

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. \* SR 2023 - \* 044

Amendment No. (req. for Amendments \*)

Filing by The Nasdaq Stock Market LLC

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>
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Rule

<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934  
Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

A proposal to amend the Exchange Pricing Schedule at Options 7.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Sun Last Name \* Kim

Title \* Associate General Counsel

E-mail \* Sun.Kim@nasdaq.com

Telephone \* (646) 420-7816 Fax


**Signature**

Pursuant to the requirements of the Securities Exchange of 1934, The Nasdaq Stock Market LLC has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 11/01/2023 (Title \*)

By John Zecca EVP and Chief Legal Officer  
(Name \*)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.



Date: 2023.11.01  
13:10:48 -04'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information \***

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SR-NASDAQ-2023-044 19b-4.doc

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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SR-NASDAQ-2023-044 Exhibit 1.doc

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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SR-NASDAQ-2023-044 Exhibit 5.doc

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend The Nasdaq Options Market LLC (“NOM”) Pricing Schedule at Options 7, Section 2.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the “Board”). Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Sun Kim  
Associate General Counsel  
Nasdaq, Inc.  
646-420-7816

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

<sup>2</sup> 17 CFR 240.19b-4.

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

a. Purpose

The purpose of the proposed rule change is to amend NOM's Pricing Schedule at Options 7, Section 2(1) (setting forth fees and rebates for execution of contract on NOM) and Section 2(3) (setting forth fees for routing contracts to markets other than NOM).

Each change will be described below.

**Options 7, Section 2(1)**

***Fees to Remove Liquidity in Non-Penny Symbols***

As set forth in Options 7, Section 2(1), the Exchange currently charges NOM Market Makers,<sup>3</sup> Non-NOM Market Makers,<sup>4</sup> Firms,<sup>5</sup> and Broker-Dealers<sup>6</sup> a \$1.10 per contract fee for removing liquidity in Non-Penny Symbols. The Exchange now proposes to increase this fee to \$1.25 per contract.

***Note 8 Incentive***

Today, the Exchange provides Customers<sup>7</sup> with tiered rebates for adding liquidity in Penny Symbols that are \$0.20 (Tier 1), \$0.25 (Tier 2), \$0.43 (Tier 3), \$0.44 (Tier 4),

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<sup>3</sup> The term "NOM Market Maker" or ("M") is a Participant that has registered as a Market Maker on NOM pursuant to Options 2, Section 1, and must also remain in good standing pursuant to Options 2, Section 9. 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.

<sup>4</sup> The term "Non-NOM Market Maker" or ("O") is a registered market maker on another options exchange that is not a NOM Market Maker. A Non-NOM Market Maker must append the proper Non-NOM Market Maker designation to orders routed to NOM.

<sup>5</sup> The term "Firm" or ("F") applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC.

<sup>6</sup> The term "Broker-Dealer" or ("B") applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

<sup>7</sup> 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

\$0.45 (Tier 5), and \$0.48 (Tier 6). These rebates are paid based on the highest volume tier that the Customer achieves in a given month.<sup>8</sup>

Today, the Exchange also links the tiered Penny Symbol Customer add liquidity rebate program described above to its Market Access and Routing Subsidy (“MARS”) program in Section 2(4) as a means to attract additional liquidity to the Exchange from market participants. Under MARS, the Exchange pays qualifying NOM Participants to subsidize their costs of providing routing services to route orders to NOM. To qualify for MARS, NOM Participants must have System Eligibility.<sup>9</sup> In addition, NOM Participants that have System Eligibility, and have routed and executed the requisite number of Eligible Contracts<sup>10</sup> daily in a month (“Average Daily Volume” or “ADV”) that add liquidity on NOM are entitled to the tiered MARS Payments set forth in Section 2(4), depending on the highest ADV tier achieved.<sup>11</sup>

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account of broker or dealer or for the account of a "Professional" (as that term is defined in Options 1, Section 1(a)(47)).

<sup>8</sup> See Options 7, Section 2(1), note 1.

<sup>9</sup> To qualify for MARS, the Participant's routing system ("System") would be required to: (1) enable the electronic routing of orders to all of the U.S. options exchanges, including NOM; (2) provide current consolidated market data from the U.S. options exchanges; and (3) be capable of interfacing with NOM's API to access current NOM match engine functionality. Further, the Participant's System would also need to cause NOM to be the one of the top three default destination exchanges for (a) individually executed marketable orders if NOM is at the national best bid or offer ("NBBO"), regardless of size or time or (b) orders that establish a new NBBO on NOM's Order Book, but allow any user to manually override NOM as a default destination on an order-by-order basis. Any NOM Participant would be permitted to avail itself of this arrangement, provided that its order routing functionality incorporates the features described above and satisfies NOM that it appears to be robust and reliable. The Participant remains solely responsible for implementing and operating its System.

<sup>10</sup> For the purpose of qualifying for the MARS Payment, Eligible Contracts may include Firm, Non-NOM Market Maker, Broker-Dealer, or Joint Back Office or "JBO" equity option orders that add liquidity and are electronically delivered and executed. Eligible Contracts do not include Mini Option orders.

<sup>11</sup> The specified MARS Payment will be paid on all executed Eligible Contracts that add liquidity, which are routed to NOM through a participating NOM Participant's System and meet the

In particular, the Exchange currently links the tiered Penny Symbol Customer rebate to add liquidity program in Penny Symbols and MARS, each as described above, through note 8 of Options 7, Section 2(1) where NOM Participants that qualify for any MARS Payment Tier in Section 2(4) receive: (1) an additional \$0.05 per contract Penny Symbol Customer Rebate to Add Liquidity for each transaction which adds liquidity in Penny Symbols in that month, in addition to qualifying Customer Rebate to Add Liquidity Tiers 1-5, or (2) an additional \$0.04 per contract Penny Symbol Customer Rebate to Add Liquidity for each transaction which adds liquidity in Penny Symbols in that month, in addition to qualifying Penny Symbol Customer Rebate to Add Liquidity Tier 6 (“Note 8 Incentive”). As such, NOM Participants may earn Customer Rebates to Add Liquidity in Penny Symbols up to \$0.25 in Tier 1, \$0.30 in Tier 2, \$0.48 in Tier 3, \$0.49 in Tier 4, \$0.50 in Tier 5, and \$0.52 in Tier 6, provided they meet the qualifications in note 8.

