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

File No.* SR - 2015 - * 122
Amendment No. (req. for Amendments *)

Filing by NASDAQ Stock Market

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

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☐ Section 19(b)(3)(A) * ☑ Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 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 *).

Risk Monitor Mechanism

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 * Angela Last Name * Dunn

Title * Associate General Counsel

E-mail * angela.dunn@nasdaq.com

Telephone * (215) 496-5692 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 10/16/2015

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

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

edward.knight@nasdaq.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	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 * Add Remove View	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 Advance Notice by Clearing Agencies * Add Remove View	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, security-based swap submission, or advance notice 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 Add Remove View Exhibit Sent As Paper Document ☐	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 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	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 4 - Marked Copies Add Remove View	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 Add Remove View	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 Add Remove View	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 ("Exchange" or "NASDAQ"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("Commission") a proposal to amend Chapter VI, Section 19 entitled "Risk Monitor Mechanism" by reserving this rule and relocating the rule governing the Risk Monitor Mechanism into NOM Rule at Chapter VII, Section 6(f)(i), entitled "Market Maker Quotations" which contains similar market maker[3] risk monitor tools. The Exchange is also modifying the language currently contained in Chapter VI, Section 19.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the proposed Rule is attached hereto 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 of the Exchange (the "Board")

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Pursuant to NOM Rules at Chapter VII, Section 5, entitled "Obligations of Market Makers", in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a NOM Market Maker must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Further, all Market Makers are designated as specialists on NOM for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

on July 16, 2014. 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 Angela Saccomandi Dunn, Associate General Counsel, Nasdaq, Inc. at (215) 496-5692.

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

a. Purpose

The purpose of the filing is to relocate and amend the current rule text of the Risk Monitor Mechanism at Chapter VI, Section 19.[4] The Exchange is proposing to relocate the rule text into Chapter VII, Section 6, which currently describes two other risk mechanisms offered to NOM Market Makers today.[5] Quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose NOM Market Makers, who are required to continuously quote in assigned options, to potentially significant market risk. The Risk Monitor Mechanism (hereinafter "Percentage-Based Threshold") permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange will require NOM Market Makers to utilize either the Percentage-Based Threshold or the Volume-Based Threshold.[6] The Multi-Trigger Threshold will be

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4 The proposed amendments will conform the rule text to the manner in which the System operates today.

5 The two risk protections, Volume-Based Threshold and the Multi-Trigger Threshold, are NOM Market Maker protections, similar to the Risk Monitor Mechanism to assist NOM Market Makers to control their trading risks.

6 The Volume-Based Threshold is offered only to NOM Market Makers.

optional.[7] Today, NOM Market Makers are required to utilize the Percentage-Based Threshold.

Current Rule Text in Chapter VI, Section 19

NOM Rules at Chapter VI, Section 19 specifically describes the counting program that is maintained by the System for each Participant in a particular option. Specifically, the counting program counts the number of contracts traded in an option by each Participant within a specified time period, not to exceed 15 seconds, established by each Participant known in this rule as the "specified time period."

The specified time period commences for an option when a transaction occurs in any series in such option. The Exchange counts Specialized Quote Feed ("SQF")[8] quotes and OTTO[9] orders only in determining the number of contracts traded and removed by the System. When a Participant trades the Specified Engagement Size during the specified time period, the Percentage-Based Threshold is triggered[10] and the System automatically removes such Participant's quotations from the Exchange's orders in all

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7 The Multi-Trigger Threshold is offered only to NOM Market Makers.

8 SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also not included.

9 OTTO immediate or cancel orders will not be included. OTTO provides a method for subscribers to send orders and receive status updates on those orders. OTTO accepts limit orders from System subscribers, and if there is a matching order, the orders will execute. Non-matching orders are added to the limit order book, a database of available limit orders, where they are matched. All NOM Participants have the ability to utilize OTTO; although non-NOM Market Makers are automatically set at a default value. OTTO does not permit non-NOM Market Makers to adjust the default setting. NOM Market Makers are able to adjust the setting.

10 A trigger is defined as the event which causes the System to automatically remove all quotes and orders in all options series in an underlying issue.

series of the particular option. The Percentage-Based Threshold is engaged when the counting program determines that the Issue Percentage equals or exceeds a percentage established by the Participant, not less than 100%.

The Specified Engagement Size is automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period known as the "Net Offset Specified Engagement Size." Long call positions are only offset by short call positions, and long put positions are only offset by short put positions. The Percentage-Based Threshold is engaged once the Net Offset Specified Engagement Size represents a net number of contracts executed among all series in an option issue, during the specified time period, where the issue percentage is equal to or greater than the Specified Percentage.[11]

The System automatically resets the counting program and commences a new specified time period when: (i) a previous counting period has expired and a transaction occurs in any series in such option; or (ii) the Participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

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11 Any marketable orders or quotes that are executable against a Participant's disseminated quotation that are received prior to the time the Percentage-Based Threshold is engaged are automatically executed at the disseminated price up to the Participant's disseminated size, regardless of whether such an execution results in executions in excess of the Participant's Specified Engagement Size. In the event that the specialist's quote is removed by the Percentage-Based Threshold and there are no other Participants quoting in the particular option, the System will automatically provide two-sided quotes that comply with the Exchange's Rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation. All quotations generated by the Exchange on behalf of a specialist shall be considered "firm quotations" and shall be the obligation of the specialist.

