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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89115; File No. SR-NASDAQ-2020-030)

June 22, 2020

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Equity 7, Section 114 and Equity 7, Section 118(a) of the Fee Schedule

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 June 10, 2020, 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 transaction fees at Equity 7, Section 114(d) to add a Qualified Market Maker (“QMM”) tier, and Section 118(a) to add several credits for displayed orders/quotes that provide liquidity to the Exchange.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange proposes to amend the Qualified Market Maker ("QMM") tiers pursuant to Equity 7, Section 114 and also to amend the schedule of credits it provides to member organizations, pursuant to Equity 7, Section 118(a), in two respects.

The QMM tier rebate provides a tier rebate to QMMs with respect to displayed orders (other than a Designated Retail Order³) in securities priced at \$1 or more per share that provide liquidity and are for securities listed on NYSE (Tape A), Nasdaq (Tape C) or securities listed on exchanges other than Nasdaq and NYSE (Tape B). Currently, the Exchange provides a \$0.0001 per share executed credit when a QMM executes shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent above 0.70% up to, and including, 0.90% of Consolidated Volume⁴ during the month. The QMM may receive a \$0.0002 per share executed credit if the QMM executes shares of liquidity provided in all securities

³ As defined in Equity 7, Section 118, 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 section, 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.

⁴ As used in Equity 7, Section 118(a), the term "Consolidated Volume" means 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.

through one or more of its Nasdaq Market Center MPIDs that represent above 0.90% of Consolidated Volume during the month.

The Exchange proposes to provide a \$0.00025 per share executed credit to a QMM that

- (i) executes shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent above 1.25% of Consolidated Volume during the month;
- (ii) quotes at the NBBO⁵ at least 25% of the time during the month during regular market hours in an average of at least 2,700 symbols per day; (iii) quotes at the NBBO at least 25% of the time during the month during regular market hours in an average of at least 1,200 symbols in securities in Tape A per day; and (iv) executes shares of liquidity provided in securities in Tape A through one or more of its Nasdaq Market Center MPIDs that represent an increase of at least 0.50% of Consolidated Volume relative to May 2020. The Exchange notes that this new QMM rebate is not cumulative. That is, a QMM may only qualify for one of the three tiers in any given month.

The Exchange also proposes to include the proposed Tier 3 in the \$0.0029 per share executed fee charged to a QMM for orders in securities listed on exchanges other than Nasdaq priced at \$1 or more per share that access liquidity on the Nasdaq Market Center if the QMM has a combined Consolidated Volume (adding and removing liquidity) of at least 3.7% and MOC/LOC volume greater than 0.25% of Consolidated Volume.

⁵ A member is considered to be quoting at the NBBO if one of its MPIDs has a displayed order (other than a Designated Retail Order) at either the national best bid or the national best offer or both the national best bid and offer. On a daily basis, Nasdaq will determine the number of securities in which each of a member's MPIDs satisfied the 25% NBBO requirement. Nasdaq will aggregate all of a member's MPIDs to determine the number of securities for purposes of the 25% NBBO requirement. To qualify the QMM must meet the requirement for an average of the symbols specified per day over the course of the month.

Additionally, the Exchange proposes to amend in two respects, its schedule of credits, as set forth in Equity 7, Section 118, which it provides to members for displayed quotes/orders (other than Supplemental Orders or Designated Retail Orders) that provide liquidity. First, for orders in securities in each of Tapes A, B, and C, the Exchange proposes to provide a \$0.00305 per share executed credit to a member with shares of liquidity provided in all securities through one or more of its Nasdaq Market Center MPIDs that represent more than 1.20% of Consolidated Volume during the month, and (ii) with at least 0.25% of Consolidated Volume during the month that sets the NBBO. Second, for adding liquidity in securities in Tape A, the Exchange proposes to provide a new \$0.00005 per share executed supplemental credit to a member that, through one or more of its Nasdaq Market Center MPIDs: (i) adds liquidity in securities in Tape A that represents at least 0.75% of Consolidated Volume during the month; and (ii) adds liquidity in securities in Tape B of at least 0.60% of Consolidated Volume during the month.

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. The proposal is also consistent with Section 11A of the Act relating to the establishment of the national market system for securities.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(4) and (5).