The Note 8 Incentive was intended to attract additional order flow to NOM by way of encouraging participation in both the tiered Customer add liquidity rebate program and in MARS. The Exchange, however, has observed that this rebate program has not accomplished its objective and therefore proposes to eliminate this program in note 8 of Options 7, Section 2(1).

#### ***Note 9 Incentive***

Today, pursuant to note 9 of Options 7, Section 2(1), NOM Participants that transact in all securities through one or more of its Nasdaq Market Center MPIDs that represent 3.00% or more of Consolidated Volume in the same month on The Nasdaq

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requisite Eligible Contracts ADV. No payment will be made with respect to orders that are routed to NOM, but not executed.

Stock Market receive a \$0.50 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract rebate as Professional,<sup>12</sup> a \$1.00 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add liquidity in Non-Penny Symbols as Professional (“Note 9 Incentive”). Participants that qualify for the Note 9 Incentive are not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).

The Exchange now proposes to increase \$1.00 Customer Rebate to Add Liquidity in Non-Penny Symbols to \$1.10. The Exchange is increasing the rebate amount without changing the qualifications in the Note 9 Incentive so that NOM Participants can bring the same amount of volume as they do today on The Nasdaq Stock Market to receive larger rebate in Customer Add Liquidity volume in Non-Penny Symbols.<sup>13</sup> Overall, the Exchange believes that the increased rebate will bring greater volume to both The Nasdaq Stock Market and NOM, to the benefit of all market participants.

#### ***Note 10 Incentive***

Today, pursuant to note 10 of Options 7, Section 2(1), NOM Participants that (a) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.20% of total industry customer equity and ETF option ADV contracts per day in a month, (b) execute greater

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<sup>12</sup> 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 Options 1, Section 1(a)(47). All Professional orders shall be appropriately marked by Participants.

<sup>13</sup> Any NOM Participant may trade equities on The Nasdaq Stock Market because they are already approved members. Although a NOM Participant may potentially incur additional labor and/or costs to establish connectivity to The Nasdaq Stock Market, there are no additional membership fees for NOM Participants that want to transact on The Nasdaq Stock Market.

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, and (c) add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month receive a \$0.55 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract Rebate to Add Liquidity in Penny Symbols as Professional, and a \$1.05 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add Liquidity in Non-Penny Symbols as Professional (“Note 10 Incentive”). Participants that qualify for the Note 10 Incentive are not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).

The Exchange now proposes to amend the NOM volume threshold in part (a) of the Note 10 Incentive by increasing 1.20% to 1.50% of total industry customer equity and ETF option ADV contracts per day in a month. The Exchange also proposes to increase the \$1.05 Customer Rebate to Add Liquidity in Non-Penny Symbols to \$1.15. No other changes are being proposed to the rebates and qualifications in the Note 10 Incentive. As amended, the Note 10 Incentive will provide: “NOM Participants that (a) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, (b) 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, and (c) add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month will receive a \$0.55 per contract Rebate to Add Liquidity in



Penny Symbols as Customer, a \$0.48 per contract Rebate to Add Liquidity in Penny Symbols as Professional, and a \$1.15 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add Liquidity in Non-Penny Symbols as Professional. Participants that qualify for this rebate would not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).”

**Options 7, Section 2(3)**

As set forth in Options 7, Section 2(3), the Exchange currently assesses a Non-Customer routing fee of \$0.99 per contract to any options exchange. The Exchange also assesses a Customer routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange other than the Exchange’s affiliates, Nasdaq BX, Inc. (“BX”) and Nasdaq Phlx LLC (“Phlx”). If the away market (other than BX and Phlx) pays a rebate, this Customer routing fee is \$0.13 per contract instead. When routing to BX and Phlx, the Exchange currently assesses a Customer routing fee of \$0.13 per contract in addition to the actual transaction fee assessed.

At this time, the Exchange proposes to assess a Non-Customer an increased routing fee to route to any options exchange of \$1.20 per contract. The Exchange also proposes to assess a Customer a routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange. With this change, the Exchange would no longer assess the lower routing of \$0.13 per contract, in addition to the actual transaction fee assessed, when routing to BX and Phlx. The Exchange would continue to assess a \$0.13 per contract routing fee if the

away market pays a rebate, including BX and Phlx. The purpose of the proposed routing fees is to recoup costs incurred by the Exchange when routing orders to other options exchanges on behalf of NOM Participants. In determining its proposed routing fees, the Exchange took into account transaction fees assessed by other options exchanges, the Exchange's projected clearing costs, and the projected administrative, regulatory, and technical costs associated with routing orders to other options exchanges. The Exchange will continue to use its affiliated broker-dealer, Nasdaq Execution Services, to route orders to other options exchanges. Routing services offered by the Exchange are completely optional and market participants can readily select between various providers of routing services, including other exchanges and broker-dealers. Also, the Exchange notes that NOM Participants may elect to mark their orders as "Do-Not-Route" to avoid any routing fees.<sup>14</sup> The Exchange believes that the proposed routing fees would enable the Exchange to recover the costs it incurs to route orders to away markets after taking into account the other costs associated with routing orders to other options exchanges. Also, the Exchange's proposal would uniformly assess the same Customer routing fees, regardless of the away venue, of \$0.23 per contract, in addition to the actual transaction fee assessed, or \$0.13 per contract of the away market pays a rebate.