Proposed Rule

The Exchange's amendments to the current rule text are described below in greater detail. The Exchange proposes to amend the current rule to first offer the Percentage-Based Threshold to NOM Market Makers only. Today, the Percentage-Based Threshold is offered to all Participants. No other market participants, other than NOM Market Makers, currently utilize the Percentage-Based Threshold today.[12] The proposed term "NOM Market Maker" will be utilized throughout proposed Chapter VII, Section 6(f)(i).

Counting Program

Proposed Rule Chapter VII, Section 6(f)(i) provides, as in the current rule, the Percentage-Based Threshold determines: (i) the percentage that the number of contracts executed in that series represents relative to the Market Maker's disseminated[13] size of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). An offset occurs during the Percentage-Based Specified Time Period.[14] The Exchange proposes to amend the rule text in proposed Rule Chapter VII, Section 6(f)(i) to state that the Percentage-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap. The Exchange proposes to

12 The System counts SQF quotes and OTTO orders. See notes 8 and 9.

13 The disseminated size is the original size quoted by the Participant.

14 A specified time period is established by the NOM Market Maker and may not to exceed 15 seconds. See proposed Chapter VII, Section 6(f)(i).

amend the rule text of proposed Rule Chapter VII, Section 6(f)(i) to state that the Percentage-Based Specified Time Period commences for an option every time an execution occurs in any series in such option and continues until the System removes quotes and orders as described in current Chapter VII, Section 6(f)(iv), which is being amended to include the Percentage-Based Specified Time Period, or the Percentage-Based Specified Time Period expires.

Rounding

The Exchange proposes to add amended rule text to proposed Rule Chapter VII, Section 6(f)(i) to state that if the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a Market Maker, not less than 100% ("Specified Percentage"), the System automatically removes a Market Maker's quotes in all series of the underlying security submitted through designated NOM protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period.[15] The current text of Chapter IV, Section 6 states that the Percentage-Based Threshold is engaged when the counting program determines that the Issue Percentage equals or exceeds a percentage established by the Market Maker, not less than 100%. The Exchange's proposal adds amended rule text to proposed Rule Chapter VII, Section 6(f)(i) to state, that if the Issue Percentage, *rounded to the nearest integer*, equals or exceeds a percentage established by the Market Maker, not less than 100% ("Specified Percentage"), the System

[15] The System's count of the number of contracts executed is based on trading interest resting on the Exchange book. The Volume-Based Specified Time Period, in current Chapter VII, Section 6(f)(ii), designated by the NOM Market Maker must be the same time period as designated for purposes of the Percentage-Based Threshold. The Exchange references protocols more specifically in this rule. The Exchange counts SQF quotes and OTTO orders only in determining the number of contracts traded and removed by the System. See notes 8 and 9.

automatically removes a Market Maker's quotes and orders in all series of an underlying security submitted through designated NASDAQ protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period.

Today, the System tracks and calculates the net impact of positions in the same option issue during the Percentage-Based Specified Time Period. The System tracks transactions, i.e., the sum of buy-side put percentages, the sum of sell-side put percentages, the sum of buy-side call percentages, and the sum of sell-side call percentages, and then calculates the absolute value of the difference between the buy-side puts and the sell-side puts plus the absolute value of the difference between the buy-side calls and the sell-side calls. With this proposal, when these values are rounded, if that number is greater than the Specified Percentage, the Percentage-Based Threshold would be triggered.

Reset

The Exchange proposes to amend the manner in which the System resets. The System will automatically remove quotes and orders in all option series of an underlying security when the Percentage-Based Threshold is reached and then the Percentage-Based Specified Time Period is reset. The System will send a Purge Notification Message[16] to the Market Maker for all affected options when the threshold has been reached. Pursuant to this proposal, when the System removes quotes and orders as a result of the Percentage-Based Threshold, the Market Maker will be required to send a re-entry

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16 A message entitled "Purge Notification Message" is systemically sent to the NOM Market Maker upon the removal of quotes and orders due to the Percentage-Based Threshold. See proposed Chapter VI, Section 6(f)(iii).

indicator to re-enter the System.[17] If a Market Maker requests the System to remove quotes and orders in all options series in an underlying issue, the System will automatically reset the Percentage–Based Specified Time Period(s) and new Percentage-Based Specified Time Period(s) will commence for the Percentage-Based Threshold. With this proposal, when the System removes quotes and orders as a result of the Percentage-Based Threshold, the Market Maker will be required to send a re-entry indicator to re-enter the System. The proposed rule text adds specificity to the manner in which the Market Maker re-enters the market after a trigger.

Firm Quote

The Exchange represents that its proposal operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[18] in general, and furthers the objectives of Section 6(b)(5) of the Act[19] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by enhancing the risk protections available to Exchange members. Each of the proposed amendments do not raise a novel regulatory issue, rather these proposed amendments provide for operational transparency.

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17 The re-entry indicator must be marked as such to cause the System to reset.

18 15 U.S.C. 78f(b).