The Proposal is Reasonable

The Exchange's proposed changes to its schedule of credits are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for equity securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: "[n]o one disputes that competition for order flow is 'fierce.' ... As the SEC explained, '[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution'; [and] 'no exchange can afford to take its market share percentages for granted' because 'no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers'"⁸

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system "has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies."⁹

Numerous indicia demonstrate the competitive nature of this market. For example, clear

⁸ NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

⁹ Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) ("Regulation NMS Adopting Release").

substitutes to the Exchange exist in the market for equity security transaction services. The Exchange is only one of several equity venues to which market participants may direct their order flow. Competing equity exchanges offer similar tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume thresholds.

Within this environment, market participants can freely and often do shift their order flow among the Exchange and competing venues in response to changes in their respective pricing schedules. As such, the proposal represents a reasonable attempt by the Exchange to increase its liquidity and market share relative to its competitors.

In particular, the Exchange proposes to add an additional QMM tier rebate that would provide a \$0.00025 per share credit with the goal of increasing the overall incentive to QMMs to further increase their liquidity adding activity on the Exchange, and more specifically, in securities in Tape A. The proposal will also provide an incentive for QMMs to add liquidity at the NBBO in more securities, which is intended to improve market quality. To the extent that this proposed change leads to an increase in overall liquidity activity on the Exchange and more competitive pricing, this will improve the quality of the Exchange's market and increase its attractiveness to existing and prospective participants. Additionally, the Exchange proposes to add QMMs that meet the criteria for Tier 3 to the \$0.0029 per share executed fee charged for orders in securities listed on exchanges other than Nasdaq priced at \$1 or more per share that access liquidity on the Nasdaq Market Center. It is reasonable to assess the fee to QMMs that meet the Tier 3 requirements because QMMs that meet the Tier 2 requirements are already charged the fee, and any QMM that satisfies the Tier 3 requirement has also met the Tier 2 requirement.

Similarly, the Exchange believes that it is reasonable to provide a \$0.00305 per share executed credit to a member that adds liquidity in each of Tapes A, B, and C, and to provide a \$0.00005 per share executed supplemental credit to a member that adds liquidity in Tape A. The proposed changes are intended to incentivize members to increase liquidity and set the NBBO, which will further improve overall market quality.

The Exchange notes that those participants that are dissatisfied with the proposed credits are free to shift their order flow to competing venues.

The Proposal is an Equitable Allocation of Fees and Credits

The Exchange believes its proposal will allocate the proposed credits fairly among market participants. The proposed amendments to Equity 7, Section 114 will give a QMM the opportunity to receive a higher credit for adding a higher volume of liquidity and quoting at the NBBO in more securities. Additionally, it is reasonable to charge the same fee to QMMs that meet the Tier 2 and Tier 3 requirements because all QMMs that meet the Tier 3 requirements also meet the Tier 2 requirements and Tier 2 is currently assessed the fee.

The proposed amendments in Equity 7, Section 118 will allow members to qualify for a credit by adding liquidity and setting the NBBO. Additionally, it will provide a supplemental credit to members for adding liquidity in securities in Tape A. It is equitable for the Exchange to add additional incentives for members to receive a credit when their orders add liquidity to the Exchange as a means of incentivizing increased liquidity adding activity. An increase in overall liquidity on the Exchange will improve the quality of the Exchange's market and increase its attractiveness to existing and prospective participants. Furthermore, it is equitable for the Exchange to propose credit for participants with orders in securities in Tapes A due to the Exchange's goal to specifically promote increased liquidity in securities in Tape A. An increase

in overall liquidity adding activity on the Exchange will improve the quality of the Nasdaq market and increase its attractiveness to existing and prospective participants. Similarly, incentivizing members to add liquidity at the NBBO in securities in Tape A under Tier 3 of the QMM program will increase the overall liquidity and robustness of the Exchange's order book and increase its attractiveness to existing and prospective participants.

Any participant that is dissatisfied with the proposed new credits is free to shift their order flow to competing venues that provide more favorable pricing or less stringent qualifying criteria.

The Proposal is not Unfairly Discriminatory

The Exchange believes that the proposal is not unfairly discriminatory. As an initial matter, the Exchange believes that nothing about its volume-based tiered pricing model is inherently unfair; instead, it is a rational pricing model that is well-established and ubiquitous in today's economy among firms in various industries – from co-branded credit cards to grocery stores to cellular telephone data plans – that use it to reward the loyalty of their best customers that provide high levels of business activity and incent other customers to increase the extent of their business activity. It is also a pricing model that the Exchange and its competitors have long employed with the assent of the Commission. It is fair because it incentivizes customer activity that increases liquidity, enhances price discovery, and improves the overall quality of the equity markets.