#### **Technical Amendment**

The Exchange proposes a technical amendment in note 11 of Options 7, Section 2(1). Note 11 currently provides that NOM Participants that qualify for the Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbols and add NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.50% of total industry

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<sup>14</sup> See Options 3, Section 7(c).

customer equity and ETF option ADV contracts per day in a month, will receive a \$0.46 contract rebate to add liquidity in Penny Symbols as Market Maker in lieu of the Tier 5 rebate (“Note 11 Incentive”). The Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbol currently has two alternative routes in “a” and “b” to qualify for the Tier 5 rebate, but when the Exchange adopted the Note 11 Incentive, the intent was to provide the Note 11 Incentive for NOM participants that qualified pursuant to route “b” in Tier 5.<sup>15</sup> The Exchange subsequently adopted an alternative route “a” to qualify for the Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbols, but did not update the Note 11 Incentive to specify which route applied.<sup>16</sup> The Exchange therefore proposes to clarify that the Note 11 Incentive is available for NOM Participants that qualify for the Tier 5(b) NOM Market Maker Rebate to Add Liquidity in Penny Symbols. The proposed change will align the rule text with the original intent of the incentive.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>18</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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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<sup>15</sup> See Securities Exchange Act Release No. 87276 (October 10, 2019), 84 FR 55644 (October 17, 2019) (SR-NASDAQ-2019-084). At the time of adopting the Note 11 Incentive, only route “b” was available to qualify for Tier 5.

<sup>16</sup> See Securities Exchange Act Release No. 98721 (October 11, 2023), 88 FR 71616 (October 17, 2023) (SR-NASDAQ-2023-040).

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

<sup>18</sup> 15 U.S.C. 78f(b)(4) and (5).

The Exchange's proposed changes to its Pricing Schedule are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for options 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’ ....”<sup>19</sup>

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.”<sup>20</sup>

Numerous indicia demonstrate the competitive nature of this market. For

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<sup>19</sup> 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)).

<sup>20</sup> Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

example, clear substitutes to the Exchange exist in the market for options security transaction services. The Exchange is only one of seventeen options venues to which market participants may direct their order flow. 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.

**Options 7, Section 2(1)**

The Exchange believes that the proposed changes to the fees and rebates in Options 7, Section 2(1) are reasonable in several ways. The Exchange believes that it is reasonable to increase the Fees to Remove Liquidity in Non-Penny Symbols for NOM Market Makers, Non-NOM Market Makers, Firms, and Broker-Dealers from \$1.10 to \$1.25 because the proposed Non-Penny Symbol fee increases will be balanced by the Non-Penny Symbol rebate increases for Customers, which are intended to improve overall market quality on the Exchange by incentivizing market participants to bring additional order flow and, in turn, provide more trading opportunities to the benefit of all market participants. As discussed above, the Exchange is proposing to increase the Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 9 Incentive from \$1.00 to \$1.10 per contract without amending the current volume qualifications in note 9 so that NOM Participants can bring the same amount of volume as they do today on The Nasdaq Stock Market to receive larger rebate in Customer Add Liquidity volume in Non-Penny Symbols.<sup>21</sup> The Exchange believes that the increased rebate as set forth in the Note 9

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<sup>21</sup> See supra note 13.

Incentive will incentivize market participants to send additional order flow to both The Nasdaq Stock Market and NOM, which will in turn benefit all market participants on the equities and options markets from the opportunity to interact with such order flow.

As discussed above, the Exchange is also proposing to increase the Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 10 Incentive from \$1.05 to \$1.15 per contract if the NOM Participant meets the qualifications in note 10, including the increased NOM volume threshold that requires NOM Participants to add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.50% (increased from above 1.20%) of total industry customer equity and ETF option ADV contracts per day in a month.<sup>22</sup> While the NOM volume threshold in the Note 10 Incentive will be increased under this proposal, the Exchange believes that the proposed increase is commensurate with the corresponding increase in the Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 10 Incentive as described above. To the extent NOM Participants add greater liquidity on NOM to meet the proposed volume threshold to receive the larger rebate, the Exchange believes that its proposal will benefit all market participants who will be able to interact with the additional liquidity. The proposed changes to the Note 10 Incentive are designed as a means to improve overall market quality by providing NOM Participants with a larger incentive to increase their provision of liquidity on the

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<sup>22</sup> The NOM Participant will also continue to be required to meet the following volume qualifications (in addition to the proposed NOM volume threshold) to receive the \$1.15 Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 10 Incentive: 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, **AND** add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month.

Exchange's equity and options markets.<sup>23</sup> The Exchange believes that its proposal will continue to encourage NOM Participants to send order flow to both the options and equity markets to receive the Note 10 Incentive.

The Exchange also believes that the proposed changes to the fees and rebates in Options 7, Section 2(1) as described above are equitable and not unfairly discriminatory because they will apply uniformly to all similarly situated participants. As it relates to the Non-Penny Symbol fee increases, the Exchange will apply the increase to NOM Market Makers, Non-NOM Market Makers, Firms, and Broker-Dealers while Customers and Professionals will continue to be uniformly assessed at a lower rate. The Exchange also notes that the Note 9 Incentive and the Note 10 Incentive, each as modified under this proposal, are available to only Customers and Professionals. The Exchange has historically provided more favorable pricing to both Customers and Professionals throughout its Pricing Schedule. Furthermore, both Customer and Professional liquidity offer benefits to the market that ultimately benefit all market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts 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. With respect to Professionals, the Exchange believes that continuing to encourage NOM Participants to bring Professional order flow to NOM creates competition among options exchanges because the more favorable pricing may cause market participants to select NOM as a venue to send Professional order flow.

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<sup>23</sup> See supra note 22.

