



SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-99176; File No. SR-NASDAQ-2023-053]

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Equity 7, Section 114(f)

December 14, 2023.

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 December 1, 2023, 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 rebates at Equity 7, Section 114(f) as described further below. 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 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The purpose of the proposed rule change is to amend the Exchange’s schedule of credits at Equity 7, Section 114(f) applicable to the Designated Liquidity Provider (“DLP”)³ Program. Specifically, the Exchange proposes to amend the Additional Tape C ETP Incentives at Equity 7, Section 114(f).

Currently, the Additional Tape C ETP Incentives in Equity 7, Section 114(f)(5)(B) are provided to an eligible member for each displayed share that adds liquidity in a Tape C ETP that meets the criteria of Equity 7, Section 114(f)(1)(A) and only apply to the MPID where a member is a DLP. In addition, Equity 7, Section 114(f)(4) provides monthly performance criteria related to Additional Tape C ETP Incentives, which requires that the average time the DLP is at the NBBO for each assigned ETP averages at least 20%, and the average liquidity provided by the DLP for each assigned ETP average at least 5% of the liquidity provided on the Exchange in the respective ETP.

As set forth in in Equity 7, Section 114(f)(5)(B), the Exchange provides an Incremental Tape C ETP Rebate for Tier 1 (applicable to members with a minimum monthly average of 10 assigned ETPs as a DLP) of \$0.0002 per executed share. The Exchange provides an Incremental Tape C ETP Rebate for Tier 2 (applicable to members with a minimum monthly average of 25 assigned ETPs as a DLP) of \$0.0003 per executed share. The Exchange provides an Incremental Tape C ETP Rebate for Tier 3 (applicable to members with a minimum monthly average of 50 assigned ETPs as a DLP) of \$0.0004 per executed share. Finally, the Exchange provides an

³ Equity 7, Section 114(f)(2) defines a “Designated Liquidity Provider” or “DLP” as a registered Nasdaq market maker for a Qualified Security that has committed to maintain minimum performance standards. A DLP shall be selected by Nasdaq based on factors including, but not limited to, experience with making markets in exchange-traded products, adequacy of capital, willingness to promote Nasdaq as a marketplace, issuer preference, operational capacity, support personnel, and history of adherence to Nasdaq rules and securities laws. Nasdaq may limit the number of DLPs in a security, or modify a previously established limit, upon prior written notice to members.

Incremental Tape C ETP Rebate for Tier 4 (applicable to members with a minimum monthly average of 100 assigned ETPs as a DLP) of \$0.0005 per executed share.

The Exchange proposes to limit the category of DLPs that may qualify for the Additional Tape C ETP Incentives to Primary DLPs. Under the proposed rule change, Secondary DLPs⁴ would not be eligible for Additional Tape C ETP Incentives.

In order to effectuate this proposed modification, the Exchange proposes to modify Equity 7, Section 114(f)(4) to indicate that the Additional Tape C ETP Incentives are for Primary DLPs and relatedly, update the performance criteria related to such rebates by adding “Primary” where DLP is referenced. In addition, the Exchange proposes to modify Equity 7, Section 114(f)(5) to specify, in both the introductory language as well as in Section 114(f)(5)(B), that the DLP must be a Primary DLP to qualify for the Additional Tape C ETP Incentives.

The Exchange believes it is appropriate to update the Tape C ETP Incentives to apply solely to Primary DLPs because Primary DLPs bear the majority of the responsibility for providing high quality markets in the ETPs, whereas Secondary DLPs provide additional support. In return for serving as Primary DLPs, the Exchange believes it is appropriate to compensate Primary DLPs with incentives reserved for Primary DLPs. The Exchange has limited resources to devote to incentive programs, and it is appropriate for the Exchange to reallocate these incentives periodically in a manner that best achieves the Exchange’s overall mix of objectives, including by maximizing the net impact of such incentives on the Exchange, market quality, and participants.

