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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70241; File No. SR-NASDAQ-2013-109)

August 21, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify NASDAQ's Optional Anti-Internalization Functionality

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and Rule 19b-4[2] thereunder, notice is hereby given that on August 16, 2013, 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

NASDAQ proposes to modify NASDAQ's optional anti-internalization functionality.

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, NASDAQ 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 those statements may be examined at the places specified in

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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 parts 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 modify its voluntary anti-internalization functionality to provide an additional option under that functionality. In addition, the proposed rule change contains certain clarifications to the text of the rule. Anti-internalization functionality is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act ("ERISA") that preclude and/or limit broker-dealers managing accounts governed by ERISA from trading as principal with orders generated for those accounts. The functionality can also assist market participants in avoiding execution fees that may result from the interaction of executable buy and sell trading interest from the same firm. NASDAQ notes that use of the functionality does not relieve or otherwise modify the duty of best execution owed to orders received from public customers. As such, market participants using anti-internalization functionality will need to take appropriate steps to ensure that public customer orders that do not execute because of the use of anti-internalization functionality ultimately receive the same execution price (or better) they would have originally obtained if execution of the order was not inhibited by the functionality.

Currently, market participants may apply anti-internalization logic to all quotes/orders entered through a particular MPID, or to all orders entered through a particular order entry port, to which a unique group identification modifier is then appended. In other words, the logic may

be applied on an MPID-by-MPID, or on a port-by-port basis.[3] Currently, two forms of anti-internalization logic may be applied: (i) if quotes/orders are equivalent in size, both quotes/orders will be cancelled, or if they are not equivalent in size, the smaller will be cancelled and the size of the larger will be reduced by the size of the smaller; or (ii) regardless of the size of the quotes/orders, the oldest quote/order will be cancelled in full. The applicable logic may be applied to an entire MPID, or alternatively, different logic may be applied to different order entry ports under a particular MPID.[4]

In response to member input, the proposed rule change will add an additional form of anti-internalization logic that a market participant could choose to apply, under which the most recent quote/order would be cancelled. As with the two existing forms of anti-internalization logic, the logic could be applied to an entire MPID, or to selected order entry ports under a particular MPID.[5] NASDAQ believes that the change will provide members with an additional tool for managing the book of orders that they submit to NASDAQ and the associated execution costs.

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[3] In the proposed rule change that introduced the ability to assign a group identification modifier with respect to anti-internalization processing, NASDAQ stated that the modifier may be assigned "at the port level." Securities Exchange Act Release No. 65868 (December 2, 2011), 76 FR 76795 (December 8, 2011) (SR-NASDAQ-2011-158). However, this level of specificity was not included in the text of Rule 4757. In addition, although the rule indicates that designation of functionality at the port level is an option available to the market participant, the rule does not make it clear that in order to make use of these options, market participants must use NASDAQ's OUCH order entry protocol. Thus, the proposed rule change also adds additional specificity to the rule text with respect to these aspects of the anti-internalization functionality.

[4] With respect to this functionality also, participants wishing to make designations on the order port level must use the OUCH order entry protocol.

[5] Id.

2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[6] in general, and with Section 6(b)(5) of the Act[7] 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 regulating, clearing, settling, processing information with respect to, and 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. Specifically, NASDAQ believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing members with additional optional functionality that may assist them with managing the book of orders that they submit to NASDAQ and the associated execution costs.

B. Self-Regulatory Organization's Statement on Burden on Competition

NASDAQ does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, by offering market participants additional options with regard to preventing inadvertent internalization of orders submitted to NASDAQ, the change has the potential to enhance NASDAQ's competitiveness with respect to other trading venues, thereby promoting greater competition. Moreover, the change does not burden competition in that its use is optional and provided at no additional cost to members.

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[6] 15 U.S.C. 78f.

[7] 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor 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) of the Act[8] and subparagraph (f)(6) of Rule 19b-4 thereunder.[9] 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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2013-109 on the subject line.

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[8] 15 U.S.C. 78s(b)(3)(a)(ii).

[9] 17 CFR 240.19b-4(f)(6).

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2013-109. 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 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-2013-109, and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[10]

Kevin M. O'Neill
Deputy Secretary

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[10] 17 CFR 200.30-3(a)(12).