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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84822; File No. SR-NASDAQ-2018-101]

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Exchange's Transaction Fees at Options 7, Section 2(1)

December 14, 2018

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 3, 2018, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“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 transaction fees at Options 7, Section 2(1), which governs the pricing for Nasdaq participants using The Nasdaq Options Market (“NOM”), Nasdaq's facility for executing and routing standardized equity and index options. The proposed changes are described further below.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 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 the proposed rule change is to amend NOM pricing at Options 7, Section 2(1) to modify the Rebates to Add Liquidity in Penny Pilot Options for Customers,³ Professionals,⁴ and NOM Market Makers.⁵ Each change is discussed below.

³ The term "Customer" or ("C") 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 broker or dealer or for the account of a "Professional" (as that term is defined in Chapter I, Section 1(a)(48)).

⁴ The term "Professional" or ("P") 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). All Professional orders shall be appropriately marked by Participants.

⁵ The term "NOM Market Maker" or ("M") is a Participant that has registered as a Market Maker on NOM pursuant to Chapter VII, Section 2, and must also remain in good standing pursuant to Chapter VII, Section 4. In order to receive NOM Market Maker pricing in all securities, the Participant must be registered as a NOM Market Maker in at least one security.

Customer and Professional Rebate to Add Liquidity in Penny Pilot Options

Today, the Exchange offers Customer and Professional Rebates to Add Liquidity in Penny Pilot Options. These rebates are structured as a six tier program ranging from \$0.20 to \$0.48 per contract, with increasing volume requirements for each tier. Participants that qualify for the \$0.48 per contract Tier 6 rebate are also eligible for a supplemental rebate, provided they meet the requisite qualifications in note “c” of Section 2(1). In particular, paragraphs (1), (2), and (3) of note “c” provide three additional incentives of \$0.02, \$0.05, and \$0.05 per contract, respectively, each with corresponding qualifications to achieve the rebate, as follows:

‘Participants that: (1) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non- Penny Pilot Options of 1.15% or more of total industry customer equity and ETF option ADV contracts per day in a month will receive an additional \$0.02 per contract Penny Pilot Options Customer and/or Professional Rebate to Add Liquidity for each transaction which adds liquidity in Penny Pilot Options in that month; or (2) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of 1.30% or more of total industry customer equity and ETF option ADV contracts per day in a month will receive an additional \$0.05 per contract Penny Pilot Options Customer and/or Professional Rebate to Add Liquidity for each transaction which adds liquidity in Penny Pilot Options in that month; or (3) (a) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.80% of total industry customer equity and ETF option ADV contracts per day in a month, (b) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Non-Penny Pilot Options above 0.15% of total industry customer equity and ETF option ADV contracts per day in a month, and

(c) execute greater than 0.04% of Consolidated Volume ("CV") via Market-on-Close/Limit-on-Close ("MOC/LOC") volume within The Nasdaq Stock Market Closing Cross within a month will receive an additional \$0.05 per contract Penny Pilot Options Customer and/or Professional Rebate to Add Liquidity for each transaction which adds liquidity in Penny Pilot Options in a month. Consolidated Volume shall mean 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. For purposes of calculating Consolidated Volume and the extent of an equity 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.”

The Exchange now proposes to amend the criteria in paragraph (3)(b) to decrease the percentage of total industry customer equity and ETF option ADV contracts per day in a month from 0.15% to 0.12%. As proposed, Participants will receive an additional \$0.05 per contract rebate if they add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Non-Penny Pilot Options above **0.12%** of total industry customer equity and ETF option ADV contracts per day in a month, and also meet the other qualifications in paragraphs (3)(a) and (3)(c). The Exchange believes that this will offer Participants an increased opportunity to qualify for the additional paragraph (3) incentive and receive the \$0.05 per contract rebate, in addition to the \$0.48 per contract Tier 6 rebate, by amending one of the qualifications to require less volume. The Exchange is not amending any other criteria in note “c” other than the proposed change in paragraph (3)(b). Participants that qualify for Tier 6 and

the supplemental rebate in paragraph (3) will continue to receive a total rebate of \$0.53 per contract.

NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options

Today, the Exchange offers NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options. These rebates are structured as a six tier program as follows:

| Monthly Volume | Rebate to Add Liquidity |
|--|---|
| Tier 1 Participant adds NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of up to 0.10% of total industry customer equity and ETF option average daily volume ("ADV") contracts per day in a month | \$0.20 |
| Tier 2 Participant adds NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.10% to 0.25% of total industry customer equity and ETF option ADV contracts per day in a month | \$0.25 |
| Tier 3 Participant adds NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.25% to 0.60% of total industry customer equity and ETF option ADV contracts per day in a month | \$0.30 or \$0.40 in the following symbols AAPL, QQQ, IWM, SPY and VXX |
| Tier 4 Participant adds NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of above 0.60% to 0.90% of total industry customer equity and ETF option ADV contracts per day in a month | \$0.32 or \$0.40 in the following symbols AAPL, QQQ, IWM, VXX and SPY |
| Tier 5 Participant adds NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options of above 0.30% of total industry customer equity and ETF option ADV contracts per day in a month and qualifies for the Tier 6 Customer and/or Professional Rebate to Add Liquidity in Penny Pilot Options | \$0.40 |
| Tier 6 Participant (1) adds NOM Market Maker liquidity | \$0.48 |

in Penny Pilot Options and/or Non-Penny Pilot Options above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month, (2) executes Total Volume of 250,000 or more contracts per day in a month, of which 30,000 or more contracts per day in a month must be removing liquidity, and (3) adds Firm, Broker-Dealer and Non-NOM Market Maker liquidity in Non-Penny Pilot Options of 10,000 or more contracts per day in a month

*"Total Volume" shall be defined as Customer, Professional, Firm, Broker-Dealer, Non-NOM Market Maker and NOM Market Maker volume in Penny Pilot Options and/or Non-Penny Pilot Options which either adds or removes liquidity on NOM.

The Exchange first proposes to amend the criteria in Tier 2 to decrease the percentage of total industry customer equity and ETF option ADV contract per day in a month from 0.25% to 0.20%, and make a corresponding change in Tier 3 to decrease the percentage from 0.25% to 0.20%. As proposed, Participants will receive a \$0.25 per contract Tier 2 rebate for adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.10% to **0.20%** of total industry customer equity and ETF option ADV contracts per day in a month. In addition, Participants will receive a \$0.30 per contract (or \$0.40 per contract in the symbols AAPL, QQQ, IWM, SPY and VXX) Tier 3 rebate for adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above **0.20%** to 0.60% of total industry customer equity and ETF option ADV contracts per day in a month.

The Exchange also proposes to create an alternative way for Participants to earn the Tier 6 rebate. Specifically, Participants will also be eligible to receive the \$0.48 per contract Tier 6 rebate for: (1) adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, and (2) executing Total Volume of 250,000 or more contracts per day in a month, of which 15,000 or more contracts per day in a month must be removing

liquidity. The Exchange also proposes to make related clean-up changes by renumbering the existing three-prong method to qualify for Tier 6 as paragraph (a) and the proposed alternative method as paragraph (b).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁶ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,⁷ 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.

Customer and Professional Rebate to Add Liquidity in Penny Pilot Options

The Exchange believes that its proposal to amend note “c” at paragraph (3)(b) to decrease the percentage of total industry customer equity and ETF option ADV contracts per day in a month from 0.15% to 0.12% to qualify for the additional \$0.05 per contract incentive in paragraph (3) is reasonable. As discussed above, the Exchange believes that this will offer Participants an increased opportunity to qualify for the paragraph (3) incentive and receive a \$0.05 per contract rebate by amending one of the qualifications to require less volume. The Exchange also believes that this incentive will continue to encourage Participants to add more liquidity on NOM to earn a higher Tier 8 rebate in addition to the incentives in note “c.” Participants that qualify for this incentive would be paid the Tier 8 rebate of \$0.48 per contract plus the additional note “c,” paragraph (3) rebate of \$0.05 per contract for a total rebate of \$0.53 per contract.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(4) and (5).

The Exchange's proposal to amend note "c" at paragraph (3)(b) is equitable and not unfairly discriminatory because all similarly situated Participants are equally capable of qualifying for the paragraph (3) incentive, and the same rebates will be paid to all qualifying Participants. Further, the Exchange believes that it is equitable and not unfairly discriminatory to offer this rebate to NOM Participants that transact as Customers or Professionals, and not to other market participants. Customer liquidity offers unique benefits to the market by providing more trading opportunities, which attracts specialists and market makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. The Exchange believes that encouraging Participants to add Professional liquidity is similarly beneficial, as the rebates may cause market participants to select NOM as a venue to send Professional order flow, which benefits all market participants by attracting valuable liquidity to the market and thereby enhancing the trading quality and efficiency of all.

NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options

The Exchange believes that its proposal to amend the NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options by modifying the criteria in Tier 2 to decrease the percentage of total industry customer equity and ETF option ADV contract per day in a month from 0.25% to 0.20%, and making a corresponding change in Tier 3 to decrease the percentage from 0.25% to 0.20% is reasonable. The Exchange believes that the amended qualifications will provide an increased opportunity for Participants to qualify for the rebates in Tiers 2 and 3 by amending the corresponding criteria to require less volume. The Exchange also believes that this incentive will continue to encourage Participants to add more liquidity on NOM to earn the Tier 2 and Tier 3 rebates.

