



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74725; File No. SR-NASDAQ-2015-032]

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend NASDAQ Rules 7014 and 7018

April 14, 2015

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 April 1, 2015, The NASDAQ Stock Market LLC (“NASDAQ” or the “Exchange”) filed with the Securities and Exchange Commission (“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 the Substance of the Proposed Rule Change

NASDAQ is proposing changes to the Qualified Market Maker (“QMM”) Incentive Program under Rule 7014, and the qualification requirements for certain fees relating to Market-on-Close and/or Limit-on-Close orders under Rule 7018(a).

The text of the proposed rule change is available at nasdaq.cchwallstreet.com at NASDAQ’s principal office, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 amend Rule 7014(d), which provides the qualification criteria for designation as a Qualified Market Maker ("QMM") under the QMM incentive program, to limit qualification to registered NASDAQ market makers ("Market Makers"). Currently, a QMM may be, but is not required to be, a Market Maker in any security.³ The QMM program provides incentives to a member firm to make a significant contribution to market quality by providing liquidity at the NBBO in a large number of stocks for a significant portion of the day. In addition, the member must avoid imposing the burdens on NASDAQ and its market participants that may be associated with excessive rates of entry of orders away from the inside and/or order cancellation. The Exchange notes that the program, to date, has been used very little by member firms that are not Market Makers, and only Market Makers use the program at this time. Accordingly, the Exchange is proposing to amend Rule 7014(d)(3) to limit the program to Market Makers. The Exchange is also deleting the current qualification criteria under Rule 7014(d)(3) that requires a member firm to have liquidity provided in all securities

³ Thus, the QMM designation does not by itself impose a two-sided quotation obligation or convey any of the benefits associated with being a registered market maker.

through one of its NASDAQ Market Center MPIDs that represent 0.30% of Consolidated Volume during the month. The Exchange notes that the Consolidated Volume requirement is superfluous given that it is adopting Consolidated Volume eligibility criteria for the credits under the QMM program, and is adding an absolute Consolidated Volume eligibility criteria to receive the reduced removal rate under the program, as discussed below.

NASDAQ is amending Rule 7014(e), which sets forth the criteria required to receive the benefits of the program, to move the two credits provided under subparagraphs (1) and (2) provided for executions in securities listed on NYSE (“Tape A”) and securities listed on exchanges other than NASDAQ and NYSE (“Tape B”) to a table format directly under Rule 7014(e). NASDAQ is also modifying the criteria a QMM must meet to receive the two tiers of credits under the rule. Currently, NASDAQ provides a rebate of \$0.0002 per share executed (in addition to other credits received under Rule 7018(a)) with respect to orders that are executed at a price of \$1 or more and (A) displayed a quantity of at least one round lot at the time of execution; (B) either established the NBBO or was the first order posted on NASDAQ that had the same price as an order posted at another trading center with a protected quotation that established the NBBO; (C) were entered through a QMM MPID; (D) were for securities listed on NYSE or securities listed on exchanges other than NASDAQ and NYSE and (E) that no additional rebate will be issued with respect to Designated Retail Orders (as defined in Rule 7018). NASDAQ is proposing to replace these requirements with a new requirement that a QMM execute shares of liquidity provided in all securities through one or more of its NASDAQ Market Center MPIDs that represent greater than 0.90% of Consolidated Volume during the month. The Exchange is replacing the current requirements, which provide the QMM with an incentive to provide displayed liquidity that sets the NBBO on NASDAQ, with a new

requirement to provide a significant level Consolidated Volume in all securities through one or more of its MPIDs. Consolidated Volume is defined by Rule 7018(a) as 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.⁴ The Exchange believes that tying the rebate to the provision of greater overall volume will provide an increased impact to improving market quality over the current NBBO-based criteria.

Similarly, the Exchange is proposing to modify the requirements to receive a rebate of \$0.0001 per share executed under Rule 7014(e)(2). Currently, a QMM will receive the rebate with respect to all other displayed orders (other than Designated Retail Orders, as defined in Rule 7018) in securities priced at \$1 or more per share that provide liquidity that are entered through a QMM MPID in Tape A or B securities. The Exchange is proposing to now require that a QMM execute shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent from 0.70% up to and including 0.90% of Consolidated Volume during the month. The Exchange believes that tying the rebate to the provision of greater overall volume will provide an increased impact to improving market quality over the current requirement that the orders are displayed and provide liquidity.

As a consequence of moving and modifying the criteria of Rules 7014(e)(1) and (2), NASDAQ is moving certain rule text concerning the type of securities that the rule applies to, and certain exclusions from the program, from subparagraphs (1) and (2) to the first paragraph of Rule 7014(e). As noted above, NASDAQ is placing the two credits provided under

⁴ For purposes of calculating Consolidated Volume and the extent of a 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.

subparagraphs (1) and (2) in a table format and, consequently, is deleting those subparagraphs. NASDAQ is moving language, which is repeated in both subparagraphs, that notes the credits provided apply to securities priced at \$1 or more per share to the new table under Rule 7014(e) where the two credits are now located. The Exchange is also moving text that concerns exclusion of Designated Retail Orders from subparagraphs (1) and (2) to directly above the new table under Rule 7014(e).