The Exchange believes that its proposal to eliminate the Note 8 Incentive is reasonable because this rebate program has not been successful in accomplishing its objective of incentivizing NOM Participants to send order flow and add liquidity on the Exchange by fortifying participation in the MARs program and the tiered Penny Symbol Customer Rebate to Add Liquidity program. The proposed elimination of the Note 8 Incentive will streamline the Exchange's Pricing Schedule. The Exchange has limited resources to devote to incentive programs, and it is appropriate for the Exchange to reallocate these incentives periodically in a manner that best achieves the Exchange's overall objectives to increase order flow and liquidity on NOM. The Exchange also believes that eliminating the Note 8 Incentive is equitable and not unfairly discriminatory because the incentive will be eliminated in its entirety and would no longer be available to any NOM Participants.

### **Options 7, Section 2(3)**

The Exchange's proposal to assess a Non-Customer an increased routing fee of \$1.20 to route to another options exchange, and a Customer a routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange<sup>24</sup> is reasonable because the proposed routing fees would enable the Exchange to recover the costs it incurs to route orders to away markets after taking into account the other costs associated with routing orders to other options exchanges. In determining its proposed routing fees, the Exchange took into account transaction fees assessed by other options exchanges, the Exchange's projected clearing costs, and the projected administrative, regulatory, and technical costs associated with

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<sup>24</sup> With the proposed changes, the Exchange would no longer assess the lower routing fee of \$0.13 per contract, in addition to the actual transaction fee assessed, when routing to BX and Phlx.



routing orders to other options exchanges. Routing services offered by the Exchange are completely optional and market participants can readily select between various providers of routing services, including other exchanges and broker-dealers. Also, the Exchange notes that market participants may elect to mark their orders as “Do-Not-Route” to avoid any routing fees.<sup>25</sup>

The Exchange’s proposal to assess a Non-Customer an increased routing fee of \$1.20 to route to another options exchange is equitable and not unfairly discriminatory as all Non-Customers would be assessed a uniform routing fee. Additionally, the Exchange’s proposal to assess a Customer a routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange is equitable and not unfairly discriminatory as all Customers will be uniformly assessed the same routing fee, regardless of the destination market. Customers will continue to receive favorable pricing as compared to other market participants because Customer liquidity enhances market quality on the Exchange by providing more trading opportunities, which benefits all market participants. Finally, the Exchange notes that market participants may elect to market orders as Do-Not-Route to avoid any routing fees.

#### **Technical Amendment**

The Exchange believes that its proposal to clarify that the Note 11 Incentive is available for NOM Participants that qualify for the Tier 5(b) NOM Market Maker Rebate to Add Liquidity in Penny Symbols is reasonable because the proposal will align the rule text with the original intent of the Note 11 Incentive and avoid any potential confusion

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<sup>25</sup> See Options 3, Section 7(c).

about the application of the Exchange's Pricing Schedule. The Exchange also believes that its proposal is equitable and not unfairly discriminatory because it will apply uniformly to all similarly situated market participants. Continuing to apply the Note 11 Incentive to only NOM Market Makers is equitable and not unfairly discriminatory in light of their obligations on NOM (e.g., continuous quoting obligations).

4. 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. In terms of intra-market competition, the Exchange does not believe that its proposal will place any category of market participant at a competitive disadvantage. While some aspects of the proposal apply directly to certain market participants as described above (e.g., increased Non-Penny Symbol Customer Rebates to Add Liquidity), Exchange believes that the changes, taken together, will ultimately fortify and encourage activity on the Exchange. As discussed above, all market participants will benefit from any increase in market activity that the proposal effectuates.

In terms of inter-market competition, 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 fees to remain competitive with other exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. 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.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Pursuant to Section 19(b)(3)(A)(ii) of the Act,<sup>26</sup> 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.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.

5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-NASDAQ-2023-044)

November \_\_, 2023

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend The Nasdaq Options Market LLC Pricing Schedule at Options 7, Section 2

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 1, 2023, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend The Nasdaq Options Market LLC (“NOM”) Pricing Schedule at Options 7, Section 2.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<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 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's Pricing Schedule at Options 7, Section 2(1) (setting forth fees and rebates for execution of contract on NOM) and Section 2(3) (setting forth fees for routing contracts to markets other than NOM).

Each change will be described below.

**Options 7, Section 2(1)**

***Fees to Remove Liquidity in Non-Penny Symbols***

As set forth in Options 7, Section 2(1), the Exchange currently charges NOM Market Makers,<sup>3</sup> Non-NOM Market Makers,<sup>4</sup> Firms,<sup>5</sup> and Broker-Dealers<sup>6</sup> a \$1.10 per

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<sup>3</sup> The term "NOM Market Maker" or ("M") is a Participant that has registered as a Market Maker on NOM pursuant to Options 2, Section 1, and must also remain in good standing pursuant to Options 2, Section 9. 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.

<sup>4</sup> The term "Non-NOM Market Maker" or ("O") is a registered market maker on another options exchange that is not a NOM Market Maker. A Non-NOM Market Maker must append the proper Non-NOM Market Maker designation to orders routed to NOM.

<sup>5</sup> The term "Firm" or ("F") applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC.

<sup>6</sup> The term "Broker-Dealer" or ("B") applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

contract fee for removing liquidity in Non-Penny Symbols. The Exchange now proposes to increase this fee to \$1.25 per contract.

***Note 8 Incentive***

Today, the Exchange provides Customers<sup>7</sup> with tiered rebates for adding liquidity in Penny Symbols that are \$0.20 (Tier 1), \$0.25 (Tier 2), \$0.43 (Tier 3), \$0.44 (Tier 4), \$0.45 (Tier 5), and \$0.48 (Tier 6). These rebates are paid based on the highest volume tier that the Customer achieves in a given month.<sup>8</sup>

Today, the Exchange also links the tiered Penny Symbol Customer add liquidity rebate program described above to its Market Access and Routing Subsidy (“MARS”) program in Section 2(4) as a means to attract additional liquidity to the Exchange from market participants. Under MARS, the Exchange pays qualifying NOM Participants to subsidize their costs of providing routing services to route orders to NOM. To qualify for MARS, NOM Participants must have System Eligibility.<sup>9</sup> In addition, NOM Participants that have System Eligibility, and have routed and executed the requisite number of

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<sup>7</sup> 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 Options 1, Section 1(a)(47)).