19 15 U.S.C. 78f(b)(5).

The proposed rule text continues to offer NOM Market Makers a risk protection tool, in addition to other available risk tools,[20] to decrease risk and increase stability. The Exchange offers this risk tool to NOM Market Makers, in order to encourage them to provide as much liquidity as possible and encourage market making generally, the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system and protect investors and the public interest. Further, it is important to note that any interest that is executable against a NOM Market Maker's quotes and orders that are received[21] by the Exchange prior to the trigger of the Percentage-Based Threshold, which is processed by the System, automatically executes at the price up to the Market Maker's size. Further, the Purge Notification Message is accepted by the System in the order of receipt in the queue and is processed in that order so that interest that is already accepted into the System is processed prior to the message.

Offering the Risk Tool to Market Makers

The Exchange believes that offering the risk tool to NOM Market Makers as compared to all Participants is just and equitable because quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose NOM Market Makers, who are required to continuously quote in assigned options, to potentially significant market risk. The Percentage-Based Threshold permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. Other

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[20] See note 5.

[21] The time of receipt for an order or quote is the time such message is processed by the Exchange book.

NOM Participants do not bear the burden of the risk and do not have the obligations that NOM Market Makers are obligated by rule to comply with on a continuous basis.[22] Also, NOM Market Makers are the only participants that utilize the risk tool today and therefore no other market participant is being denied access to this risk tool.

Counting Program

The Exchange's amendment to the operation of the counting program to describe that it operates on rolling basis, with a time window after each transaction, not singular and sequential time segments is consistent with the Act because the purpose of the risk tool is to provide NOM Market Makers with the ability to monitor its transactions. The proposed counting program provides a tracking method for NOM Market Makers related to the specified time period. The System captures information to determine whether a removal of quotes and orders is necessary. The proposed function of this counting program will enable the Exchange to provide the NOM Market Maker with information relative to that NOM Market Maker's interest currently at risk in the market.

Rounding

The Exchange's amendment which states that if the Issue Percentage, rounded to the nearest integer, equals or exceeds the Specified Percentage, the System automatically removes a Market Maker's quotes and orders in all series of an underlying security is consistent with the Act because investors will be protected by providing NOM Market Makers with a risk tool which allows NOM Market Makers to properly set their risk protections at a level that they are able to meet their obligations and also manage their risk. This specificity provides more detail so that NOM Market Makers may properly set

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[22] See note 3.

their risk controls. Understanding the manner in which the System will round is important in determining when the System will trigger a risk control. Also, today, NOM discusses rounding in its Rulebook.[23] Rounding to the nearest integer is not novel.

Reset

The Exchange's proposal to amend the rule text related to resets provides guidance to NOM Market Makers as to the manner in which they may re-enter the System after a removal of quotes and orders. This amendment is consistent with the Act because the Exchange desires to provide NOM Market Makers with access to the market at all times. NOM Market Makers perform an important function in the marketplace and the Exchange desires to provide its market participants with access to the market. If the Market Maker is removed from the market due to a trigger of the Percentage-Based risk tool, the Exchange will permit re-entry to the market provided the Market Maker sends a re-entry indicator to re-enter the System. This is important because it informs the Exchange that the Market Maker is ready to re-enter the market. Also, the Exchange currently has risk mechanisms in place which provide guidance as to the manner in which a Market Maker may re-enter the System after a removal of quotes and orders.[24]

Quoting Obligations – Market Makers

The Exchange further represents that the System operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to NOM Market Makers, their obligation to provide continuous two-sided quotes on a daily basis is not diminished by the removal of such quotes by the

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[23] See NOM Rules at Chapter VII, Section 5 regarding Market Maker allocations.

[24] See NOM Chapter VI, Section 6(f)(vi).

Percentage-Based Threshold. NOM Market Makers are required to provide continuous two-sided quotes on a daily basis.[25] NOM Market Makers that utilize the Percentage-Based Threshold will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet the continuous quoting obligation each trading day.

Finally, the Exchange believes that its proposal to provide NOM Market Makers the optionality to either select the Percentage-Based Threshold or Volume-Based Threshold as one of their risk tools will also protect investors and is consistent with the Act. Today, NOM Market Makers are required to utilize the Percentage-Based Threshold. With this proposal, NOM Market Makers will have the ability to select their mandatory risk as between the Percentage-Based Threshold or Volume-Based Threshold.

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. The Percentage-Based Threshold is meant to protect NOM Market Makers from inadvertent exposure to excessive risk. Accordingly, this proposal will have no impact on competition. Specifically, the proposal does not impose a burden on intra-market or inter-market competition, rather, it provides NOM Market Makers with the opportunity to avail themselves of similar risk tools which are currently available on other exchanges.[26] NOM Market Makers quote across many series in an option creates the possibility of

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25 See note 3.