NASDAQ is proposing to amend the criteria under Rule 7014(e)(3) required to receive the reduced remove rate fee of \$0.00295 per share executed under the rule in Tape A and B securities priced at \$1 or more for shares executed via its QMM MPID. Currently, NASDAQ will charge a fee of \$0.0030 per share executed for orders in securities listed on NASDAQ (“Tape C”) priced at \$1 or more per share that access liquidity on the NASDAQ Market Center and that are entered through a QMM MPID, and charges a fee of \$0.00295 per share executed for orders in Tape A or B securities priced at \$1 or more per share that access liquidity on the NASDAQ Market Center and that are entered through a QMM MPID; provided, however, that after the first month in which an MPID becomes a QMM MPID, the QMM’s volume of liquidity added, provided, and/or routed through the QMM MPID during the month (as a percentage of Consolidated Volume) must not be less than 0.05% lower than the volume of liquidity added, provided, and/or routed through such QMM MPID during the first month in which the MPID qualified as a QMM MPID (as a percentage of Consolidated Volume). NASDAQ is proposing to eliminate the current Consolidated Volume requirement, which relates to the first month in which an MPID qualified as a QMM MPID, and now require that the QMM executes shares of liquidity provided in all securities through one or more of its NASDAQ Market Center MPIDs of 0.80% or more of Consolidated Volume during the month. The Exchange believes that the

changes will tie receipt of the reduced removal fee in Tape A and B securities to a more meaningful measure of market-improvement. Decoupling the measure from the QMM's first month QMM Consolidated Volume will ensure that all QMMs meet a minimum standard that is uniform. Increasing the Consolidated Volume required to receive the fee will provide incentive to QMMs to provide greater market-improving participation in return for the benefit.

The Exchange is also proposing to increase the level of Consolidated Volume that a member firm must have in Market-on-Close and/or Limit-on-Close orders during the month in order to qualify for fees to remove liquidity in securities executed at or above \$1 under Rule 7018(a)(1), (2) and (3). Currently, NASDAQ assesses a fee for member firms that qualify based on their Market-on-Close and/or Limit-on-Close order participation in the Closing Cross of \$0.0030 per share executed in Tape C securities under Rule 7018(a)(1), and fees of \$0.00295 per share executed in Tape A and B securities under Rules 7018(a)(2) and (3), respectively. To qualify under each of the rules, a member firm must have Market-on-Close and/or Limit-on-Close orders executed in the NASDAQ Closing Cross, entered through a single NASDAQ Market Center market participant identifier, that represent more than 0.06% of Consolidated Volume during the month. The Exchange is proposing to increase the minimum level of Consolidated Volume required under each of the rules to 0.15%.

2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁵ in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,⁶ 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 or system which NASDAQ operates or

⁵ 15 U.S.C. 78f.

⁶ 15 U.S.C. 78f(b)(4) and (5).

controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

NASDAQ believes that the proposed changes to the QMM program in NASDAQ Rule 7014(d)(3) is [sic] reasonable and will not discriminate unfairly because they refine the program to focus on market participants who currently use the program. As discussed above, Market Makers have provided the vast majority of participation in the program and are currently the only market participant utilizing the program. Accordingly, restricting the program to Market Makers will not result in a material change in who participates in the program. Additionally, Market Makers have both obligations to the market and regulatory requirements that normally do not apply to other market participants. As such, the Exchange believes that providing additional incentives to Market Makers to provide liquidity for the benefit of all investors and other market participants is reasonable and not unfairly discriminatory. The proposed modifications to the QMM program recognize the benefits of increased Market Maker participation and the Exchange believes that this proposal will improve displayed liquidity, and thus the execution quality overall on the Exchange. Moreover, the Exchange believes that eliminating the current Consolidated Volume requirement is reasonable and not unfairly discriminatory because it will become superfluous in light of additional requirements based on Consolidated Volume that are also being proposed herein. For the same reasons noted above, limiting eligibility in the program to Market Makers and eliminating the Consolidated Volume requirement under Rule 7014(d)(3) is an equitable allocation of the fees and credits provided by the program. In this regard, no current participants in the program will be excluded from being eligible to participate after the proposed change is effective, and applying the current Consolidated Volume criteria will have no significance in light of the proposed changes to the specific fees and credits under the program.

