



8011-01p  
SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69133; File No. SR-NASDAQ-2013-042)

March 14, 2013

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on March 1, 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 NASDAQ. 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

NASDAQ is proposing changes to its schedule of fees and rebates for execution of orders for securities priced at \$1 or more under Rule 7018, as well as a minor change to its Routable Order Program under Rule 7014. The changes pursuant to this proposal are effective upon filing, and the Exchange will implement the proposed rule changes on March 1, 2013.

The text of the proposed rule change is available on the Exchange's Website at <http://www.nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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, the Exchange included statements concerning the purpose of and basis for 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

**Designated Retail Orders**

NASDAQ proposes to introduce new liquidity provider credit tiers for orders designated by a member as Designated Retail Orders. The proposed change is part of an ongoing effort by NASDAQ to use financial incentives to encourage greater participation in NASDAQ by members that represent retail customers.<sup>3</sup> For purposes of the proposed new tiers and credits, a Designated Retail Order would be defined as an agency or riskless principal<sup>4</sup> order that

---

<sup>3</sup> Thus, the change complements NASDAQ’s existing Investor Support Program (“ISP”) and Routable Order Program (“ROP”) under Rule 7014, both of which provide enhanced rebates for orders with characteristics associated with retail investors. The Commission has expressed concern that a significant percentage of the orders of individual investors are executed in over-the-counter markets, that is, at off-exchange markets. Securities Exchange Act Release No. 61358 (January 14, 2010), 75 FR 3594 (January 21, 2010) (Concept Release on Equity Market Structure, “Concept Release”). In the Concept Release, the Commission recognized the strong policy preference under the Act in favor of price transparency and displayed markets. See also Mary L. Schapiro, Strengthening Our Equity Market Structure (Speech at the Economic Club of New York, Sept. 7, 2010) (“Schapiro Speech,” available on the Commission website) (comments of Commission Chairman on what she viewed as a troubling trend of reduced participation in the equity markets by individual investors, and that a significant percentage of volume in U.S.-listed equities is executed in venues that do not display their liquidity or make it generally available to the public).

<sup>4</sup> To qualify as a Designated Retail Order, a riskless principal order must satisfy the criteria set forth in FINRA Rule 5320.03. These criteria include that that the member maintain

originates from a natural person and is submitted to NASDAQ by a member that designates it pursuant to Rule 7018, 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. If a member enters Designated Retail Orders through an MPID through which (i) at least 90% of the shares of liquidity provided during the month are provided through Designated Retail Orders, and (ii) the member accesses, provides, or routes shares of liquidity that represent at least 0.10% of Consolidated Volume<sup>5</sup> during the month, the member will receive a credit of \$0.0034 per share executed for Designated Retail Orders that provide liquidity if they are displayed orders. For all other Designated Retail Orders that are displayed orders and that provide liquidity, the credit will be \$0.0033 per share executed. With respect to Designated Retail Orders that are not displayed, NASDAQ's existing credits for midpoint pegged and midpoint peg post-only orders ("midpoint orders") and other forms of non-displayed orders would apply.<sup>6</sup>

A member wishing to qualify for either of these tiers may do so by designating orders as Designated Retail Orders, either on an order-by-order basis, or by designating all orders on a

---

supervisory systems to reconstruct, in a time-sequenced manner, all orders that are entered on a riskless principal basis; and the member submits a report, contemporaneously with the execution of the facilitated order, that identifies the trade as riskless principal.

<sup>5</sup> "Consolidated Volume" is defined as the total consolidated volume reported to all consolidated transaction plans by all exchanges and trade reporting facilities.