<sup>8</sup> See Options 7, Section 2(1), note 1.

<sup>9</sup> To qualify for MARS, the Participant's routing system ("System") would be required to: (1) enable the electronic routing of orders to all of the U.S. options exchanges, including NOM; (2) provide current consolidated market data from the U.S. options exchanges; and (3) be capable of interfacing with NOM's API to access current NOM match engine functionality. Further, the Participant's System would also need to cause NOM to be the one of the top three default destination exchanges for (a) individually executed marketable orders if NOM is at the national best bid or offer ("NBBO"), regardless of size or time or (b) orders that establish a new NBBO on NOM's Order Book, but allow any user to manually override NOM as a default destination on an order-by-order basis. Any NOM Participant would be permitted to avail itself of this arrangement, provided that its order routing functionality incorporates the features described above and satisfies NOM that it appears to be robust and reliable. The Participant remains solely responsible for implementing and operating its System.

Eligible Contracts<sup>10</sup> daily in a month (“Average Daily Volume” or “ADV”) that add liquidity on NOM are entitled to the tiered MARS Payments set forth in Section 2(4), depending on the highest ADV tier achieved.<sup>11</sup>

In particular, the Exchange currently links the tiered Penny Symbol Customer rebate to add liquidity program in Penny Symbols and MARS, each as described above, through note 8 of Options 7, Section 2(1) where NOM Participants that qualify for any MARS Payment Tier in Section 2(4) receive: (1) an additional \$0.05 per contract Penny Symbol Customer Rebate to Add Liquidity for each transaction which adds liquidity in Penny Symbols in that month, in addition to qualifying Customer Rebate to Add Liquidity Tiers 1-5, or (2) an additional \$0.04 per contract Penny Symbol Customer Rebate to Add Liquidity for each transaction which adds liquidity in Penny Symbols in that month, in addition to qualifying Penny Symbol Customer Rebate to Add Liquidity Tier 6 (“Note 8 Incentive”). As such, NOM Participants may earn Customer Rebates to Add Liquidity in Penny Symbols up to \$0.25 in Tier 1, \$0.30 in Tier 2, \$0.48 in Tier 3, \$0.49 in Tier 4, \$0.50 in Tier 5, and \$0.52 in Tier 6, provided they meet the qualifications in note 8.

The Note 8 Incentive was intended to attract additional order flow to NOM by way of encouraging participation in both the tiered Customer add liquidity rebate program and in MARS. The Exchange, however, has observed that this rebate program

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<sup>10</sup> For the purpose of qualifying for the MARS Payment, Eligible Contracts may include Firm, Non-NOM Market Maker, Broker-Dealer, or Joint Back Office or "JBO" equity option orders that add liquidity and are electronically delivered and executed. Eligible Contracts do not include Mini Option orders.

<sup>11</sup> The specified MARS Payment will be paid on all executed Eligible Contracts that add liquidity, which are routed to NOM through a participating NOM Participant's System and meet the requisite Eligible Contracts ADV. No payment will be made with respect to orders that are routed to NOM, but not executed.



has not accomplished its objective and therefore proposes to eliminate this program in note 8 of Options 7, Section 2(1).

***Note 9 Incentive***

Today, pursuant to note 9 of Options 7, Section 2(1), NOM Participants that transact in all securities through one or more of its Nasdaq Market Center MPIDs that represent 3.00% or more of Consolidated Volume in the same month on The Nasdaq Stock Market receive a \$0.50 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract rebate as Professional,<sup>12</sup> a \$1.00 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add liquidity in Non-Penny Symbols as Professional (“Note 9 Incentive”). Participants that qualify for the Note 9 Incentive are not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).

The Exchange now proposes to increase \$1.00 Customer Rebate to Add Liquidity in Non-Penny Symbols to \$1.10. The Exchange is increasing the rebate amount without changing the qualifications in the Note 9 Incentive so that NOM Participants can bring the same amount of volume as they do today on The Nasdaq Stock Market to receive larger rebate in Customer Add Liquidity volume in Non-Penny Symbols.<sup>13</sup> Overall, the

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<sup>12</sup> 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 Options 1, Section 1(a)(47). All Professional orders shall be appropriately marked by Participants.

<sup>13</sup> Any NOM Participant may trade equities on The Nasdaq Stock Market because they are already approved members. Although a NOM Participant may potentially incur additional labor and/or costs to establish connectivity to The Nasdaq Stock Market, there are no additional membership fees for NOM Participants that want to transact on The Nasdaq Stock Market.

Exchange believes that the increased rebate will bring greater volume to both The Nasdaq Stock Market and NOM, to the benefit of all market participants.

***Note 10 Incentive***

Today, pursuant to note 10 of Options 7, Section 2(1), NOM Participants that (a) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.20% of total industry customer equity and ETF option ADV contracts per day in a month, (b) 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, and (c) add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month receive a \$0.55 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract Rebate to Add Liquidity in Penny Symbols as Professional, and a \$1.05 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add Liquidity in Non-Penny Symbols as Professional (“Note 10 Incentive”). Participants that qualify for the Note 10 Incentive are not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).

The Exchange now proposes to amend the NOM volume threshold in part (a) of the Note 10 Incentive by increasing 1.20% to 1.50% of total industry customer equity and ETF option ADV contracts per day in a month. The Exchange also proposes to increase the \$1.05 Customer Rebate to Add Liquidity in Non-Penny Symbols to \$1.15. No other changes are being proposed to the rebates and qualifications in the Note 10 Incentive. As amended, the Note 10 Incentive will provide: “NOM Participants that (a) add Customer,

Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.50% of total industry customer equity and ETF option ADV contracts per day in a month, (b) 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, and (c) add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month will receive a \$0.55 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract Rebate to Add Liquidity in Penny Symbols as Professional, and a \$1.15 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add Liquidity in Non-Penny Symbols as Professional. Participants that qualify for this rebate would not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).”

