

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85303; File No. SR-NASDAQ-2019-011)

March 13, 2019

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Exchanges Pricing Schedule at Options 7

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 28, 2019, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“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 Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchanges Pricing Schedule at Options 7, which governs the pricing for Nasdaq participants using The Nasdaq Options Market (“NOM”), Nasdaq’s facility for executing and routing standardized equity and index options.

While these amendments are effective upon filing, the Exchange has designated the proposed amendments to be operative on March 1, 2019.

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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange proposes to create an alternative way for Participants to earn the Tier 3 NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options. Today as set forth in Options 7, Section 2(1), the Exchange offers NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options. These rebates are structured as a six tier program ranging from \$0.20 to \$0.48 per contract, with increasing volume requirements for each tier. Participants currently receive a \$0.30 per contract (or \$0.40 per contract in the symbols AAPL, QQQ, IWM, SPY and VXX) Tier 3 rebate for adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.20% to 0.60% of total industry customer equity and ETF option ADV contracts per day in a month. As proposed, a Participant will also earn the Tier 3 rebate if the Participant meets the following alternative qualifications: (1) transacts in all securities through one or more of its Nasdaq Market Center MPIDs that represent 0.70% or more of Consolidated Volume ("CV")³ which adds liquidity in the same month on The Nasdaq Stock

³ Consolidated Volume shall mean the total consolidated volume reported to all consolidated transaction reporting plans by all exchanges and trade reporting facilities during a month in equity securities, excluding executed orders with a size of less than one round lot. For purposes of calculating Consolidated Volume and the extent of an equity member's trading activity, expressed as a percentage of or ratio to Consolidated Volume, the date of the annual reconstitution of the Russell Investments Indexes shall be excluded from both total Consolidated Volume and the member's trading activity.

Market,⁴ (2) transacts in Tape B securities⁵ through one or more of its Nasdaq Market Center MPIDs that represent 0.18% or more of CV which adds liquidity in the same month on The Nasdaq Stock Market, and (3) executes greater than 0.01% of CV via Market-on-Close/Limit-on-Close (“MOC/LOC”)⁶ volume within The Nasdaq Stock Market Closing Cross in the same month. The Exchange also proposes to make related clean-up changes by renumbering the existing method to qualify for Tier 3 as paragraph (a) and the proposed alternative as paragraph (b).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁷ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,⁸ 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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

⁴ In calculating total volume, the Exchange would add the Participant’s total volume transacted on The Nasdaq Stock Market in a given month across its Nasdaq Market Center MPIDs which adds liquidity, and will divide this number by the total industry Consolidated Volume.

⁵ Tape B securities are securities that are listed on exchanges other than The Nasdaq Stock Market or the New York Stock Exchange.

⁶ MOC/LOC, as set forth in Nasdaq Rule 4754, represents the volume in The Nasdaq Stock Market Closing Cross that allows market participants to contribute order flow that will result in executions at the official closing price for the day in the Nasdaq listed security. A “MOC Order” is an order type entered without a price that may be executed only during the Nasdaq Closing Cross, which refers to the equity closing cross. A “LOC Order” is an order type entered with a price that may be executed only in the Nasdaq Closing Cross.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(4) and (5).

The alternative method to qualify for the Tier 3 NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options proposed above is reasonable because it will create an additional opportunity for Participants to earn the Tier 3 rebate by incentivizing Participants to transact greater volume on The Nasdaq Stock Market in order to qualify for the Tier 3 rebate on NOM. The Exchange notes that this proposal is designed as a means to improve market quality by providing Participants with an incentive to increase their provision of liquidity on the Exchange's equity and options markets. Today, Participants that add NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.20% to 0.60% of total industry customer equity and ETF option ADV contracts per day in a month are paid a \$0.30 per contract (or \$0.40 per contract in the symbols AAPL, QQQ, IWM, SPY and VXX) Tier 3 rebate. This proposal would provide participants with additional opportunities to earn the same Tier 3 NOM Market Maker rebate, and will encourage Participants to send order flow to both the options and equity markets to receive the rebate.

Furthermore, the concept of linking incentive on NOM to activity on The Nasdaq Stock Market exists today. The Exchange currently offers rebates on NOM that relate to activity on The Nasdaq Stock Market.⁹ Similarly, The Nasdaq Stock Market offers credits that are based on

⁹ For example, one of the qualifications in the \$0.48 per contract Tier 6 Customer and Professional Rebate to Add Liquidity in Penny Pilot Options requires that the Participant add liquidity in all securities through one or more of its Nasdaq Market Center MPIDs that represent 1.00% or more of Consolidated Volume in a month or qualifies for MARS. See Options 7, Section 2(1). Also, for example, note "e" of the NOM Pricing Schedule provides that Participants that transact in all securities through one or more of its Nasdaq Market Center MPIDs that represent 3.00% or more of Consolidated Volume in the same month on The Nasdaq Stock Market will receive a \$0.52 per contract rebate to add liquidity in Penny Pilot Options as Customer or Professional and \$1.00 per contract rebate to add liquidity in Non-Penny Pilot Options as Customer or Professional. See Options 7, Section 2(1).