<sup>6</sup> Specifically, NASDAQ provides a credit of \$0.0017 per share executed for midpoint orders if the member provides an average daily volume of more than 3 million shares through midpoint orders during the month, \$0.0015 per share executed for midpoint orders if the member provides an average daily volume of 3 million or fewer shares through midpoint orders during the month, and \$0.0010 per share executed for other orders that are not displayed.

particular order entry port as Designated Retail Orders.<sup>7</sup> The member would be required to attest, in a form prescribed by NASDAQ, that it has implemented policies and procedures that are reasonably designed to ensure that every order designated by the member as a “Designated Retail Order” complies with NASDAQ’s definition of a Designated Retail Order, as described above.

The member’s written policies and procedures must be reasonably designed to assure that it will only designate orders as Designated Retail Orders if all requirements of a Designated Retail Order are met. Such written policies and procedures must require the member to (i) exercise due diligence before entering a Designated Retail Order to assure that entry as a Designated Retail Order is in compliance with the requirements specified by NASDAQ, and (ii) monitor whether orders entered as Designated Retail Orders meet the applicable requirements. If the member represents Designated Retail Orders from another broker-dealer customer, the member's supervisory procedures must be reasonably designed to assure that the orders it receives from such broker-dealer customer that it designates as Designated Retail Orders meet the definition of a Designated Retail Order. The member must (i) obtain an annual written representation, in a form acceptable to NASDAQ, from each broker-dealer customer that sends it orders to be designated as Designated Retail Orders that entry of such orders as Designated Retail Orders will be in compliance with the requirements specified by NASDAQ, and (ii) monitor whether its broker-dealer customer's Designated Retail Order flow continues to meet the applicable requirements.<sup>8</sup>

---

<sup>7</sup> A Designated Retail Order flag will be made available for the purpose of designating orders.

<sup>8</sup> FINRA will, on behalf of NASDAQ, review a member’s compliance with these requirements through an exam-based review of the member’s internal controls.

NASDAQ may disqualify a member from qualifying for Designated Retail Order rebates if NASDAQ determines, in its sole discretion, that a member has failed to abide by the requirements proposed herein, including, for example, if a member designates orders submitted to NASDAQ as Designated Retail Orders but those orders fail to meet any of the requirements of Designated Retail Orders.

### **New Tier for Members Active in the NASDAQ Market Center and the NASDAQ Options Market**

NASDAQ is proposing to introduce a new liquidity provider credit tier for members that are active in both the Nasdaq Market Center and the NASDAQ Options Market (“NOM”). At present, NASDAQ provides a credit of \$0.0027 per share executed for displayed orders that provide liquidity if a member has (i) shares of liquidity provided in all securities during the month representing more than 0.10% of Consolidated Volume, through one or more of its Nasdaq Market Center MPIDs, and (ii) an average daily volume during the month of more than 100,000 contracts of liquidity accessed or provided through one or more of its NOM MPIDs. NASDAQ provides a credit of \$0.0029 per share executed for displayed orders that provide liquidity if a member has (i) shares of liquidity provided in all securities during the month representing more than 0.15% of Consolidated Volume, through one or more of its Nasdaq Market Center MPIDs, and (ii) an average daily volume during the month of more than 100,000 contracts of liquidity accessed or provided through one or more of its NOM MPIDs. Finally, NASDAQ currently provides a credit of \$0.00295 per share executed for displayed orders that provide liquidity if a member has (i) shares of liquidity provided in all securities during the month representing more than 1.0% of Consolidated Volume, through one or more of its Nasdaq Market Center MPIDs, and (ii) an average daily volume during the month of more than 200,000 contracts of liquidity accessed or provided through one or more of its NOM MPIDs. Under the