2. Statutory Basis

⁴ Equity 7, Section 114(f)(4) provides that, if there are two DLP assignments for a Nasdaq-listed ETP, the Secondary DLP will be determined by using the factors in Section 114(f)(2). Such factors include experience with making markets in exchange-traded products, adequacy of capital, willingness to promote Nasdaq as a marketplace, issuer preference, operational capacity, support personnel, and history of adherence to Nasdaq rules and securities laws.

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁵ in general, and furthers the objectives of 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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Exchange also notes that its ETP listing business operates in a highly competitive market in which market participants, which include both DLPs and ETP issuers, can readily transfer their listings or opt not to participate, respectively, if they deem fee levels, liquidity incentive programs, or any other factor at a particular venue to be insufficient or excessive. The DLP Program, including the proposed rule change, reflects a competitive pricing structure designed to incentivize issuers to list new products and transfer existing products to the Exchange and market participants to enroll and participate as DLPs on the Exchange.

The Exchange believes it is reasonable, equitable, and not unfairly discriminatory to limit the category of DLPs that may qualify for the Additional Tape C ETP Incentives to Primary DLPs. The Exchange believes it is appropriate to update the Tape C ETP Incentives to apply solely to Primary DLPs because Primary DLPs bear the majority of the responsibility for providing high quality markets in the ETPs, whereas the Secondary DLPs provide additional support. The Exchange has limited resources to devote to incentive programs, and it is appropriate for the Exchange to reallocate these incentives periodically in a manner that best achieves the Exchange's overall mix of objectives. In return for serving as Primary DLPs, the Exchange believes it is appropriate to compensate Primary DLPs with incentives reserved exclusively for Primary DLPs. The Exchange believes that the proposed revisions to the Additional Tape C ETP Incentives are an equitable allocation and are not unfairly discriminatory because the Exchange will apply the same criteria for the Additional Tape C ETP Incentives to

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(4) and (5).

all Primary DLPs. The Exchange also believes that amending the DLP Program as proposed is an equitable allocation of rebates and is not unfairly discriminatory because it will allocate its rebates fairly among its market participants (i.e., the Exchange will offer more rebates to Primary DLPs that are responsible for providing high quality markets in the ETPs).

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 Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem rebates or 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 rebates and 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 rebates and fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which rebate and fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the Exchange is proposing to limit the category of DLPs that may qualify for the Additional Tape C ETP Incentives in the DLP Program to Primary DLPs in an effort to exclusively reward Primary DLPs with such incentives. The proposal is reflective of the greater responsibility borne by Primary DLPs.

The Exchange uses incentives, such as the rebates of the DLP program, to incentivize market participants to improve the market. The Exchange must, from time to time, assess the effectiveness of incentives and adjust them when they are not as effective as the Exchange believes they could be. Moreover, the Exchange is ultimately limited in the amount of rebates it may offer. The proposal is reflective of such an analysis.

The Exchange notes that participation in the DLP program is entirely voluntary and, to the extent that registered market makers determine that the rebates are not in line with the level of market-improving behavior the Exchange requires, a DLP may elect to deregister as such with no penalty. The Exchange does not believe that the proposed change places an unnecessary burden on competition and, in sum, if the changes proposed herein are unattractive to market makers, it is likely that the Exchange will lose participation in the DLP program as a result. Thus, the Exchange does not believe that the proposal represents a burden on competition among Exchange members, or that the proposal 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.⁷

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:

⁷ 15 U.S.C. 78s(b)(3)(A)(ii).

Electronic Comments:

- Use the Commission's internet comment form

(<https://www.sec.gov/rules/sro.shtml>); or

- Send an email to rule-comments@sec.gov. Please include file number SR-NASDAQ-2023-053 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-2023-053. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright

protection. All submissions should refer to file number SR-NASDAQ-2023-053 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.⁸

Sherry R. Haywood,

Assistant Secretary.

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⁸ 17 CFR 200.30-3(a)(12).