**Options 7, Section 2(3)**

As set forth in Options 7, Section 2(3), the Exchange currently assesses a Non-Customer routing fee of \$0.99 per contract to any options exchange. The Exchange also assesses a Customer routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange other than the Exchange’s affiliates, Nasdaq BX, Inc. (“BX”) and Nasdaq Phlx LLC (“Phlx”). If the away market (other than BX and Phlx) pays a rebate, this Customer routing fee is \$0.13 per contract instead. When routing to BX and Phlx, the Exchange currently assesses a Customer routing fee of \$0.13 per contract in addition to the actual transaction fee assessed.

At this time, the Exchange proposes to assess a Non-Customer an increased routing fee to route to any options exchange of \$1.20 per contract. The Exchange also proposes to assess a Customer a routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange. With this change, the Exchange would no longer assess the lower routing of \$0.13 per contract, in addition to the actual transaction fee assessed, when routing to BX and Phlx. The Exchange would continue to assess a \$0.13 per contract routing fee if the away market pays a rebate, including BX and Phlx. The purpose of the proposed routing fees is to recoup costs incurred by the Exchange when routing orders to other options exchanges on behalf of NOM Participants. In determining its proposed routing fees, the Exchange took into account transaction fees assessed by other options exchanges, the Exchange's projected clearing costs, and the projected administrative, regulatory, and technical costs associated with routing orders to other options exchanges. The Exchange will continue to use its affiliated broker-dealer, Nasdaq Execution Services, to route orders to other options exchanges. Routing services offered by the Exchange are completely optional and market participants can readily select between various providers of routing services, including other exchanges and broker-dealers. Also, the Exchange notes that NOM Participants may elect to mark their orders as "Do-Not-Route" to avoid any routing fees.<sup>14</sup> The Exchange believes that the proposed routing fees would enable the Exchange to recover the costs it incurs to route orders to away markets after taking into account the other costs associated with routing orders to other options exchanges. Also, the Exchange's proposal would uniformly assess the same Customer routing fees,

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<sup>14</sup> See Options 3, Section 7(c).

regardless of the away venue, of \$0.23 per contract, in addition to the actual transaction fee assessed, or \$0.13 per contract of the away market pays a rebate.

### **Technical Amendment**

The Exchange proposes a technical amendment in note 11 of Options 7, Section 2(1). Note 11 currently provides that NOM Participants that qualify for the Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbols and add NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.50% of total industry customer equity and ETF option ADV contracts per day in a month, will receive a \$0.46 contract rebate to add liquidity in Penny Symbols as Market Maker in lieu of the Tier 5 rebate (“Note 11 Incentive”). The Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbol currently has two alternative routes in “a” and “b” to qualify for the Tier 5 rebate, but when the Exchange adopted the Note 11 Incentive, the intent was to provide the Note 11 Incentive for NOM participants that qualified pursuant to route “b” in Tier 5.<sup>15</sup> The Exchange subsequently adopted an alternative route “a” to qualify for the Tier 5 NOM Market Maker Rebate to Add Liquidity in Penny Symbols, but did not update the Note 11 Incentive to specify which route applied.<sup>16</sup> The Exchange therefore proposes to clarify that the Note 11 Incentive is available for NOM Participants that qualify for the Tier 5(b) NOM Market Maker Rebate to Add Liquidity in Penny Symbols. The proposed change will align the rule text with the original intent of the incentive.

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<sup>15</sup> See Securities Exchange Act Release No. 87276 (October 10, 2019), 84 FR 55644 (October 17, 2019) (SR-NASDAQ-2019-084). At the time of adopting the Note 11 Incentive, only route “b” was available to qualify for Tier 5.

<sup>16</sup> See Securities Exchange Act Release No. 98721 (October 11, 2023), 88 FR 71616 (October 17, 2023) (SR-NASDAQ-2023-040).

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>18</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, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange's proposed changes to its Pricing Schedule are reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for options 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’ ....”<sup>19</sup>

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in

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

<sup>18</sup> 15 U.S.C. 78f(b)(4) and (5).

<sup>19</sup> 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)).

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.”<sup>20</sup>

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for options security transaction services. The Exchange is only one of seventeen options venues to which market participants may direct their order flow. 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.

#### **Options 7, Section 2(1)**

The Exchange believes that the proposed changes to the fees and rebates in Options 7, Section 2(1) are reasonable in several ways. The Exchange believes that it is reasonable to increase the Fees to Remove Liquidity in Non-Penny Symbols for NOM Market Makers, Non-NOM Market Makers, Firms, and Broker-Dealers from \$1.10 to \$1.25 because the proposed Non-Penny Symbol fee increases will be balanced by the Non-Penny Symbol rebate increases for Customers, which are intended to improve overall market quality on the Exchange by incentivizing market participants to bring additional order flow and, in turn, provide more trading opportunities to the benefit of all

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<sup>20</sup> Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

market participants. As discussed above, the Exchange is proposing to increase the Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 9 Incentive from \$1.00 to \$1.10 per contract without amending the current volume qualifications in note 9 so that NOM Participants can bring the same amount of volume as they do today on The Nasdaq Stock Market to receive larger rebate in Customer Add Liquidity volume in Non-Penny Symbols.<sup>21</sup> The Exchange believes that the increased rebate as set forth in the Note 9 Incentive will incentivize market participants to send additional order flow to both The Nasdaq Stock Market and NOM, which will in turn benefit all market participants on the equities and options markets from the opportunity to interact with such order flow.

As discussed above, the Exchange is also proposing to increase the Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 10 Incentive from \$1.05 to \$1.15 per contract if the NOM Participant meets the qualifications in note 10, including the increased NOM volume threshold that requires NOM Participants to add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.50% (increased from above 1.20%) of total industry customer equity and ETF option ADV contracts per day in a month.<sup>22</sup> While the NOM volume threshold in the Note 10 Incentive will be increased under this proposal, the Exchange believes that the proposed increase is commensurate with the corresponding increase in the Non-Penny Symbol Customer Rebate to Add Liquidity in

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<sup>21</sup> See supra note 13.