proposed additional tier, NASDAQ will provide a credit of \$0.0030 per share executed for displayed orders that provide liquidity if a member (i) has shares of liquidity provided in all securities during the month representing at least 0.45% of Consolidated Volume during the month, through one or more of its Nasdaq Market Center MPIDs, and (ii) qualifies for the Penny Pilot Tier 7 Customer and Professional Rebate to Add Liquidity under Chapter XV, Section 2 of the NOM rules during the month through one or more of its NOM MPIDs. The Tier 7 Customer and Professional Rebate is being proposed for NOM through a contemporaneous proposed rule change.<sup>9</sup> A NOM Participant may qualify for the Tier 7 Customer and Professional Rebate if it (i) has Total Volume<sup>10</sup> of 325,000 or more contracts per day in a month, (2) adds Customer and Professional liquidity of 1.00% or more of national customer volume in multiply-listed equity and ETF options classes in a month, or (iii) adds Customer and Professional liquidity of 60,000 or more contracts per day in a month and NOM Market Maker liquidity of 30,000 or more per day per month. Thus, as with existing tiers that require participation in both the Nasdaq Market Center and NOM, the criteria for the new tier establish volume thresholds that must be met on

---

<sup>9</sup> SR-NASDAQ-2013-041 (March 1, 2013).

<sup>10</sup> “Total Volume” is defined as Customer, Professional, Firm, Broker-Dealer, Non-NOM Market Maker and NOM Market Maker volume in Penny Pilot Options and Non-Penny Pilot Options that either adds or removes liquidity on NOM. The term “Customer” applies to any transaction that is identified by a Participant for clearing in the Customer range at The Options Clearing Corporation (“OCC”) which is not for the account of a broker or dealer or for the account of a Professional. The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s) pursuant to Chapter I, Section 1(a)(48) of the NOM Rules. The term “Non-NOM Market Maker” means a registered market maker on another options exchange that is not a NOM Market Maker. The term “NOM Market Maker” means a Participant that has registered as a Market Maker on NOM pursuant to Chapter VII, Section 2 of the NOM Rules, and must also remain in good standing pursuant to Chapter VII, Section 4 of the NOM Rules. The term “Firm” applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC. The term “Broker-Dealer” applies to any transaction that is not subject to any of the other transaction fees applicable within a particular category.

both markets in order to receive the higher rebate. In doing so, the pricing incentive recognizes the prevalence of trading in which members simultaneously trade different asset classes within the same strategy. Because cash equities and options markets are linked, with liquidity and trading patterns on one market affecting those on the other, NASDAQ believes that pricing incentives that encourage market participant activity in NOM also support price discovery and liquidity provision in the Nasdaq Market Center.

### **Designated Securities Pricing**

In December 2012,<sup>11</sup> NASDAQ introduced a discounted execution fee of \$0.0028 per share executed for certain securities designated in the rule (“Designated Securities”).<sup>12</sup> The discounted fee applied to all orders in Designated Securities entered through an MPID through which a member accessed, provided, or routed shares of liquidity that represent more than 0.25% of Consolidated Volume during the month, including a daily average volume of at least 2 million shares of liquidity provided. NASDAQ is proposing to eliminate the discount for Designated Securities, effective March 1, 2013. The program has not been successful at achieving its goal of materially altering NASDAQ’s market share of executions of trades in Designated Securities, and accordingly NASDAQ believes that it may appropriately be discontinued.

---

<sup>11</sup> Securities Exchange Act Release No. 68421 (December 13, 2012), 77 FR 75232 (December 19, 2012) (SR-NASDAQ-2012-135).

<sup>12</sup> In February 2013, NASDAQ amended the list of Designated Securities. Securities Exchange Act Release No. 68905 (February 12, 2013), 78 FR 11716 (February 19, 2013) (SR-NASDAQ-2013-023).

## **Routable Order Program**

In February 2013, NASDAQ introduced a new Routable Order Program aimed at encouraging greater participation in NASDAQ by members that represent retail customers.<sup>13</sup> NASDAQ is now proposing a minor enhancement to the program to broaden its availability. Under the program, a member must have an MPID through which it provides an average daily volume of at least 35 million shares of displayed liquidity using orders that employ the SCAN or LIST routing strategies,<sup>14</sup> including an average daily volume of at least 2 million shares that are provided prior to the NASDAQ Opening Cross and/or after the NASDAQ Closing Cross. Under the proposed change, a qualifying member must have an MPID through which it (i) provides an average daily volume of at least 35 million shares of displayed liquidity using orders that employ the SCAN or LIST routing strategies, and (ii) provides displayed liquidity and/or routes an average daily volume of at least 2 million shares prior to the NASDAQ Opening Cross and/or after the NASDAQ Closing Cross using orders that employ the SCAN or LIST strategies. Thus, the satisfaction of the volume requirements for participation in the program would not be affected by the extent to which, during pre- and post-market hours, routable orders execute at NASDAQ or at another venue to which they are routed prior to posting to the NASDAQ book.