activity on NOM.¹⁰ As such, the Exchange believes that the volume requirement to transact in all securities through one or more of the Participant's Nasdaq Market Center MPIDs that represent 0.70% or more of Consolidated Volume ("CV") which adds liquidity in the same month on The Nasdaq Stock Market is reasonable because the Exchange already offers rebates based on similar volume requirements.¹¹ Similarly, the volume requirement to execute greater than 0.01% of CV via Market-on-Close/Limit-on-Close ("MOC/LOC") volume within The Nasdaq Stock Market Closing Cross in the same month is reasonable because the Exchange already offers rebates based on similar volume requirements.¹²

The volume requirement to transact in Tape B securities through one or more of the Participant's Nasdaq Market Center MPIDs that represent 0.18% or more of CV which adds liquidity in the same month on The Nasdaq Stock Market is a new requirement, which must be met in addition to the other two volume requirements proposed above. The Exchange believes that the Tape B volume requirement is reasonable because linking rebates on NOM to activity on

¹⁰ For example, Nasdaq offers a credit of \$0.0029 per share if the member adds Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 1.15% or more of total industry ADV in the customer clearing range for Equity and ETF option contracts per day in a month on NOM. See Equity 7, Section 118(a)(1).

¹¹ See note 9 above.

¹² See note "c" of Options 7, Section 2(1), offering Participants that qualify for the \$0.48 per contract Tier 6 Customer and Professional Rebate to Add Liquidity in Penny Pilot Options an additional \$0.05 per contract rebate if they meet the requisite volume thresholds in clause (3) of note "c," including executing greater than 0.04% of Consolidated Volume ("CV") via Market-on-Close/Limit-on-Close ("MOC/LOC") volume within The Nasdaq Stock Market Closing Cross within a month; and note "f" of Options 7, Section 2(1), offering Participants a \$0.55 per contract Customer and Professional Rebate to Add Liquidity in Penny Pilot Options if they meet the requisite volume thresholds, including executing greater than 0.04% of Consolidated Volume ("CV") via Market-on-Close/Limit-on-Close ("MOC/LOC") volume within The Nasdaq Stock Market Closing Cross within a month.

The Nasdaq Stock Market in this manner will encourage Participants to add liquidity on The Nasdaq Stock Market, which will benefit all market participants by way of interacting with that liquidity on the equity market. By encouraging market participants to increase their participation on the equities market by transacting in Tape B securities, the Exchange is rewarding Participants with an opportunity to earn an additional options incentive, provided all requirements are met. Overall, the Exchange believes that the tiered NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options with the proposed Tier 3 alternative will continue to reflect the progressively increasing rebate requirements that offer incentives to earn the highest NOM Market Maker rebate by bringing the most order flow to the Exchange.

The Exchange also believes that the proposed Tier 3 alternative is equitable and not unfairly discriminatory because all eligible Participants that qualify for these incentives will uniformly receive the rebate. The Exchange believes that the proposed volume requirements are proportionate to the amount of the Tier 3 rebate and equitably reflect the purpose of the proposed Tier 3 alternative, which is to incentivize Participants to transact greater volume on both the Exchange's equity and options markets. In addition, the Exchange believes that it is equitable and not unfairly discriminatory to offer this rebate to NOM Participants that transact as NOM Market Makers and also transact on The Nasdaq Stock Market. Any NOM Participant may trade on The Nasdaq Stock Market because they are approved members.¹³ Furthermore, unlike other market participants, NOM Market Makers add value through continuous quoting and the commitment of capital.¹⁴ Because NOM Market Makers have these obligations to the market

¹³ Although a NOM Participant may incur additional labor and/or costs to establish connectivity to The Nasdaq Stock Market, there are no additional membership fees for NOM Participants that want to transact on The Nasdaq Stock Market.

¹⁴ 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

and regulatory requirements that normally do not apply to other market participants, the Exchange believes that offering these rebates to only NOM Market Makers is equitable and not unfairly discriminatory in light of their obligations. Finally, encouraging NOM Market Makers to add greater liquidity benefits all market participants in the quality of order interaction.

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 not necessary or appropriate in furtherance of the purposes of the Act. The pricing changes proposed above are generally designed to attract additional order flow to the Exchange, which strengthens the Exchange's competitive position. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by market makers. An increase in the activity of these market participants in turn facilitates tighter spreads.

The Exchange operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees and rebates to remain competitive. Because competitors are free to modify their own fees and rebates in response, the Exchange believes that the degree to which pricing changes in this market may impose any burden on competition is extremely limited.

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.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (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. Please include File Number SR-NASDAQ-2019-011 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.

¹⁵ 15 U.S.C. 78s(b)(3)(A)(ii).

All submissions should refer to File Number SR-NASDAQ-2019-011. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-NASDAQ-2019-011, 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

Eduardo A. Aleman
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).