<sup>22</sup> The NOM Participant will also continue to be required to meet the following volume qualifications (in addition to the proposed NOM volume threshold) to receive the \$1.15 Non-Penny Symbol Customer Rebate to Add Liquidity in the Note 10 Incentive: 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, **AND** add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month.



the Note 10 Incentive as described above. To the extent NOM Participants add greater liquidity on NOM to meet the proposed volume threshold to receive the larger rebate, the Exchange believes that its proposal will benefit all market participants who will be able to interact with the additional liquidity. The proposed changes to the Note 10 Incentive are designed as a means to improve overall market quality by providing NOM Participants with a larger incentive to increase their provision of liquidity on the Exchange's equity and options markets.<sup>23</sup> The Exchange believes that its proposal will continue to encourage NOM Participants to send order flow to both the options and equity markets to receive the Note 10 Incentive.

The Exchange also believes that the proposed changes to the fees and rebates in Options 7, Section 2(1) as described above are equitable and not unfairly discriminatory because they will apply uniformly to all similarly situated participants. As it relates to the Non-Penny Symbol fee increases, the Exchange will apply the increase to NOM Market Makers, Non-NOM Market Makers, Firms, and Broker-Dealers while Customers and Professionals will continue to be uniformly assessed at a lower rate. The Exchange also notes that the Note 9 Incentive and the Note 10 Incentive, each as modified under this proposal, are available to only Customers and Professionals. The Exchange has historically provided more favorable pricing to both Customers and Professionals throughout its Pricing Schedule. Furthermore, both Customer and Professional liquidity offer benefits to the market that ultimately benefit all market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts market makers. An increase in the activity of these market participants in turn

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<sup>23</sup> See supra note 22.

facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. With respect to Professionals, the Exchange believes that continuing to encourage NOM Participants to bring Professional order flow to NOM creates competition among options exchanges because the more favorable pricing may cause market participants to select NOM as a venue to send Professional order flow.

The Exchange believes that its proposal to eliminate the Note 8 Incentive is reasonable because this rebate program has not been successful in accomplishing its objective of incentivizing NOM Participants to send order flow and add liquidity on the Exchange by fortifying participation in the MARs program and the tiered Penny Symbol Customer Rebate to Add Liquidity program. The proposed elimination of the Note 8 Incentive will streamline the Exchange's Pricing Schedule. The Exchange has limited resources to devote to incentive programs, and it is appropriate for the Exchange to reallocate these incentives periodically in a manner that best achieves the Exchange's overall objectives to increase order flow and liquidity on NOM. The Exchange also believes that eliminating the Note 8 Incentive is equitable and not unfairly discriminatory because the incentive will be eliminated in its entirety and would no longer be available to any NOM Participants.

**Options 7, Section 2(3)**

The Exchange's proposal to assess a Non-Customer an increased routing fee of \$1.20 to route to another options exchange, and a Customer a routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing

contracts to any options exchange<sup>24</sup> is reasonable because the proposed routing fees would enable the Exchange to recover the costs it incurs to route orders to away markets after taking into account the other costs associated with routing orders to other options exchanges. In determining its proposed routing fees, the Exchange took into account transaction fees assessed by other options exchanges, the Exchange's projected clearing costs, and the projected administrative, regulatory, and technical costs associated with routing orders to other options exchanges. Routing services offered by the Exchange are completely optional and market participants can readily select between various providers of routing services, including other exchanges and broker-dealers. Also, the Exchange notes that market participants may elect to mark their orders as "Do-Not-Route" to avoid any routing fees.<sup>25</sup>

The Exchange's proposal to assess a Non-Customer an increased routing fee of \$1.20 to route to another options exchange is equitable and not unfairly discriminatory as all Non-Customers would be assessed a uniform routing fee. Additionally, the Exchange's proposal to assess a Customer a routing fee of \$0.23 per contract, in addition to the actual transaction fee assessed by the away market, for routing contracts to any options exchange is equitable and not unfairly discriminatory as all Customers will be uniformly assessed the same routing fee, regardless of the destination market. Customers will continue to receive favorable pricing as compared to other market participants because Customer liquidity enhances market quality on the Exchange by providing more trading opportunities, which benefits all market participants. Finally, the Exchange notes

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<sup>24</sup> With the proposed changes, the Exchange would no longer assess the lower routing fee of \$0.13 per contract, in addition to the actual transaction fee assessed, when routing to BX and Phlx.

<sup>25</sup> See Options 3, Section 7(c).

that market participants may elect to market orders as Do-Not-Route to avoid any routing fees.

### **Technical Amendment**

The Exchange believes that its proposal to clarify that the Note 11 Incentive is available for NOM Participants that qualify for the Tier 5(b) NOM Market Maker Rebate to Add Liquidity in Penny Symbols is reasonable because the proposal will align the rule text with the original intent of the Note 11 Incentive and avoid any potential confusion about the application of the Exchange's Pricing Schedule. The Exchange also believes that its proposal is equitable and not unfairly discriminatory because it will apply uniformly to all similarly situated market participants. Continuing to apply the Note 11 Incentive to only NOM Market Makers is equitable and not unfairly discriminatory in light of their obligations on NOM (e.g., continuous quoting obligations).

#### **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. In terms of intra-market competition, the Exchange does not believe that its proposal will place any category of market participant at a competitive disadvantage. While some aspects of the proposal apply directly to certain market participants as described above (e.g., increased Non-Penny Symbol Customer Rebates to Add Liquidity), Exchange believes that the changes, taken together, will ultimately fortify and encourage activity on the Exchange. As discussed above, all market participants will benefit from any increase in market activity that the proposal effectuates.

