

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75389; File No. SR- NASDAQ-2015-071)

July 8, 2015

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to the Designated Liquidity Provider Program under Rule 7018(i)

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 July 1, 2015, The NASDAQ Stock Market LLC (“NASDAQ” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend the Designated Liquidity Provider (“DLP”) program under Rule 7018(i).

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

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

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

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange is proposing to make the following changes to the DLP program under Rule 7018(i): (1) move the program rules from Rule 7018 to Rule 7014; (2) change the name of the program to the Lead Market Maker program; (3) add clarifying rule text; (4) shorten the notice period required before a market maker may withdraw as a DLP; and (5) provide additional flexibility to NASDAQ on the application of the minimum performance measurements under subparagraph (2) of the rule. The DLP program provides fees and credits for execution of a Qualified Security by one of its DLPs. Rule 7018(i)(1) defines Qualified Security as an exchange-traded fund or index-linked security listed on NASDAQ pursuant to NASDAQ Rules 5705, 5710, or 5720 that has at least one DLP. As defined in Rule 7018(i)(2), a DLP is a registered NASDAQ market maker for a Qualified Security that has committed to maintain specified minimum performance standards. The rule provides that a DLP shall be selected by NASDAQ based on factors including, but not limited to, experience with making markets in exchange-traded funds and index-linked securities, adequacy of capital, willingness to promote NASDAQ as a marketplace, issuer preference, operational capacity, support personnel, and history of adherence to NASDAQ rules and securities laws. Moreover, the rule permits NASDAQ to limit the number of DLPs in a security, or modify a previously established limit, upon prior written notice to members.

NASDAQ is proposing to move the rule from Rule 7018, which concerns fees and credits for execution and routing of orders entered on NASDAQ, to Rule 7014, which concerns

NASDAQ's market quality incentive programs. NASDAQ adopted the DLP program as a pricing incentive program for market makers in certain exchange traded products. The DLP program is designed to improve market quality in Qualified Securities by providing credits to market makers in return for providing certain levels of market-improving quoting in those securities. As such, the Exchange believes that it is more appropriate to locate the rules relating to the program under Rule 7014, along with other market quality incentive programs.

The Exchange is also proposing to amend Rule 7018(i)(2) to provide NASDAQ additional flexibility in the application of the four performance measurements under the rule. Rule 7018(i)(2) sets forth four minimum performance measurements that a market maker must achieve to be considered a DLP, which are applied to market makers at the conclusion of each month to determine if their contribution to market quality in an individual Qualified Security meets or exceeds the minimum performance measurements. The minimum performance measurements may be determined from time to time by NASDAQ and may vary depending on the price, liquidity, and volatility of the Qualified Security in which the DLP is registered. Under the rule, the performance standards must include the percent of time at the national best bid (best offer) ("NBBO"), the percent of executions better than the NBBO, the average displayed size, and the average quoted spread. NASDAQ has flexibility to modify the specific levels of the performance measurements in an individual Qualified Security in response to changes in the market in price, volatility and liquidity, or NASDAQ may set a uniform level for a particular minimum performance measurement applied to all Qualified Securities. The Exchange is proposing to amend Rule 7018(i)(2) so that it is no longer required to consider all four factors in its minimum performance criteria, but rather provide the Exchange flexibility to apply one or more of the factors. NASDAQ notes that such additional flexibility will enable the

Exchange to further tailor eligibility for the incentive program based on overall market conditions, applying only the criteria needed to improve market quality. In this regard, NASDAQ notes that the desired improvement in market quality may be achieved in certain instances by applying fewer than all four of the minimum performance measurements. In some cases, applying all four minimum performance measurements may require setting one or more of the measures so low as to allow all market makers to qualify under those measures, thus rendering those measures superfluous.

The Exchange is adding new language to make it clear that it will provide written notice of the criteria to market participants. This notice will describe the specific criteria applicable under the program for the upcoming month so market participants can understand how to qualify for credits. The description will include not only the criteria applicable but also the standard under each criteria or combination of criteria. Such clarifying language will help market participants understand how changes to the minimum performance measurements will be communicated, thereby providing further transparency into the operation of the program.

NASDAQ will also use the specific criteria described in the notice to measure performance under the program, and to make changes to improve that performance. For example, if after studying performance under a given set of criteria, NASDAQ determines that performance greatly exceeds the criteria, NASDAQ will have a solid basis for increasing the requirements. Alternatively, if this review reveals that a criteria is yielding no improvement to performance, NASDAQ will then have a basis to select an alternative criteria and to so notify market makers of the change.

The Exchange is also shortening the amount of prior written notice that a DMM must provide to NASDAQ when it wishes to withdraw its registration in a Qualified Security from 30

days to 5 days. Historically, the Exchange needed at least 30 days to process the de-registration of a DMM in a Qualified Security. Improvements to the Exchange's systems and processes have now made it possible for the Exchange to process such de-registrations with 5 days' notice.