26 See Section 8 of the 19b4.

"rapid fire" executions that can create large, unintended principal positions that expose NOM Market Makers. The Percentage-Based Threshold permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange is proposing this rule change to continue to permit NOM Market Makers to reduce their risk in the event the Market Maker is suffering from a system issue or due to the occurrence of unusual or unexpected market activity. Reducing such risk will enable NOM Market Makers to enter quotations without any fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market. Reducing risk by utilizing the proposed risk protections enables NOM Market Makers, specifically, to enter quotations with larger size, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

Offering the Risk Tool to Market Makers

The Exchange believes that offering the risk tool to NOM Market Makers as compared to all Participants does not create an undue burden on competition because other NOM Participants do not bear the burden of the risk and do not have the obligations that NOM Market Makers are obligated by rule to comply with on a continuous basis.[27] Also, NOM Market Makers are the only participants that utilize the

[27] See note 3.

risk tool today and therefore no other market participant is being denied access to this risk tool.

Counting Program

The Exchange’s amendment to the operation of the counting program to describe that it operates on rolling basis, with a time window after each transaction, not singular and sequential time segments does not create an undue burden on competition, rather, it provides the Market Maker with clarity as to the manner in which the System counts quotes and orders and thereby provides NOM Market Makers with an increased ability to monitor transactions.

Rounding

The Exchange’s amendment to add that if the Issue Percentage, rounded to the nearest integer, equals or exceeds the Specified Percentage, the System automatically removes a Market Maker’s quotes and orders in all series of an underlying security does not create an undue burden on competition because this amendment also provides the Market Maker with clarity as to the manner in which the System will remove quotes and orders and thereby provides NOM Market Makers with an increased ability to monitor transactions and set risk limits.

Reset

The amendment to the rule text concerning resetting does not create an undue burden on competition. The Exchange proposes to amend the manner in which a Market Maker may re-enter the System after a removal of quotes and orders. This amendment provides information to NOM Market Makers as to the procedure to re-enter the System after a trigger. This information is intended to provide NOM Market Makers with access to the market.

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)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)[28] of the Act and Rule 19b-4(f)(6) thereunder[29] in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The Exchange seeks to continue to assist NOM Market Makers to control their trading risks and protect against the possibility of "rapid fire" executions that can create large, unintended principal positions that expose NOM Market Makers. These market participants are required to continuously quote in assigned options[30] and thereby are subject to potentially significant market risk. The Percentage-Based Threshold is designed to mitigate the potential risks of multiple executions against a NOM Market Maker's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes.

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28 15 U.S.C. 78s(b)(3)(A).

29 17 CFR 240.19b-4(f)(6).

30 See note 3.

The Exchange believes that these proposed amendments do not significantly affect the protection of investors or the public interest because the amendments to offer the risk tool only to NOM Market Makers, the counting program, rounding and reset will continue to provide NOM Market Makers with a mechanism by which to monitor its risk, which is consistent with the protection of investors and the public interest.

Specifically, the Exchange believes that the amendment to offer the risk tool only to NOM Market Makers does not significantly affect the protection of investors because today NOM Market Makers are the only participants that utilize the risk tool today and therefore no other market participant is being denied access to this risk tool. The Exchange believes that the amendments to the counting program do not significantly affect the protection of investor or the public interest because the information provided in the amendment gives NOM Market Makers the necessary information to set their values for the Percentage-Based risk tool. By offering NOM Market Makers a manner in which to control their risk, the Exchange is also offering these market participants a manner in which to protect the market and investors. The Exchange believes that the amendments to rounding do not significantly affect the protection of investors or the public interest because NOM Market Makers may anticipate the outcome when setting their risk levels if they understand the manner in which the System rounds and otherwise operates. Likewise, the manner in which the Exchange will handle remainders provides NOM Market Makers with the information to control risk and protect investors. Finally, the Exchange believes that the proposed amendments to the reset functionality do not significantly affect the protection of investor or the public interest because the Exchange is providing NOM Market Makers with the means to re-enter the market after an event that triggered the risk tool. The Exchange desires to provide these valuable market participants with access to the market. Providing these liquidity providers with the means to access the market serves to protect investors.

The Exchange also believes that the proposed amendments do not provide a burden on competition. The Exchange's proposed amendments to offer the risk tool only to NOM Market Makers, the counting program, rounding and reset do not provide a burden on competition. The Exchange's proposed amendment to offer the risk tool only to NOM Market Makers does not impose a burden on competition because other NOM Participants do not bear the burden of the risk and do not have the obligations that NOM Market Makers are obligated by rule to comply with on a continuous basis.[31] The Exchange's proposed amendments to the counting program do not provide a burden on competition, rather, the amendments provide the Market Maker with clarity as to the manner in which the System counts quotes and thereby provides Market Makers with an increased ability to monitor transactions. The Exchange's proposed amendments to rounding do not impose a burden on competition because the Exchange is providing NOM Market Makers with additional information with which to understand the manner in which the System operates and manner in which to set their risk levels. The Exchange's proposed amendments to the reset do not provide a burden on competition, rather, this information is intended to provide NOM Market Makers with information to re-enter the market.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that

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[31] See note 3.

subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) so that it may amend its rule to continue to provide NOM Market Makers with the ability to offer this risk tool. The Exchange believes that providing NOM Market Makers with the means to manage risk encourages these market participants to make markets in options on the Exchange, which serves the public interest.

