

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-90163; File No. SR-NASDAQ-2020-066)

October 13, 2020

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Equity 7, Section 118(a)

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 October 1, 2020, 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 Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchange’s schedule of credits, as set forth in Equity 7, Section 118(a) of the Exchange’s Rulebook.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, 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 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 amend its schedule of credits at Equity 7, Section 118, to add several new credits.

New Supplemental Credit for Displayed Orders in Securities in Tape B

Presently, the Exchange offers a supplemental credit of \$0.0001 per share executed – in addition to the range of credits it normally offers – to members with displayed orders/quotes (other than Supplemental Orders³ or Designated Retail Orders⁴) in securities in Tape B (securities listed on exchanges other than Nasdaq or NYSE) that provide liquidity to the Exchange, to the extent that such members add liquidity in securities in Tape B representing at

³ As set forth in Rule 4703(b)(6)(A), a “Supplemental Order” is an Order Type with a Non-Display Order Attribute that is held on the Nasdaq Book in order to provide liquidity at the NBBO through a special execution process described in Rule 4757(a)(1)(D).

⁴ As set forth in Equity 7, Section 118, a “Designated Retail Order” is an agency or riskless principal order that meets the criteria of FINRA Rule 5320.03 and that originates from a natural person and is submitted to Nasdaq by a member that designates it pursuant to this section, provided that no change is made to the terms of the order with respect to price or side of market and the order does not originate from a trading algorithm or any other computerized methodology. An order from a “natural person” can include orders on behalf of accounts that are held in a corporate legal form - such as an Individual Retirement Account, Corporation, or a Limited Liability Company - that has been established for the benefit of an individual or group of related family members, provided that the order is submitted by an individual. Members must submit a signed written attestation, in a form prescribed by Nasdaq, that they have implemented policies and procedures that are reasonably designed to ensure that substantially all orders designated by the member as “Designated Retail Orders” comply with these requirements. Orders may be designated on an order by-order basis, or by designating all orders on a particular order entry port as Designated Retail Orders.

least 0.10% of Consolidated Volume⁵ during the month through one or more of their Nasdaq Market Center MPIDs.

In addition to this credit the Exchange now proposes to add a new supplemental \$0.00005 per share executed credit for members that add displayed liquidity in securities in Tape B constituting Designated Retail Orders where members add liquidity in securities in Tape B representing at least 0.10% of Consolidated Volume during the month through one or more of their Nasdaq Market Center MPIDs.

Thus, under the proposal, to the extent that a member provides liquidity in securities in Tape B that represents more than 0.10% of Consolidated Volume during a month, then the member will qualify for the following: (i) any of the regular per share executed credits set forth in Equity 7, Section 118(a)(3) for which the member otherwise qualifies; (ii) a supplemental \$0.0001 per share executed credit applicable to the member's displayed add orders (other than its Supplemental Orders or Designated Retail Orders); and (iii) a supplemental \$0.00005 per share executed credit applicable to the member's displayed add orders that constitute Designated Retail Orders (other than Supplemental Orders).

The Exchange intends for the new supplemental credit to provide a further incentivize to its members to add displayed liquidity to the Exchange in securities in Tape B. Moreover, the Exchange intends for the proposal to broaden the availability of its supplemental credits to members that add displayed retail liquidity to the Exchange, as the existing supplemental credit

⁵ Pursuant to Equity 7, Section 118(a), the term "Consolidated Volume" means 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 a member's trading activity the date of the annual reconstitution of the Russell Investments Indexes is excluded from both total Consolidated Volume and the member's trading activity.

excludes Designated Retail Orders. In incentivizing members to increase the extent of their displayed liquidity adding activity on the Exchange, and the extent of their retail liquidity adding activity on the Exchange, the Exchange intends to improve the overall quality and attractiveness of the market.