Lastly, NASDAQ is changing the name of the program to the "Lead Market Maker program" and is, accordingly, changing references to "Designated Liquidity Providers" and "DLPs" to "Lead Market Makers" and "LMMs," respectively. NASDAQ believes that the term Lead Market Maker is more descriptive of who is eligible for the program (i.e., market makers), as opposed to a Designated Liquidity Provider, which could lead a market participant to believe that any market participant is eligible to qualify for the program. NASDAQ notes that the proposed change in terminology does not impact the operation of the program, but rather merely clarifies and harmonizes the terminology used with the terminology used for similar programs of other exchanges. For example, The BATS Exchange, Inc. has a Lead Market Maker program, which provides its market makers with lower fees for removing liquidity and higher credits for providing liquidity if they meet certain performance standards in certain exchange-traded products.<sup>3</sup> NASDAQ believes that harmonizing the terminology with that of other exchanges will promote clarity in its rules and may help to avoid potential market participant confusion over the differing terminology.

## 2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>4</sup> in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,<sup>5</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among

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<sup>3</sup> BATS Rule 11.8(e).

<sup>4</sup> 15 U.S.C. 78f.

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

members and issuers and other persons using any facility or system which NASDAQ operates or controls, and is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed change in the terminology applied to the program further perfects the mechanism of a free and open market and a national market system, and, in general, to promotes public interest because it harmonizes NASDAQ's program's terminology with the terminology of other markets that offer similar programs to their market participants. NASDAQ believes that the proposed new terminology is more reflective of who is eligible to participate in the program. As such, the Exchange believes that the proposed change will avoid potential market participant confusion over the scope and nature of the program. Similarly, the Exchange believes that moving the rules of the program to the rule section that contains other market improvement programs will avoid potential market participant confusion and helps NASDAQ further refine its rulebook to make it more understandable and accessible to all market participants. The Exchange believes that adding clarifying language concerning notice of changes to the minimum performance measurements is consistent with the Act because it will promote transparency in the operation and requirements of the program. The Exchange believes that reducing the notice requirement is consistent with further perfecting the mechanism

of a free and open market and a national market system because it lessens the time that a DLP must remain registered in a Qualified Security once it makes the determination to de-register.

The proposed change providing NASDAQ additional flexibility in applying the minimum performance measurements will allow NASDAQ to more closely tailor eligibility for the beneficial fees and credits of the program based on the level of improvement to the market NASDAQ determines is desired. In this regard, in certain instances the desired improvement in market quality may be achieved by applying fewer than all four of the minimum performance measurements, including applying just one, two or three of them. Accordingly, allowing the Exchange to apply less than all four of the minimum performance measurements will not negatively impact the public interest or investor protection. The Exchange notes that the minimum standards that NASDAQ sets for a Qualified Security apply to all market makers registered in the security, and therefore, all such market makers that elect to provide the level of market-improving behavior required by the program will receive the credit. The Exchange also believes that the proposed additional flexibility in applying the minimum performance measurements will not permit unfair discrimination among market makers, as the measurements are set based on the Exchange's determination of what beneficial activity, and the amount thereof, in a Qualified Security is needed to achieve the desired improvement to market quality.

The Exchange believes that the proposed change to provide NASDAQ with additional flexibility in applying the four minimum performance measurements is consistent with an equitable allocation of a reasonable fee because NASDAQ will always apply at least one factor, which will require a market maker to improve the market over other market makers in a Qualified Security in order to receive reduced fees and increased credits. In addition, whatever combination of criteria NASDAQ imposes will applied equally to all market makers. It is

NASDAQ's belief that the revised program will promote competition among market maker to provide the best markets for investors, even where that competition focuses on just one of the four criteria. NASDAQ believes that as it gains experience with the program, it will be able to apply each criteria and combination of criteria to maximize this competition and benefit to investors. Moreover, credit eligibility is not discretionary under the program. Any market maker that meets the specified criteria will receive the credit.

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

The Exchange does not believe that the proposed rule changes will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the changes are designed to promote clarity in the application of NASDAQ's rules and to provide NASDAQ flexibility in the application of the qualification requirements of an incentive program, which is designed to improve the market in Qualified Securities on NASDAQ. Such changes do not place a burden on competition between market participants as the changes are applied consistently to all participants. Lastly, the proposed change to provide NASDAQ with greater flexibility in applying the four minimum performance measures may actually promote competition among exchanges to the extent the additional flexibility results in improved market quality on NASDAQ.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time



as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>6</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>7</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 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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2015-071 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.

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<sup>6</sup> 15 U.S.C. 78s(b)(3)(a)(iii).

<sup>7</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

All submissions should refer to File Number SR-NASDAQ-2015-071. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-NASDAQ-2015-071 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

Brent J. Fields  
Secretary

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<sup>8</sup> 17 CFR 200.30-3(a)(12).