In terms of inter-market competition, 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 fees to remain competitive with other exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>26</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: (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

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-NASDAQ-2023-044 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-NASDAQ-2023-044. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-NASDAQ-2023-044 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>27</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*New text is underlined; deleted text is in brackets.*

**The Nasdaq Stock Market LLC Rules**

\* \* \* \* \*

**Options Rules**

\* \* \* \* \*

**Options 7 Pricing Schedule**

\* \* \* \* \*

**Section 2 Nasdaq Options Market - Fees and Rebates**

The following charges shall apply to the use of the order execution and routing services of The Nasdaq Options Market for all securities.

(1) Fees and Rebates for Execution of Contracts on The Nasdaq Options Market\*

**Rebates to Add Liquidity  
in Penny Symbols**

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Tier 4</b>	<b>Tier 5</b>	<b>Tier 6</b>
<b>Customer</b> <sup>1,8,9,10</sup>	(\$0.20)	(\$0.25)	(\$0.43)	(\$0.44)	(\$0.45)	(\$0.48) <sup>7</sup>
<b>Professional</b> <sup>1,9,10</sup>	(\$0.20)	(\$0.25)	(\$0.43)	(\$0.44)	(\$0.45)	(\$0.47)
<b>Broker-Dealer</b>	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)
<b>Firm</b>	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)
<b>Non-NOM Market Maker</b>	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)	(\$0.10)
<b>NOM Market Maker</b> <sup>3</sup>	(\$0.20)	(\$0.25) <sup>4</sup>	(\$0.30) <sup>4</sup>	(\$0.32) <sup>4</sup>	(\$0.44) <sup>11</sup>	(\$0.48)

**Fees and Rebates to Add Liquidity in Non-Penny Symbols**

<b>Customer</b> <sup>9,10,12</sup>	(\$0.80)
<b>Professional</b> <sup>9,10,12</sup>	(\$0.80)
<b>Broker-Dealer</b>	\$0.45



<b>Firm</b>	\$0.45
<b>Non-NOM Market Maker</b>	\$0.45
<b>NOM Market Maker</b> <sup>5,6</sup>	\$0.35/(\$0.30)

#### **Fees to Remove Liquidity in Penny and Non-Penny Symbols**

	<b>Penny Symbols</b>	<b>Non-Penny Symbols</b>
<b>Customer</b>	\$0.49	\$0.85
<b>Professional</b>	\$0.49	\$0.85
<b>Broker-Dealer</b>	\$0.50	\$1.25[10]
<b>Firm</b>	\$0.50	\$1.25[10]
<b>Non-NOM Market Maker</b> <sup>2</sup>	\$0.50	\$1.25[10]
<b>NOM Market Maker</b> <sup>2</sup>	\$0.50	\$1.25[10]

\* \* \* \* \*

<sup>8</sup> [NOM Participants that qualify for any MARS Payment Tier in Section 2(4) will receive: (1) an additional \$0.05 per contract Penny Symbol Customer Rebate to Add Liquidity for each transaction which adds liquidity in Penny Symbols in that month, in addition to qualifying Customer Rebate to Add Liquidity Tiers 1-5, or (2) an additional \$0.04 per contract Penny Symbol Customer Rebate to Add Liquidity for each transaction which adds liquidity in Penny Symbols in that month, in addition to qualifying Penny Symbol Customer Rebate to Add Liquidity Tier 6. NOM Participants that qualify for note “7” and note “8” incentives will receive the greater of the note “7” or note “8” incentive, but not both] Reserved.

<sup>9</sup> NOM Participants that transact in all securities through one or more of its Nasdaq Market Center MPIDs that represent 3.00% or more of Consolidated Volume in the same month on The Nasdaq Stock Market will receive a \$0.50 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract rebate as Professional, a \$1.[0]10 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add liquidity in Non-Penny Symbols as Professional. Participants that qualify for this rebate would not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).

<sup>10</sup> NOM Participants that (a) add Customer, Professional, Firm, Non-NOM Market Maker and/or Broker-Dealer liquidity in Penny Symbols and/or Non-Penny Symbols above 1.[2]50% of total industry customer equity and ETF option ADV contracts per day in a

month, (b) 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, and (c) add greater than 1.5 million shares per day of non-displayed volume within The Nasdaq Stock Market within a month will receive a \$0.55 per contract Rebate to Add Liquidity in Penny Symbols as Customer, a \$0.48 per contract Rebate to Add Liquidity in Penny Symbols as Professional, and a \$1.[0]15 per contract Rebate to Add Liquidity in Non-Penny Symbols as Customer, and a \$0.90 per contract Rebate to Add Liquidity in Non-Penny Symbols as Professional. Participants that qualify for this rebate would not be eligible for any other rebates in Tiers 1-6 or other rebate incentives on NOM for Customer and Professional order flow in Options 7, Section 2(1).

<sup>11</sup> NOM Participants that qualify for the Tier 5(b) NOM Market Maker Rebate to Add Liquidity in Penny Symbols and add NOM Market Maker liquidity in Penny Symbols and/or Non-Penny Symbols of above 0.50% of total industry customer equity and ETF option ADV contracts per day in a month, will receive a \$0.46 per contract rebate to add liquidity in Penny Symbols as Market Maker in lieu of the Tier 5 rebate.

\* \* \* \* \*

(3) Fees for routing contracts to markets other than The Nasdaq Options Market shall be assessed as follows:

**Non-Customer**

- \$1.20[0.99] per contract to any options exchange.

**Customer**

[• Routing Fees to Phlx: \$0.13 per contract fee ("Fixed Fee") in addition to the actual transaction fee assessed.]

[• Routing Fees to BX: \$0.13 per contract fee ("Fixed Fee") in addition to the actual transaction fee assessed.]

- [Routing Fees to all other options exchanges: ]\$0.23 per contract fee ("Fixed Fee") to any options exchange in addition to the actual transaction fee assessed. If the away market pays a rebate, the Routing Fee will be \$0.13 per contract.

\* \* \* \* \*