



8011-01
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79163; File No. SR-NASDAQ-2016-141)

October 26, 2016

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Rule 4702 to Adopt a New Retail Post-Only Order

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 13, 2016, 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 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 4702 (Order Types) [sic] adopt a New Retail Post-Only Order. 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, 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 purpose of this filing is to amend Rule 4702 (Order Types) to adopt a new Retail Post-Only Order type. Although based on the Post-Only Order, the Retail Post-Only Order differs from the Post-Only Order in two ways. First, the Retail Post-Only Order can only be used in connection with orders sent on behalf of retail customers, whereas a Post-Only Order is available for use by any market participant. Second, if a Retail Post Only Order would remove liquidity or if posting the order would require an adjustment to the price of the order for any reason, the order will be cancelled. In contrast, a Post-Only Order is designed to have its price adjusted as needed, for example, in order to avoid locking or crossing a Protected Quotation. With the Retail Post-Only Order, Nasdaq is providing firms with another way of managing their retail customer order flow. Currently, if a firm does not want a retail customer order to remove liquidity from the Exchange upon entry, the firm can select the RTFY routing option, which routes the order to destinations in the System routing table instead of immediately removing liquidity from the Exchange order book.³ Some firms, however, prefer to use their own routing infrastructure in seeking execution of a customer order rather than allowing that order to remove liquidity from the Exchange upon entry or instructing the Exchange to make a routing determination. In cancelling the order for any reason instead of adjusting its price, the Retail

³ See Nasdaq Rule 4738(a)(1)(A)(v)(b); see also Securities Exchange Act Release No. 76718 (December 21, 2015), 80 FR 80847 (December 28, 2015) (SR-NASDAQ-2015-112).

Post-Only Order will therefore provide firms with an alternative for handling [sic] retail customer orders.

As noted above, the first key feature of the Retail Post-Only Order is that it is designed for use by retail customers. Accordingly, a Retail Post-Only Order must meet the criteria of a Designated Retail Order, as defined in Rule 7018, in addition to the criteria set forth in Rule 4702(b)(14).⁴ Nasdaq believes that defining a retail customer by reference to Rule 7018 is appropriate because this definition is already used in connection with other Nasdaq programs and fees, including the RTFY routing option, and defining a retail customer by reference to Rule 7018 will therefore keep the concept of “retail” – either as applied to a type of order or to a type of customer – consistent across the Exchange. Nasdaq is offering this Order to retail customers because it will provide firms that handle retail customer order flow with an alternative to the methods of handling retail order flow that currently exist on the Exchange.⁵ By offering firms that handle retail order flow an additional choice, Nasdaq believes that the proposal could stimulate competition by attracting additional retail customer order flow to the Exchange.

⁴ Rule 7018 provides that 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 rule, 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.”

⁵ As noted above, there are various options a member may currently use to efficiently manage its order flow, such as utilizing the RTFY routing option or allowing that order to have its price adjusted and potentially remove liquidity.

The second key feature of the Retail Post-Only Order is that it will cancel if the price of the Order would otherwise adjust for any reason. Rule 4702(b)(14) therefore states that when a new Retail Post-Only order is received, it will attempt to post on the Exchange Book. A Retail Post-Only order that cannot post to the Nasdaq Book at its limit price without having its price adjusted or removing liquidity will be cancelled.⁶

The Retail Post-Only Order is based on the Post-Only Order, and will therefore share most of the attributes of a Post-Only Order.⁷ For example, a Retail Post-Only Order may be entered with reserve size. As with the Post-Only Order, a Retail Post-Only Order may be entered in any whole share size between one share and 999,999 shares. Orders for fractional shares are not permitted.

With respect to Time-in-Force (the period of time that the Nasdaq Market Center will hold the Order for potential execution), the Retail Post-Only Order may be entered with all times permitted by Time-in-Force;⁸ however, a Retail Post-Only Order that is entered as “Immediate or

⁶ An order may have its price adjusted, for example, to satisfy a regulatory obligation, such as the prohibition under Regulation NMS against locking or crossing a Protected Quotation. See 17 CFR 242.610(d). Another scenario where the price of an order may have to be adjusted for purposes of regulatory compliance is Rule 201 of Regulation SHO, which requires trading centers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order at a price at or below the current National Best Bid under certain circumstances. See 17 CFR 242.201.

⁷ As defined in Rule 4703, the potential attributes that may apply to an order are (1) time-in-force; (2) size; (3) price; (4) pegging; (5) minimum quantity; (6) routing; (7) discretion; (8) reserve size; (9) attribution; (10) Intermarket Sweep Order; (11) display; and (12) participation in the Nasdaq Opening Cross or the Nasdaq Closing Cross.

⁸ Under Rule 4703(a), Participants specify an Order’s Time-in-Force by designating a time at which the Order will become active and a time at which the Order will cease to be active. The available times for activating Orders are (1) time of the Order’s receipt by the Nasdaq Market Center; (2) the Nasdaq Opening Cross (or 9:30 a.m. ET in the case of a security for which no Nasdaq Opening Cross occurs); (3) Market Hours, beginning after the completion of the Nasdaq Opening Cross (or at 9:30 a.m. ET in the case of a security for which no Nasdaq Opening Cross occurs); (4) the Nasdaq Closing Cross (or the end of

Cancel” will be canceled (because an Immediate or Cancel order is incapable of posting to the Nasdaq Book).