---

<sup>13</sup> Securities Exchange Act Release No. 68905 (February 12, 2013), 78 FR 11716 (February 19, 2013) (SR-NASDAQ-2013-023).

<sup>14</sup> SCAN is a basic routing strategy that is widely used by firms that represent retail customers. SCAN orders check the Nasdaq Market Center System for available shares, while remaining shares are simultaneously routed to destinations on the applicable routing table. If shares remain un-executed after routing, they are posted on the book. Once on the book, if the order is subsequently locked or crossed by another market center, the System will not route the order to the locking or crossing market center. LIST is a routing strategy that is used by firms that wish for their orders to participate in the opening and closing processes of each security's primary listing exchange, to access liquidity on all exchanges if marketable, and otherwise to post to the NASDAQ book. Members, including those that represent retail customers, use the LIST strategy to offload on the Exchange and its routing broker the technical complexity associated with routing orders to participate in the market open and/or close.

The change reflects the fact that wider spreads during pre- and post-market hours make it more likely that orders will be marketable against quotes posted at other markets and therefore will route rather than posting to the NASDAQ book. The pricing associated with SCAN and LIST orders entered by ROP participants through a qualifying MPID is not being altered.<sup>15</sup>

## 2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>16</sup> in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,<sup>17</sup> 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 controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed changes with respect to the ROP and the tiers for Designated Retail Orders are reflective of NASDAQ's ongoing efforts to use pricing incentive programs to attract orders of retail customers to NASDAQ and improve market quality. As NASDAQ noted in its filing to introduce the ROP, the goal of that program is to provide meaningful incentives for members that represent significant numbers of retail customers to increase their participation in NASDAQ. The proposed change to the program is reasonable because it will broaden the availability of the

---

<sup>15</sup> For orders in securities priced at \$1 per share or more, NASDAQ charges a fee of \$0.0029 per share executed with respect to such orders when they access liquidity in the Nasdaq Market Center, and provides a credit of \$0.0037 per share executed with respect to such orders when they provide liquidity on NASDAQ. For orders in securities priced less than \$1 per share, NASDAQ charges a fee of 0.30% of the total transaction cost with respect to such orders when they access liquidity in the Nasdaq Market Center, and provides a credit of \$0.00003 per share executed if they are designated for display and provide liquidity after posting to the book.

<sup>16</sup> 15 U.S.C. 78f.

<sup>17</sup> 15 U.S.C. 78f(b)(4) and (5).

significant fee reductions available through the program, thereby reducing the costs of members that represent retail customers and that take advantage of the program, and potentially also reducing costs to the customers themselves. The change is consistent with an equitable allocation of fees because it will make it easier for more members to qualify for the program. NASDAQ further believes that the proposed change is not unreasonably discriminatory because it will ensure that eligibility to participate in the program is not affected by the extent to which orders that are entered during pre- and post-market hours route to quotes of other trading venues against which they are marketable rather than posting to the NASDAQ book.