The Exchange believes that its proposal to create an additional opportunity for Participants to earn the Tier 6 NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options is reasonable because it will encourage Participants to send additional order flow to NOM to earn a higher rebate, which will benefit all market participants by providing opportunities for increased order interaction. As proposed, in addition to the current method to qualify for the \$0.48 per contract Tier 6 rebate,⁸ Participants will also be eligible to receive the Tier 6 rebate for: (1) adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, and (2) executing Total Volume of 250,000 or more contracts per day in a month, of which 15,000 or more contracts per day in a month must be removing liquidity. The proposed alternative is similar to the existing method for achieving the same \$0.48 per contract Tier 6 rebate except the proposed will have two components as opposed to three for the existing.⁹

The Exchange believes that the proposed first prong (i.e., add NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month) is reasonable because the Exchange already offers rebates based on percentages of total industry customer equity and ETF option ADV contracts, including within the first prong of the existing Tier 6 rebate qualifications

⁸ Today, a Participant is eligible to receive the Tier 6 rebate for (1) adding NOM Market Maker liquidity in Penny Pilot Options and/or Non-Penny Pilot Options above 0.95% of total industry customer equity and ETF option ADV contracts per day in a month, (2) executing Total Volume of 250,000 or more contracts per day in a month, of which 30,000 or more contracts per day in a month must be removing liquidity, and (3) adding Firm, Broker-Dealer and Non-NOM Market Maker liquidity in Non-Penny Pilot Options of 10,000 or more contracts per day in a month.

⁹ Specifically, the proposed alternative will not have a requirement similar to the third prong of the existing criteria (i.e., add Firm, Broker-Dealer and Non-NOM Market Maker liquidity in Non-Penny Pilot Options of 10,000 or more contracts per day in a month).

as described above. While the first prong of the current Tier 6 qualifications also has a comparable percentage threshold (0.95%) that is lower than the 1.50% threshold in the proposed alternative to achieve the same \$0.48 per contract rebate, the proposed alternative has fewer components than the existing method as described above, which offsets the higher percentage threshold.

Furthermore, the proposed second prong (i.e., execute Total Volume of 250,000 or more contracts per day in a month, of which 15,000 or more contracts per day in a month must be removing liquidity) is reasonable because it is comparable to the second prong of the existing method (i.e., execute Total Volume of 250,000 or more contracts per day in a month, of which 30,000 or more contracts per day in a month must be removing liquidity). As is true of the existing qualifications, the proposed criteria will attract both liquidity providers and removers to NOM, thereby providing opportunities for increased order interaction from additional order flow.

The Exchange's proposed changes to Tiers 2, 3, and 6 of the NOM Market Maker Rebate to Add Liquidity in Penny Pilot Options as described above are equitable and not unfairly discriminatory because all eligible Participants that qualify for these incentives will uniformly receive the rebate. Further, the Exchange believes that it is equitable and not unfairly discriminatory to offer this rebate to NOM Participants that transact as NOM Market Makers because unlike other market participants, NOM Market Makers add value through continuous quoting and the commitment of capital.¹⁰ Because NOM Market Makers have these obligations

¹⁰ Pursuant to Chapter VII (Market Participants), Section 5 (Obligations of Market Makers), in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Further, all Market Makers

to the market and regulatory requirements that normally do not apply to other market participants, the Exchange believes that offering these rebates to only NOM Market Makers is equitable and not unfairly discriminatory in light of their obligations. Finally, encouraging NOM Market Makers to add greater liquidity benefits all market participants in the quality of order interaction.

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. All of the proposed changes to the Customer, Professional, and NOM Market Maker Rebates to Add Liquidity in Penny Pilot Options are designed to attract additional order flow to NOM, which strengthens NOM's competitive position. Greater liquidity benefits all market participants by providing more trading opportunities and attracting greater participation by market makers. An increase in the activity of these market participants in turn facilitates tighter spreads.

The Exchange 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, the Exchange must continually adjust its fees and rebates to remain competitive. Because competitors are free to modify their own fees and rebates in response, the Exchange believes that the degree to which pricing changes in this market may impose any burden on competition is extremely limited.

are designated as specialists on NOM for all purposes under the Act or rules thereunder.
See Chapter VII, Section 5.

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.¹¹

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:

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-2018-101 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.

¹¹ 15 U.S.C. 78s(b)(3)(A)(ii).

All submissions should refer to File Number SR-NASDAQ-2018-101. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-NASDAQ-2018-101 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

Eduardo A. Aleman,
Deputy Secretary.

¹² 17 CFR 200.30-3(a)(12).

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