Unlike the Post-Only Order, Retail Post-Only Orders cannot be designated as Intermarket Sweep Orders (“ISO”). The purpose of the Order is to allow firms to utilize their own routing infrastructure in deciding how to execute a retail customer order. Retail Post Only orders will therefore not route and have no routing strategies used in conjunction with the order, and will also not support the ISO attribute. Unlike the Post-Only Order, the Retail Post-Only Order will also not utilize the “display” attribute, since a Retail Post-Only Order may be either displayed or non-displayed.

As with Post-Only Orders, Retail Post-Only Orders will support attribution, which permits a Participant to designate that the price and size of the Order will be displayed next to the Participant’s MPID in market data disseminated by Nasdaq. A Retail Post-Only order may also participate in the Nasdaq Opening Cross and/or the Nasdaq Closing Cross.

As with Post-Only Orders, Retail Post Only Orders will not support pegging (the attribute by which the price of the Order is automatically set with reference to the National Best Bid or Offer), since the purpose of this Order is to cancel if the price of the Order needs to be adjusted. For the same reason, Retail Post Only Orders will also not support discretion (where an order has a non-displayed discretionary price range within which the entering Participant is willing to trade).

Market Hours in the case of a security for which no Nasdaq Closing Cross occurs); (5) 8:00 a.m. ET, in the case of an Order using the SCAN or RTFY routing strategy that is entered prior to 8:00 a.m. ET; (6) the beginning of the Display-Only Period, in the case of a security that is the subject of a trading halt and for which trading will resume pursuant to a halt cross; and (7) the resumption of trading, in the case of a security that is the subject of a trading halt and for which trading resumes without a halt cross.

The Retail Post-Only Order will be available for entry through Nasdaq's RASH, FIX and QIX order entry protocols. Nasdaq notes that almost all Designated Retail Orders received by the Exchange are entered through the RASH and FIX protocols. A user may also enter a Retail Post-Only Order during Pre-Market and Post-Market Hours.⁹ During these times, a Retail Post-Only Order will be processed in a manner identical to Market Hours.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ in particular, in that it is designed to promote just and equitable principles of trade, 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. The Exchange believes that this proposal is consistent with the Act because it will add a new functionality (cancelling an order for any reason instead of adjusting its price) that is not currently available on the Exchange. The Exchange believes that this new functionality is consistent with the Act because it will allow firms that use this Order to utilize their own routing infrastructure in determining how to execute a retail customer order, which will facilitate the efficient execution of those orders. Nasdaq believes that it is reasonable to offer this Order to retail customers only, as this Order will provide firms that handle retail customer orders with an alternative to the functionality for handling retail order flow that

⁹ The term "Market Hours" means the period of time beginning at 9:30 a.m. ET and ending at 4:00 p.m. ET (or such earlier time as may be designated by Nasdaq on a day when Nasdaq closes early). The term "Pre-Market Hours" means the period of time beginning at 4:00 a.m. ET and ending immediately prior to the commencement of Market Hours. The term "Post-Market Hours" means the period of time beginning immediately after the end of Market Hours and ending at 8:00 p.m. ET. See Rule 4701(g).

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

currently exists on the Exchange. The Exchange also notes that it already offers functionalities that are tailored to retail customer order flow, such as the RTFY routing option. In offering firms that handle retail customer orders an alternative to the functionality that currently exists on Nasdaq for retail customer orders, the Exchange believes that it may attract additional retail customer order flow to the Exchange, which would increase the diversity of order flow on the Exchange and enhance the Exchange's market quality.

Nasdaq believes that the attributes of the Retail Post-Only Order are also consistent with the Act. Nasdaq notes that some of the Order's attributes, such as size and attribution, are the same as the attributes of the Post-Only Order, upon which the Retail Post-Only Order is based. Nasdaq also notes that the Order's attributes reflect the functionality of the Retail Post-Only Order. For example, pegging will not be offered as an order attribute, given that the purpose of the Order is to cancel rather than have its price adjusted.

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 Retail Post-Only Order is an optional order type that will be available for entry through Nasdaq's order entry protocols that are most commonly used to submit retail customer orders. The Retail Post-Only Order will provide retail customers with an order type and a resulting functionality that is not currently available on the Exchange. Although the Retail Post-Only Order will be offered to retail customers only, Nasdaq believes that this does not impose a burden on competition that is not necessary or appropriate. In providing an alternative to the Exchange's current methods of handling retail customer orders, Nasdaq believes that the proposal could stimulate competition by attracting additional retail customer order flow to the Exchange, which would increase the diversity of order flow on the Exchange and enhance the Exchange's market quality.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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:

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-2016-141 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-2016-141. 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-2016-141 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.¹²

Brent J. Fields
Secretary

¹² 17 CFR 200.30-3(a)(12).

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