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

The proposed rule change is similar to rules which provide for risk tools on other options markets. ISE Rules 722 and 804(g) mandate that ISE market makers provide parameters by which ISE will automatically remove a market maker’s quotations in all series of an options class.[32] ISE's rules provide that if a specified number of curtailment events are exceeded within the prescribed time period, the market maker quotes in all classes will be automatically removed from ISE's trading system. ISE has a parameter for total number of contracts as well as a market wide parameter. NOM’s Percentage-Based Threshold risk tool is similar to the parameter for percentage of the total size of the market maker's quotes in the class that has been executed at ISE.

BOX Options Exchange LLC (“BOX”) also offers risk tools to its market makers. BOX Rule 8130 requires market makers to enter values in at least one of the five Exchange-provided risk parameters.[33] BOX’s risk tool related to a specified number of contracts in the aggregate across all series of an options class is similar to NOM’s Percentage -Based Threshold. BOX has a mandatory parameter for trades in a specified

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32 There are five parameters that can be set by market makers on a class-by-class basis at ISE. These parameters are available for market maker quotes in single options series and in complex instruments on the complex order book. Market makers establish a timeframe during which the system calculates: (1) The number of contracts executed by the market maker in an options class; (2) the percentage of the total size of the market maker's quotes in the class that has been executed; (3) the absolute value of the net between contracts bought and sold in an options class, and (4) the absolute value of the net between (a) calls purchased plus puts sold, and (b) calls sold plus puts purchase; and (5) market maker quotes may be removed from the trading system if a specified number of curtailment events occur across both ISE and ISE Gemini, LLC (“ISE Gemini”).

33 Rule 8130 provides for five triggering parameters that market makers can enable on a class-by-class basis. These are when the market maker: (1) experiences a duration of no technical connectivity for between one and nine seconds; (2) trades a specified number of contracts in the aggregate across all series of an options class; (3) trades a specified absolute dollar value of contracts bought and sold in a class; (4) trades a specified number of contracts in a class of the net between (i) calls purchased plus puts sold, and (ii) calls sold and puts purchased; or, (5) trades a specified absolute dollar value of the net position in a class between (i) calls purchased and sold, (ii) puts and calls purchased; (iii) puts purchased and sold; or (iv) puts and calls sold.

number of contracts across all options series similar to the risk tool being proposed by NOM. The Exchange will require Market Makers to utilize either the Percentage-Based Threshold or Volume-Based Threshold. The Multi-Trigger Threshold will be optional.

Notwithstanding the above comparisons of NOM's Percentage-Based Threshold to the other markets, ISE and BOX, the Exchange's amendment concerning the rounding is specific to the NOM market. This rounding functionality detail is noted for the purpose of providing greater detail to the manner in which NOM operates with respect to this risk tool. This rounding logic is utilized today for a similar risk tools on the NASDAQ OMX, BX, Inc. ("BX") and NASDAQ OMX PHLX LLC ("Phlx").[34]

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 for publication in the Federal Register.

5. Proposed rule text.

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[34] BX's Risk Monitor and Phlx's Risk Monitor Mechanism operate in a similar manner as the NOM Percentage-Based Threshold risk tool.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-NASDAQ-2015-122)

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Risk Monitor Mechanism

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on October 16, 2015, 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 NASDAQ. 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

NASDAQ proposes to amend Chapter VI, Section 19 entitled "Risk Monitor Mechanism" by reserving this rule and relocating the rule governing the Risk Monitor Mechanism into NOM Rule at Chapter VII, Section 6(f)(i), entitled "Market Maker Quotations" which contains similar market maker[3] risk monitor tools. The Exchange is also modifying the language currently contained in Chapter VI, Section 19.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Pursuant to NOM Rules at Chapter VII, Section 5, entitled "Obligations of Market Makers", in registering as a market maker, an Options Participant commits himself to various obligations. Transactions of a NOM Market Maker must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the filing is to relocate and amend the current rule text of the Risk Monitor Mechanism at Chapter VI, Section 19.[4] The Exchange is proposing to relocate the rule text into Chapter VII, Section 6, which currently describes two other risk mechanisms offered to NOM Market Makers today.[5] Quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended

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bids or offers or enter into transactions that are inconsistent with such course of dealings. Further, all Market Makers are designated as specialists on NOM for all purposes under the Act or rules thereunder. See Chapter VII, Section 5.

4 The proposed amendments will conform the rule text to the manner in which the System operates today.

5 The two risk protections, Volume-Based Threshold and the Multi-Trigger Threshold, are NOM Market Maker protections, similar to the Risk Monitor Mechanism to assist NOM Market Makers to control their trading risks.

principal positions that expose NOM Market Makers, who are required to continuously quote in assigned options, to potentially significant market risk. The Risk Monitor Mechanism (hereinafter "Percentage-Based Threshold") permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange will require NOM Market Makers to utilize either the Percentage-Based Threshold or the Volume-Based Threshold.[6] The Multi-Trigger Threshold will be optional.[7] Today, NOM Market Makers are required to utilize the Percentage-Based Threshold.

Current Rule Text in Chapter VI, Section 19

NOM Rules at Chapter VI, Section 19 specifically describes the counting program that is maintained by the System for each Participant in a particular option. Specifically, the counting program counts the number of contracts traded in an option by each Participant within a specified time period, not to exceed 15 seconds, established by each Participant known in this rule as the "specified time period."