The proposed pricing tiers for Designated Retail Orders are reasonable because they reflect the availability of a significant fee reduction for members that represent retail customers. NASDAQ believes that it is reasonable to use fee reductions as a means to encourage greater retail participation in NASDAQ. Because retail orders are likely to reflect long-term investment intentions, they promote price discovery and dampen volatility. Accordingly, their presence in the NASDAQ market has the potential to benefit all market participants. For this reason, NASDAQ believes that it is equitable to provide significant financial incentives to encourage greater retail participation in the market. NASDAQ further believes that the proposal is equitable and not unreasonably discriminatory because it will significantly broaden the retail pricing incentives already provided through the ROP and the ISP by offering a meaningful pricing incentive (\$0.0033 per share executed) that is available to all members that are able to attest that orders designated by them for participation in the program meet the definition of a Designated Retail Order. Moreover, the higher rebate of \$0.0034 per share executed for members that trade higher volumes (at least 0.1% of Consolidated Volume) and that are able to focus the Designated Retail Orders they introduce through a particular MPID is consistent with

existing NASDAQ pricing policies that offer higher rebates and/or lower fees for members based on volume but that require concentration of activity through particular MPIDs as a means of encouraging members to manage their trading activity in a unified manner rather than merely serving as an aggregator of orders from sponsored participants. NASDAQ believes that these requirements are consistent with an equitable allocation of fees and not unreasonably discriminatory because they provide the most favorable pricing to the market participants that are most active on NASDAQ and that thereby promote price discovery and market stability. These requirements also avoid providing excessive encouragement to members aggregating the activity of several firms (some of whom may not themselves be members of the Exchange) for the sole purpose of earning a higher rebate.<sup>18</sup>

The change with respect to Designated Securities is reasonable: although it eliminates a pricing incentive that was in effect for a short period of time, the change causes NASDAQ's fees to access liquidity in Designated Securities to revert to the same levels as in effect for other securities. These fees are, in turn, consistent with the requirements imposed by SEC Rule 610 with respect to access fees.<sup>19</sup> The change is also consistent with an equitable allocation of fees and not unreasonably discriminatory because all members will pay the same access fees with respect to Designated Securities as they currently pay with respect to all other securities.

The new tier for members active in both the NASDAQ Market Center and NOM is reasonable because it reflects the availability of a significant price reduction for members that support liquidity on both markets. The change is consistent with an equitable allocation of fees because the pricing tier requires significant levels of liquidity provision, which benefits all

---

<sup>18</sup> See Securities Exchange Act Release No. 64003 (March 2, 2011), 76 FR 12784 (March 8, 2011) (SR-NASDAQ-2011-028) (discussing introduction of fees designed to discourage aggregation for purposes of earning a rebate).

<sup>19</sup> 17 CFR 242.610.

market participants, and because activity in NOM also supports price discovery and liquidity provision in the NASDAQ Market Center due to the increasing propensity of market participants to be active in both markets and the influence of each market on the pricing of securities in the other. The new tier is not unreasonably discriminatory because market participants may qualify for a comparable or a higher rebate through alternative means that do not require participation in NOM, including through the new program for Designated Retail Orders introduced through this proposed rule change, through the ROP, and through a combination of qualification for volume-based tiers and participation in the ISP.

Finally, 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. NASDAQ believes that all aspects of the proposed rule change reflect this competitive environment because the changes reflect significant price reductions, offset only to a small extent by the elimination of the program for Designated Securities.

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, NASDAQ believes that these changes reflect significant price reductions, offset only to a small extent by the elimination of the program for Designated Securities. Such reductions reflect the high degree of competition in the cash equities markets

and will further enhance that competition by lowering fees and possibly encouraging NASDAQ's competitors to make competitive responses. The market for order execution is extremely competitive and members may readily opt to disfavor NASDAQ's execution services if they believe that alternatives offer them better value. Accordingly, NASDAQ believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, NASDAQ 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) of the Act<sup>20</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>21</sup> 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:

---

<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f).

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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2013-042 on the subject line.

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-2013-042. 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; 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-2013-042 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.<sup>22</sup>

Kevin M. O'Neill  
Deputy Secretary

[FR Doc. 2013-06319 Filed 03/19/2013 at 8:45 am; Publication Date: 03/20/2013]

---

<sup>22</sup> 17 CFR 200.30-3(a)(12).