The Exchange intends for the proposal to improve market quality for all members on the Exchange and by extension attract more liquidity to the market, thereby improving market wide quality and price discovery. Although a member's orders in securities in Tape A will benefit most from the proposed supplemental credit, this result is fair insofar as an uptick in liquidity

adding activity will help to improve market quality and the attractiveness of the Exchange's equity market to all existing and prospective participants. Additionally, pricing by tape is not uncommon as competing exchanges offer similar pricing structures.¹⁰

Finally, the Exchange notes that any participant that does not find the amended credits to be sufficiently attractive is free to shift its order flow to a competing venue.

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

The Exchange does not believe that its proposals will place any category of Exchange participant at a competitive disadvantage. The Exchange's proposal to modify its QMM program will not burden intramarket competition because the QMM program, as modified, will continue to provide all members with an opportunity to obtain credits for transactions if they improve the market by providing a minimum percentage of volume per month and quoting a certain volume at the NBBO, which the Exchange believes will improve market quality. Additionally, the proposed credits for providing liquidity and setting the NBBO will not place any burden on intramarket competition because all members will have the opportunity to obtain the additional proposed credits if the member increases liquidity and sets the NBBO, which will further improve overall market quality. Similarly, the proposed supplemental credit will not place any burden on intramarket competition because all members will have the opportunity to obtain the proposed supplemental credit, which will improve overall market quality. Moreover, including QMMs that qualify for Tier 3 in the \$0.0029 per share executed fee charged to a QMM

¹⁰ See New York Stock Exchange Price List 2020, available at https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE_Price_List.pdf; NYSE Arca Equities Fees and Charges, available at https://www.nyse.com/publicdocs/nyse/markets/nyse-arca/NYSE_Arca_Marketplace_Fees.pdf; CBOE BZX U.S. Equities Fee Schedule, available at https://markets.cboe.com/us/equities/membership/fee_schedule/bzx/; CBOE EDGX U.S. Equities Fee Schedule, available at https://markets.cboe.com/us/equities/membership/fee_schedule/edgx/.

for orders in securities listed on exchanges other than Nasdaq priced at \$1 or more per share that access liquidity on the Nasdaq Market Center will not place any burden on intramarket competition because members are free to trade on other venues to the extent they believe that fees imposed are not attractive.

Furthermore, all members of the Exchange will benefit from an increase in the addition of liquidity by those that choose to meet the criteria for each of the proposed credits. Members may grow their businesses so that they have the capacity to receive credits for providing liquidity. Moreover, members are free to trade on other venues to the extent they believe that the credits provided are not attractive. As one can observe by looking at any market share chart, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. The Exchange notes that the tier structure is consistent with broker-dealer fee practices as well as the other industries, as described above.

Intermarket Competition

Addressing whether the proposed credits could impose a burden on competition on other SROs that is not necessary or appropriate, the Exchange believes that its proposed modifications to its schedule of credits will not impose a burden on competition because the Exchange's execution services are completely voluntary and subject to extensive competition both from the other 12 live exchanges and from off-exchange venues, which include 34 alternative trading systems that trade national market system stock. The Exchange 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, the Exchange must continually adjust its

credits 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 credits in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which credit changes in this market may impose any burden on competition is extremely limited.

The proposed credits for adding liquidity are reflective of this competition because even as one of the largest U.S. equities exchanges by volume, the Exchange has less than 20% market share, which in most markets could hardly be categorized as having enough market power to burden competition. Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. This is in addition to free flow of order flow to and among off-exchange venues which comprised more than 42% of industry volume for the month of May 2020.

The Exchange intends for the proposed changes, which add qualifying credits for its QMMs and other members, to increase member incentives to engage in the addition of liquidity on the Exchange. These changes are pro-competitive in that the Exchange intends for them to increase liquidity on the Exchange and thereby render the Exchange a more attractive and vibrant venue to market participants.

In sum, if the changes proposed herein are unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange 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

Pursuant to Section 19(b)(3)(A)(ii) of the Act,¹¹ the Exchange has designated this proposal as establishing or changing a due, fee, or other charge imposed by the self-regulatory organization on any person, whether or not the person is a member of the self-regulatory organization, which renders the proposed rule change effective upon filing.

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-2020-030 on the subject line.

¹¹ 15 U.S.C. 78s(b)(3)(A)(ii).

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-2020-030. 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-2020-030 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

J. Matthew DeLesDernier, *Assistant Secretary*.

¹² 17 CFR 200.30-3(a)(12).