The specified time period commences for an option when a transaction occurs in any series in such option. The Exchange counts Specialized Quote Feed ("SQF")[8] quotes and OTTO[9] orders only in determining the number of contracts traded and removed by

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6 The Volume-Based Threshold is offered only to NOM Market Makers.

7 The Multi-Trigger Threshold is offered only to NOM Market Makers.

8 SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also not included.

9 OTTO immediate or cancel orders will not be included. OTTO provides a

the System. When a Participant trades the Specified Engagement Size during the specified time period, the Percentage-Based Threshold is triggered[10] and the System automatically removes such Participant's quotations from the Exchange's orders in all series of the particular option. The Percentage-Based Threshold is engaged when the counting program determines that the Issue Percentage equals or exceeds a percentage established by the Participant, not less than 100%.

The Specified Engagement Size is automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period known as the “Net Offset Specified Engagement Size.” Long call positions are only offset by short call positions, and long put positions are only offset by short put positions. The Percentage-Based Threshold is engaged once the Net Offset Specified Engagement Size represents a net number of contracts executed among all series in an option issue, during the specified time period, where the issue percentage is equal to or greater than the Specified Percentage.[11]

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method for subscribers to send orders and receive status updates on those orders. OTTO accepts limit orders from System subscribers, and if there is a matching order, the orders will execute. Non-matching orders are added to the limit order book, a database of available limit orders, where they are matched. All NOM Participants have the ability to utilize OTTO; although non-NOM Market Makers are automatically set at a default value. OTTO does not permit non-NOM Market Makers to adjust the default setting. NOM Market Makers are able to adjust the setting.

10 A trigger is defined as the event which causes the System to automatically remove all quotes and orders in all options series in an underlying issue.

11 Any marketable orders or quotes that are executable against a Participant's disseminated quotation that are received prior to the time the Percentage-Based Threshold is engaged are automatically executed at the disseminated price up to the Participant's disseminated size, regardless of whether such an execution results in executions in excess of the Participant's Specified Engagement Size. In

The System automatically resets the counting program and commences a new specified time period when: (i) a previous counting period has expired and a transaction occurs in any series in such option; or (ii) the Participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

Proposed Rule

The Exchange's amendments to the current rule text are described below in greater detail. The Exchange proposes to amend the current rule to first offer the Percentage-Based Threshold to NOM Market Makers only. Today, the Percentage-Based Threshold is offered to all Participants. No other market participants, other than NOM Market Makers, currently utilize the Percentage-Based Threshold today.[12] The proposed term "NOM Market Maker" will be utilized throughout proposed Chapter VII, Section 6(f)(i).

Counting Program

Proposed Rule Chapter VII, Section 6(f)(i) provides, as in the current rule, the Percentage-Based Threshold determines: (i) the percentage that the number of contracts executed in that series represents relative to the Market Maker's disseminated[13] size of

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the event that the specialist's quote is removed by the Percentage-Based Threshold and there are no other Participants quoting in the particular option, the System will automatically provide two-sided quotes that comply with the Exchange's Rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation. All quotations generated by the Exchange on behalf of a specialist shall be considered "firm quotations" and shall be the obligation of the specialist.

12 The System counts SQF quotes and OTTO orders. See notes 8 and 9.

13 The disseminated size is the original size quoted by the Participant.

each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). An offset occurs during the Percentage-Based Specified Time Period.[14] The Exchange proposes to amend the rule text in proposed Rule Chapter VII, Section 6(f)(i) to state that the Percentage-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap. The Exchange proposes to amend the rule text of proposed Rule Chapter VII, Section 6(f)(i) to state that the Percentage-Based Specified Time Period commences for an option every time an execution occurs in any series in such option and continues until the System removes quotes and orders as described in current Chapter VII, Section 6(f)(iv), which is being amended to include the Percentage-Based Specified Time Period, or the Percentage-Based Specified Time Period expires.

Rounding

The Exchange proposes to add amended rule text to proposed Rule Chapter VII, Section 6(f)(i) to state that if the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a Market Maker, not less than 100% ("Specified Percentage"), the System automatically removes a Market Maker's quotes in all series of the underlying security submitted through designated NOM protocols, as specified by the

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14 A specified time period is established by the NOM Market Maker and may not to exceed 15 seconds. See proposed Chapter VII, Section 6(f)(i).

Exchange, during the Percentage-Based Specified Time Period.[15] The current text of Chapter IV, Section 6 states that the Percentage-Based Threshold is engaged when the counting program determines that the Issue Percentage equals or exceeds a percentage established by the Market Maker, not less than 100%. The Exchange's proposal adds amended rule text to proposed Rule Chapter VII, Section 6(f)(i) to state, that if the Issue Percentage, *rounded to the nearest integer*, equals or exceeds a percentage established by the Market Maker, not less than 100% ("Specified Percentage"), the System automatically removes a Market Maker's quotes and orders in all series of an underlying security submitted through designated NASDAQ protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period.

