its customers and others regarding expectations about the offering, and may use the information to inform decisions about committing capital in support of the offering. In fact, information from the DMM remains available not only prior to market open, but throughout the trading day. By providing a Stabilizing Agent on Nasdaq with early access to the NOII, as well as information about how the Stabilizing Agent’s orders might perform in the Opening Cross, Nasdaq will provide the Stabilizing Agent with insights into the condition of the Nasdaq order book leading up to the Opening Cross. Thus, although the Service will not provide aggregated or order-specific information in exactly the same manner as is possible under Rule 104(j), Nasdaq believes that the Service will allow it to provide benefits to Stabilizing Agents for Follow-On Offerings conducted on Nasdaq similar in effect to those provided for offerings on NYSE, without altering the competing market maker model that Nasdaq employs.

Since the information provided through the Service will be directly available only to the Stabilizing Agent, Nasdaq believes that it is appropriate to adopt safeguards in order to ensure that the information is not misused. The safeguards will be identical to those adopted with respect to the IPO Book Viewer. Specifically, the proposed rule will require the Stabilizing

¹² NYSE Rule 104(j)(iii).

¹³ Id.

Agent receiving the Service to maintain and enforce written policies and procedures reasonably designed to achieve the following purposes:

- Restrict electronic access¹⁴ to information from the Service only to associated persons of the Stabilizing Agent who need to know the information in connection with stabilizing the Follow-On Offering Security and establishing its opening price;
- Except as may be required for purposes of maintaining books and records for regulatory purposes,¹⁵ prevent the retention of information from the Service following the completion of the Cross for the Follow-On Offering Security;
- Prevent persons with access to information from the Service from engaging in transactions in the Follow-On Offering Security other than transactions in the Cross; transactions on behalf of a customer; or stabilizing. Thus, for example, the Stabilizing Agent or its affiliates would not be permitted to use the information to engage in proprietary trading other than in support of bona fide stabilizing activity.

However, for the avoidance of doubt regarding appropriate uses of the information, the proposed rule will also provide that nothing contained in the rule shall be construed to prohibit the member acting as the Stabilizing Agent from (i) engaging in stabilizing consistent with that role, or (ii) using the information provided from the Service to respond to inquiries from any person, including, without limitation, other members, customers, or associated persons of the Stabilizing Agent, regarding the expectations of the member acting as the Stabilizing Agent with regard to the possibility of executing stated quantities of an offering security at stated prices in the Cross. Because the Service will provide the Stabilizing Agent with insights into the state of

¹⁴ As discussed below, electronic access to the Service will be available on a displayed basis only.

¹⁵ See, e.g., SEC Rule 17a-4(a)(4), 17 CFR 240.17a-4(a)(4).

the Nasdaq order book in the period prior to the Cross, Nasdaq believes that the proposal is similar in effect to availability of information to the stabilizing agent for a follow-on offering on NYSE. Nasdaq further believes that the permitted uses of the information to be made available through the Service are entirely consistent with established practices at NYSE, under which the DMM may display aggregated order book information to the floor broker acting as stabilizing agent, who is then free to discuss this information with other members, customers, and associated persons of the stabilizing agent.

The information provided through the Service will be available solely for display on the screen of a computer for which an entitlement has been provided by Nasdaq. Under no circumstances may a member redirect such information to another computer or reconfigure it for use in a non-displayed format, including, without limitation, in any trading algorithm. If a member becomes aware of any violation of the restrictions contained in the proposed rule, it must report the violation promptly to Nasdaq.

The Service will be provided free of charge through the IPO Workstation, and at no additional charge to users of the Nasdaq Workstation. Although Nasdaq may, in the future, institute a charge for the Service, it is not proposing a fee at this time. The proposed rule change also moves provisions of Rule 7015 pertaining to the IPO Workstation, the IPO Indicator Service, and the IPO Book Viewer from that rule into proposed Rule 7017. In making this change, Nasdaq is adopting a more detailed description of the information currently provided through the IPO Indicator Service,¹⁶ but is not proposing any substantive changes to the rule or to the operation of the facilities in question. The new language states that:

¹⁶ Specifically, the new language specifies the exact information provided through the IPO Indicator Service. This information was described in the rule filings that established the IPO Indicator Service, but was not detailed in the rule text. See Securities Exchange Act

- The IPO Indicator Service provides Order Imbalance Indicator information for an IPO Security, as described in Rule 4753(a)(3), and
- The IPO Indicator Service provides the total number of a member firm’s IPO Shares,¹⁷ the price and buy or sell direction of such IPO Shares, the number and execution price of buy and sell IPO Shares that would be executed in the Nasdaq Halt Cross if the Nasdaq Halt Cross were to price based on the most recent Order Imbalance Indicator information, and the number of buy and sell IPO Shares that would not be executed at that price.
- A member may organize order information by order or order block.
- The IPO Indicator Service is available as an element of the Nasdaq Workstation Trader, subject to the fees provided for under Rule 7015. Alternatively, the IPO Indicator Service is available through a standalone Nasdaq IPO Workstation, at no cost.

2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 6 of the Act¹⁸ in general, and furthers the objectives of Section 6(b)(5)¹⁹ in particular, in that the proposal is 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

Release No. 73950 (December 29, 2014), 80 FR 268 (January 5, 2015) (SR-NASDAQ-2014-100); Securities Exchange Act Release No. 74041 (January 13, 2015), 80 FR 2762 (January 20, 2015) (SR-NASDAQ-014-110).