New Credits for Non-Displayed Orders

Presently, the Exchange offers a range of credits for non-displayed orders (other than Supplemental Orders) that provide liquidity to the Exchange. For example, for orders in securities in Tapes A and B, the Exchange presently offers a member a \$0.0015 per share executed credit for other non-displayed orders if the member (i) provides 0.10% or more of Consolidated Volume through non-displayed orders (other than midpoint orders) and (ii) provides 0.15% or more of Consolidated Volume through midpoint orders during the month. For orders in securities in Tape C, these same qualification requirements presently entitle a member to receive a credit of \$0.0010 per share executed.

The Exchange proposes to add two additional credit tiers for orders in securities in each Tape. For orders in securities in Tapes A and B, the Exchange proposes to offer the following credits:

- \$0.00175 per share executed for other nondisplayed orders if the member (i) provides 0.225% or more of Consolidated Volume through non-displayed orders (other than midpoint orders) and (ii) provides 0.165% or more of Consolidated Volume through midpoint orders during the month; and
- \$0.0020 per share executed for other nondisplayed orders if the member (i) provides 0.275% or more of Consolidated Volume through non-displayed orders (other than

midpoint orders) and (ii) provides 0.175% or more of Consolidated Volume through midpoint orders during the month

For orders in securities in Tape C, these same qualification requirements described above would entitle a member to receive credits of \$0.00125 per share executed and \$0.0015 per share executed, respectively.

The Exchange intends for these new credits to provide increased incentives to its members to add significant amounts of non-displayed liquidity to the Exchange, including in both midpoint and non-midpoint orders. Although the Exchange intends to provide such incentives to members who add non-displayed liquidity in securities in all Tapes, it intends to provide a higher incentive to members who add non-displayed liquidity in orders in securities in Tapes A and B, where the Exchange has determined that the market would benefit most from additional such liquidity. In incentivizing members to increase the extent of their non-displayed liquidity adding activity on the Exchange, the Exchange intends to improve the overall quality and attractiveness of the market.

Impact of the Changes

Those participants that act as significant providers of displayed retail liquidity to the Exchange in securities in Tape B will benefit directly from the proposed addition of the new supplemental credit, while participants that act as significant providers of non-displayed liquidity will benefit directly from the new non-displayed credits. Other participants will also benefit from the new credits insofar as any increase in liquidity adding activity on the Exchange will improve the overall quality of the market, to the benefit of all member organizations.

The Exchange notes that its proposals are not otherwise targeted at or expected to be limited in their applicability to a specific segment of market participants nor will they apply differently to different types of market participants.

2. Statutory Basis

The Exchange believes that its proposals are consistent with Section 6(b) of the Act,⁶ in general, and further the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,⁷ in particular, in that they provide for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The proposals are also consistent with Section 11A of the Act relating to the establishment of the national market system for securities.

The Proposals are Reasonable

The Exchange's proposed changes to its schedule of credits are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for equity securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(4) and (5).

possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers'”⁸

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”⁹

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for equity security transaction services. The Exchange is only one of several equity venues to which market participants may direct their order flow. Competing equity exchanges offer similar tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume thresholds.

Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules. Within the foregoing context, the proposals represent a reasonable attempt by the Exchange to increase its liquidity and market share relative to its competitors.

⁸ NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

⁹ Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

The Exchange has designed its proposed new supplemental displayed credit to provide increased overall incentives to members to increase their retail displayed liquidity adding activity on the Exchange in securities in Tape B, and it has designed its proposed new non-displayed credits to increase incentives to members to increase their non-displayed liquidity adding activity on the Exchange. An increase in liquidity adding activity on the Exchange will, in turn, improve the quality of the Nasdaq market and increase its attractiveness to existing and prospective participants.

The Exchange notes that those market participants that are dissatisfied with the new credits are free to shift their order flow to competing venues that offer them lower charges or higher credits.

The Proposals are an Equitable Allocation of Credits

The Exchange believes its proposals will allocate its credits fairly among its market participants. It is equitable for the Exchange to establish the proposed new supplemental credit as a means of incentivizing members to provide meaningful amounts of liquidity to the Exchange in securities, including both displayed and non-displayed liquidity. To the extent that the Exchange succeeds in increasing liquidity activity on the Exchange and in attracting additional retail order flow, then the Exchange would experience improvements in its market quality, which would benefit all market participants.