Today, the System tracks and calculates the net impact of positions in the same option issue during the Percentage-Based Specified Time Period. The System tracks transactions, i.e., the sum of buy-side put percentages, the sum of sell-side put percentages, the sum of buy-side call percentages, and the sum of sell-side call percentages, and then calculates the absolute value of the difference between the buy-side puts and the sell-side puts plus the absolute value of the difference between the buy-side calls and the sell-side calls. With this proposal, when these values are rounded, if that number is greater than the Specified Percentage, the Percentage-Based Threshold would be triggered.

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15 The System's count of the number of contracts executed is based on trading interest resting on the Exchange book. The Volume-Based Specified Time Period, in current Chapter VII, Section 6(f)(ii), designated by the NOM Market Maker must be the same time period as designated for purposes of the Percentage-Based Threshold. The Exchange references protocols more specifically in this rule. The Exchange counts SQF quotes and OTTO orders only in determining the number of contracts traded and removed by the System. <u>See</u> notes 8 and 9.

Reset

The Exchange proposes to amend the manner in which the System resets. The System will automatically remove quotes and orders in all option series of an underlying security when the Percentage-Based Threshold is reached and then the Percentage-Based Specified Time Period is reset. The System will send a Purge Notification Message[16] to the Market Maker for all affected options when the threshold has been reached. Pursuant to this proposal, when the System removes quotes and orders as a result of the Percentage-Based Threshold, the Market Maker will be required to send a re-entry indicator to re-enter the System.[17] If a Market Maker requests the System to remove quotes and orders in all options series in an underlying issue, the System will automatically reset the Percentage–Based Specified Time Period(s) and new Percentage-Based Specified Time Period(s) will commence for the Percentage-Based Threshold. With this proposal, when the System removes quotes and orders as a result of the Percentage-Based Threshold, the Market Maker will be required to send a re-entry indicator to re-enter the System. The proposed rule text adds specificity to the manner in which the Market Maker re-enters the market after a trigger.

Firm Quote

The Exchange represents that its proposal operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS.

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16 A message entitled "Purge Notification Message" is systemically sent to the NOM Market Maker upon the removal of quotes and orders due to the Percentage-Based Threshold. See proposed Chapter VI, Section 6(f)(iii).

17 The re-entry indicator must be marked as such to cause the System to reset.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[18] in general, and furthers the objectives of Section 6(b)(5) of the Act[19] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by enhancing the risk protections available to Exchange members. Each of the proposed amendments do not raise a novel regulatory issue, rather these proposed amendments provide for operational transparency.

The proposed rule text continues to offer NOM Market Makers a risk protection tool, in addition to other available risk tools,[20] to decrease risk and increase stability. The Exchange offers this risk tool to NOM Market Makers, in order to encourage them to provide as much liquidity as possible and encourage market making generally, the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system and protect investors and the public interest. Further, it is important to note that any interest that is executable against a NOM Market Maker's quotes and orders that are received[21] by the Exchange prior to the trigger of the Percentage-Based Threshold, which is processed by the System, automatically executes at the price up to the Market Maker's size. Further, the Purge Notification Message is

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[18] 15 U.S.C. 78f(b).

[19] 15 U.S.C. 78f(b)(5).

[20] See note 5.

[21] The time of receipt for an order or quote is the time such message is processed by the Exchange book.

accepted by the System in the order of receipt in the queue and is processed in that order so that interest that is already accepted into the System is processed prior to the message.

Offering the Risk Tool to Market Makers

The Exchange believes that offering the risk tool to NOM Market Makers as compared to all Participants is just and equitable because quoting across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose NOM Market Makers, who are required to continuously quote in assigned options, to potentially significant market risk. The Percentage-Based Threshold permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. Other NOM Participants do not bear the burden of the risk and do not have the obligations that NOM Market Makers are obligated by rule to comply with on a continuous basis.[22] Also, NOM Market Makers are the only participants that utilize the risk tool today and therefore no other market participant is being denied access to this risk tool.

Counting Program

The Exchange's amendment to the operation of the counting program to describe that it operates on rolling basis, with a time window after each transaction, not singular and sequential time segments is consistent with the Act because the purpose of the risk tool is to provide NOM Market Makers with the ability to monitor its transactions. The proposed counting program provides a tracking method for NOM Market Makers related to the specified time period. The System captures information to determine whether a removal of quotes and orders is necessary. The proposed function of this counting

[22] See note 3.

program will enable the Exchange to provide the NOM Market Maker with information relative to that NOM Market Maker's interest currently at risk in the market.

Rounding

The Exchange's amendment which states that if the Issue Percentage, rounded to the nearest integer, equals or exceeds the Specified Percentage, the System automatically removes a Market Maker's quotes and orders in all series of an underlying security is consistent with the Act because investors will be protected by providing NOM Market Makers with a risk tool which allows NOM Market Makers to properly set their risk protections at a level that they are able to meet their obligations and also manage their risk. This specificity provides more detail so that NOM Market Makers may properly set their risk controls. Understanding the manner in which the System will round is important in determining when the System will trigger a risk control. Also, today, NOM discusses rounding in its Rulebook.[23] Rounding to the nearest integer is not novel.