¹⁷ Nasdaq is adding a definition of “IPO Shares,” to mean “the shares of a member firm’s orders entered for potential execution in the Nasdaq Halt Cross for an IPO Security.” “IPO Security” is defined as “a security for which the halting and initial pricing procedures described in Rules 4120(c)(8) and (9) and 4753 are available.”

¹⁸ 15 U.S.C. 78f.

¹⁹ 15 U.S.C. 78f(b)(5).

regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest. Nasdaq further believes that the introduction of the Service without a fee at this time is consistent with Sections 6(b)(4) and (5) of the Act,²⁰ in that it provides for the equitable allocation of reasonable dues, fees and other charges among recipients of Nasdaq data and is not designed to permit unfair discrimination between them.

Nasdaq believes that the proposed rule change will promote the goals of the Act by assisting the Stabilizing Agent for a Follow-On Offering Security in promoting a fair and orderly market. Specifically, by providing additional information regarding possible pricing and order execution outcomes for the Cross, the Service will give the Stabilizing Agent information that will assist it in achieving a range of goals. By being able to share such information with other members and customers, the Stabilizing Agent will enable greater participation in the Cross because it will be able to provide more certain information about the ability of investors to execute Orders at particular sizes and prices. Moreover, having greater knowledge about possible outcomes of the Cross prior to its execution will enable the Stabilizing Agent to make more informed decisions about the extent of capital it may need to commit in the Cross and after the commencement of trading in order to stabilize the price of the Follow-On Offering Security and thereby dampen volatility that might undermine investor confidence.

Nasdaq further believes that the restrictions it proposes to impose on the use of the Service will protect against possible misuse of the provided information. Notably, the information will be provided only prior to the completion of the Cross and may not be retained

²⁰ 15 U.S.C. 78f(b)(4), (5).

thereafter, except to the extent necessary for record-retention purposes. The information will be disseminated in a display format only and may not be redirected or reconfigured for non-display usage (such as usage by a trading algorithm). Moreover, electronic access to the information will be available only to certain designated individuals with a role in conducting stabilizing activities, and persons with access may not engage in transactions other than stabilizing or transactions in the Cross or on behalf of a customer. As discussed above, the Service is intended to allow the Stabilizing Agent to draw conclusions about the state of the Nasdaq order book prior to the Cross, and is therefore intended to achieve an effect similar to the availability of aggregated order book information under NYSE Rule 104(j). Although the Commission has not expressed any concerns about the availability of aggregated information to DMMs and floor brokers (including stabilizing agents) with whom they share such information on NYSE, Nasdaq believes that the safeguards it proposes around the use of the Service's information by a Stabilizing Agent will provide added assurance to members and the investing public that the Service will not be misused.

Finally, Nasdaq notes that although the Service will be available only to Stabilizing Agents, this limitation is consistent with the protection of investors because the Stabilizing Agent plays a unique role on the day of a Follow-On Offering because it must commit capital in support of the Follow-On Offering Security once trading begins. Because the Service will assist the stabilizing agent in performing this function, which is performed by no other broker, Nasdaq believes that it is reasonable to limit access to the Service to the Stabilizing Agent. Moreover, because the Service will cease to be available once the Cross is executed and the information provided therein will quickly become stale, Nasdaq does not believe that access to the information will provide the Stabilizing Agent with any unfair advantage.

Nasdaq believes that the proposal to move provisions of Rule 7015 into Rule 7017 is consistent with the Act because the change is intended to promote a clear understanding of the rule text by including in a single rule all Nasdaq data services that are specifically designed to support the initial trading of securities that are the subject of an IPO or a Follow-On Offering. Nasdaq further believes that the proposal to make the Service available to eligible recipients at no additional charge is reasonable because it will not result in any increase in the costs incurred by a Stabilizing Agent to receive the additional information. Nasdaq further believes that the proposal is consistent with an equitable allocation of fees and not unfairly discriminatory because additional information is being provided to a limited group of potential users in order to assist in the promotion of fair and orderly markets during a Follow-On Offering. Accordingly, the absence of an additional fee is designed to encourage eligible members to accept the information in order to ensure that the goals of the proposal are advanced to the greatest extent possible.

Nasdaq further believes that the non-substantive changes it is making to move information about the IPO Indicator Service from Rule 7015 to new Rule 7017, and to provide additional detail in Rule 7017 about the information available through the IPO Indicator Service, are consistent with the Act because they will promote a clearer understanding of the IPO Indicator Service by members and other interested persons.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. In fact, because the Service is intended to provide the Stabilizing Agent with information about the condition of the Nasdaq order book in advance of the Cross, Nasdaq believes that the proposal will help it compete more effectively with NYSE by allowing it to provide to Stabilizing Agents

with information that is similar in effect to the information available to stabilizing agents through the NYSE DMM. Accordingly, Nasdaq does not believe that there can be any reasonable objection to the proposal on competitive grounds.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be 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-2017-015 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-2017-015. 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-2017-015 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.²¹

Eduardo A. Aleman
Assistant Secretary

²¹ 17 CFR 200.30-3(a)(12).