The Exchange also believes it is equitable for the Exchange to target its proposed supplemental credit to members with displayed orders in securities in Tape B, and to Designated Retail Orders, in particular, due to the Exchange's assessment that the market would benefit from an increase in displayed liquidity in securities in Tape B as well as additional retail liquidity in securities in Tape B. Likewise, the Exchange believes that it is equitable for it to provide higher

new non-displayed credits to members with non-displayed orders in securities in Tapes A and B, because the Exchange has determined that the market would specifically benefit from additional non-displayed liquidity in securities in those Tapes.

Any participant that is dissatisfied with the proposed new credits is free to shift their order flow to competing venues that provide more generous pricing or less stringent qualifying criteria.

The Proposed Credits are not Unfairly Discriminatory

The Exchange believes that the proposals are not unfairly discriminatory. As an initial matter, the Exchange believes that nothing about its volume-based tiered pricing model is inherently unfair; instead, it is a rational pricing model that is well-established and ubiquitous in today's economy among firms in various industries – from co-branded credit cards to grocery stores to cellular telephone data plans – that use it to reward the loyalty of their best customers that provide high levels of business activity and incent other customers to increase the extent of their business activity. It is also a pricing model that the Exchange and its competitors have long employed with the assent of the Commission. It is fair because it incentivizes customer activity that increases liquidity, enhances price discovery, and improves the overall quality of the equity markets.

Moreover, the Exchange believes that its new proposed supplemental displayed credit and its new proposed non-displayed credits are not unfairly discriminatory because they stand to improve the overall market quality of the Exchange, to the benefit of all market participants, by incentivizing members to provide meaningful amounts of liquidity. Additionally, it is not unfairly discriminatory to target the new supplemental credit to orders in securities in Tape B and to provide higher non-displayed credits to orders in securities in Tapes A and B because the

Exchange believes that the market would benefit from additional liquidity in those areas. The Exchange notes that it has limited funds to apply in the form of incentives, and thus must deploy those limited funds to incentives that it believes will be the most effective at improving market quality in areas that the Exchange determines are in need of improvement.

Finally, any participant that is dissatisfied with the proposed new credits is free to shift their order flow to competing venues that provide more generous pricing or less stringent qualifying criteria.

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.

Intramarket Competition

The Exchange does not believe that its proposals will place any category of Exchange participant at a competitive disadvantage. To the contrary, the proposed changes will provide opportunities for members to receive new credits based upon their market-improving behavior. Any member may elect to provide the levels of market activity required in order to receive the new credits. Furthermore, all members of the Exchange will benefit from any increase in market activity that the proposals effectuates.

Moreover, members are free to trade on other venues to the extent they believe that the proposed credits are too low or the qualification criteria are not attractive. As one can observe by looking at any market share chart, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. The Exchange notes that the tier structure is consistent with broker-dealer fee practices as well as the other industries, as described above.

Intermarket Competition

The Exchange believes that its proposals will not burden competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from the multitude of other live exchanges and from off-exchange venues. The Exchange notes that it 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 credits to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee and credit changes in this market may impose any burden on competition is extremely limited.

The proposed new credits are reflective of this competition because, even as one of the largest U.S. equities exchanges by volume, the Exchange has less than 20% market share, which in most markets could hardly be categorized as having enough market power to burden competition. Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. This is in addition to free flow of order flow to and among off-exchange venues which comprises upwards of 40% of industry volume.

The Exchange's proposals are pro-competitive in that the Exchange intends for them to increase liquidity on the Exchange and thereby render the Exchange a more attractive and vibrant venue to market participants.

In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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.¹⁰

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:

¹⁰ 15 U.S.C. 78s(b)(3)(A)(ii).

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-2020-066 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-2020-066. 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.

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-2020-066 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.¹¹

J. Matthew DeLesDernier
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).