The Exchange believes that the proposed changes to Rule 7014(e) are reasonable and not unfairly discriminatory because they impose stricter requirements on Market Makers to receive the benefits of the program, which will be applied uniformly to all Market Makers that are eligible to participate in the QMM program. With regard to the \$0.0002 rebate provided in Tape A and B securities, the Exchange is eliminating the NBBO-based criteria and tying the rebate to greater overall volume, which the Exchange believes will provide a greater impact to improving overall market quality because the economic benefits provided to the Market Maker are more certain and therefore provide the Market Maker a means to more aggressively provide displayed liquidity to the Exchange for the benefit of all market participants. In this regard, the Exchange notes that Market Makers must provide more than 0.90% of Consolidated Volume during the month, which is a significant level participation in the market. Similarly, NASDAQ is proposing a significant level of Consolidated Volume to receive the \$0.0001 rebate under the rule, which currently only requires that the QMM participant provide displayed liquidity. The Exchange believes that it is reasonable and not unfairly discriminatory to impose stricter criteria designed to improve market quality in return for the credit NASDAQ elects to provide. NASDAQ also believes that the proposed changes to the eligibility requirements for the reduced removal fee in Tape A and B securities of \$0.00295 per share executed are reasonable and not unfairly discriminatory because they increase the level of Consolidated Volume required, which will be an absolute requirement and not tied to historical levels of Consolidated Volume, thereby increasing the level of market improvement necessary to receive the reduced rate. As an absolute requirement, the Consolidated Volume requirement will apply uniformly to all Market Makers eligible to participate in the program. The Exchange believes that the proposed changes

to the eligibility requirements under Rule 7014(e) are an equitable allocation because NASDAQ will provide the same rebates and fees to all Market Makers that qualify under the rule.

Lastly, NASDAQ notes that Market Makers serve an important role on the Exchange with regard to order interaction and provide continuous, passive liquidity in the marketplace. Additionally, Market Makers incur costs unlike the majority of other market participants including, but not limited to, their own infrastructure and other technology costs associated with market making activities. Consequently, the proposed differentiation between Market Makers and other market participants recognizes the differing contributions made to the quality of the market on the Exchange by Market Makers and the heightened regulatory requirements and costs associated with being a Market Maker. In brief, the Exchange believes that the proposed changes to the QMM program further incentives registered Market Makers to provide liquidity improves market quality [sic], furthers the price discovery process and benefits investors.

The Exchange believes that the proposed changes to the level of Consolidated Volume in Market-on-Close and/or Limit-on-Close order participation in the Closing Cross required to receive the fees for orders that remove liquidity under Rules 7018(a)(1), (2), and (3) are reasonable and not unfairly discriminatory because they represent an increase in the level of market-improving Consolidated Volume contributed to the Closing Cross. NASDAQ provides discounted fees in Market-on-Close and/or Limit-on-Close orders in Tape A and B securities to provide incentives to member firms to provide liquidity in the closing process. NASDAQ is increasing the Consolidated Volume requirement to better align the discounted remove fees with members that use the closing cross process more regulatory [sic] over alternatives and also access liquidity more frequently on the Exchange as opposed to other members. Nonetheless, NASDAQ believes that it is reasonable and not unfairly discriminatory to change the eligibility

criteria so that it mirrors the eligibility criteria of the related fees under Rules 7018(a)(2) and (3). Lastly, the Exchange believes that the proposed changes to the rules are an equitable allocation of the fees because the fee is provided uniformly to all member firms that qualify for the fees and all member firms have an equal opportunity to earn the discounted fee for accessing liquidity.

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

NASDAQ does not believe that the proposed rule changes will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.⁷ NASDAQ 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, NASDAQ must continually adjust its fees 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, NASDAQ believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited or even non-existent. In this instance, the changes to eligibility criteria required to receive credits and reduced fees under the QMM program do not impose a burden on competition because the incentive program remains in place, still offers economically advantageous credits and reduced fees, and is reflective of the need for exchanges to offer, and to let, the financial incentives to attract order flow evolve. While the Exchange does not believe that the proposed changes to the QMM program will result in any burden on competition, if the changes proposed herein are unattractive to market participants it is

⁷ 15 U.S.C. 78f(b)(8).

likely that NASDAQ will lose market share as a result. Similarly, the proposed changes to the eligibility criteria for remove fees under Rule 7018(a) based on Market-on-Close and/or Limit-on-Close order participation in the Closing Cross are designed to increase participation in the Closing Cross by setting the minimum level of Consolidated Volume eligibility criteria higher, thereby improving the market at the market close. To the extent the qualification criteria is too onerous or unattractive to market participants, NASDAQ will likely lose order flow and participation in the Closing Cross as a result.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.⁸ 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. 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:

⁸ 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-2015-032 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2015-032. 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, D.C. 20549 on official business days between the hours of 10 a.m. and 3 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; 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-2015-032, 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.⁹

Brent J. Fields,
Secretary.

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⁹ 17 CFR 200.30-3(a)(12).