Reset

The Exchange's proposal to amend the rule text related to resets provides guidance to NOM Market Makers as to the manner in which they may re-enter the System after a removal of quotes and orders. This amendment is consistent with the Act because the Exchange desires to provide NOM Market Makers with access to the market at all times. NOM Market Makers perform an important function in the marketplace and the Exchange desires to provide its market participants with access to the market. If the Market Maker is removed from the market due to a trigger of the Percentage-Based risk tool, the Exchange will permit re-entry to the market provided the Market Maker sends a

23 See NOM Rules at Chapter VII, Section 5 regarding Market Maker allocations.

re-entry indicator to re-enter the System. This is important because it informs the Exchange that the Market Maker is ready to re-enter the market. Also, the Exchange currently has risk mechanisms in place which provide guidance as to the manner in which a Market Maker may re-enter the System after a removal of quotes and orders.[24]

<u>Quoting Obligations – Market Makers</u>

The Exchange further represents that the System operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to NOM Market Makers, their obligation to provide continuous two-sided quotes on a daily basis is not diminished by the removal of such quotes by the Percentage-Based Threshold. NOM Market Makers are required to provide continuous two-sided quotes on a daily basis.[25] NOM Market Makers that utilize the Percentage-Based Threshold will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet the continuous quoting obligation each trading day.

Finally, the Exchange believes that its proposal to provide NOM Market Makers the optionality to either select the Percentage-Based Threshold or Volume-Based Threshold as one of their risk tools will also protect investors and is consistent with the Act. Today, NOM Market Makers are required to utilize the Percentage-Based Threshold. With this proposal, NOM Market Makers will have the ability to select their mandatory risk as between the Percentage-Based Threshold or Volume-Based Threshold.

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[24] <u>See</u> NOM Chapter VI, Section 6(f)(vi).

[25] <u>See</u> note 3.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Percentage-Based Threshold is meant to protect NOM Market Makers from inadvertent exposure to excessive risk. Accordingly, this proposal will have no impact on competition. Specifically, the proposal does not impose a burden on intra-market or inter-market competition, rather, it provides NOM Market Makers with the opportunity to avail themselves of similar risk tools which are currently available on other exchanges.[26] NOM Market Makers quote across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose NOM Market Makers. The Percentage-Based Threshold permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange is proposing this rule change to continue to permit NOM Market Makers to reduce their risk in the event the Market Maker is suffering from a system issue or due to the occurrence of unusual or unexpected market activity. Reducing such risk will enable NOM Market Makers to enter quotations without any fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market. Reducing risk by utilizing the proposed risk protections enables NOM Market Makers, specifically, to enter quotations with larger size, which in turn will benefit investors

[26] See Section 8 of the 19b4.

through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

Offering the Risk Tool to Market Makers

The Exchange believes that offering the risk tool to NOM Market Makers as compared to all Participants does not create an undue burden on competition because other NOM Participants do not bear the burden of the risk and do not have the obligations that NOM Market Makers are obligated by rule to comply with on a continuous basis.[27] Also, NOM Market Makers are the only participants that utilize the risk tool today and therefore no other market participant is being denied access to this risk tool.

Counting Program

The Exchange's amendment to the operation of the counting program to describe that it operates on rolling basis, with a time window after each transaction, not singular and sequential time segments does not create an undue burden on competition, rather, it provides the Market Maker with clarity as to the manner in which the System counts quotes and orders and thereby provides NOM Market Makers with an increased ability to monitor transactions.

Rounding

The Exchange's amendment to add that if the Issue Percentage, rounded to the nearest integer, equals or exceeds the Specified Percentage, the System automatically removes a Market Maker's quotes and orders in all series of an underlying security does

[27] See note 3.

not create an undue burden on competition because this amendment also provides the Market Maker with clarity as to the manner in which the System will remove quotes and orders and thereby provides NOM Market Makers with an increased ability to monitor transactions and set risk limits.

Reset

The amendment to the rule text concerning resetting does not create an undue burden on competition. The Exchange proposes to amend the manner in which a Market Maker may re-enter the System after a removal of quotes and orders. This amendment provides information to NOM Market Makers as to the procedure to re-enter the System after a trigger. This information is intended to provide NOM Market Makers with access to the market.

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[28] and subparagraph (f)(6) of Rule 19b-4 thereunder.[29]

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28 15 U.S.C. 78s(b)(3)(a)(iii).

29 17 CFR 240.19b-4(f)(6).

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. The Exchange has provided the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2015-122 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2015-122. 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 Web site (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-2015-122 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.[30]

Kevin M. O'Neill
Deputy Secretary

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[30] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

NASDAQ Stock Market Rules

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Options Rules

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Chapter VI Trading Systems

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Sec. 19 <u>Reserved.</u>[Risk Monitor Mechanism

(a) The System will maintain a counting program ("counting program") for each Participant. The counting program will count the number of contracts traded in an option by each Participant within a specified time period, not to exceed 15 seconds, established by each Participant (the "specified time period"). The specified time period will commence for an option when a transaction occurs in any series in such option.

(b) (i) Risk Monitor Mechanism. The system will engage the Risk Monitor Mechanism in a particular option when the counting program has determined that a Participant has traded a Specified Engagement Size (as defined below) established by such Participant during the specified time period. When such Participant has traded the Specified Engagement Size during the specified time period, the Risk Monitor Mechanism will automatically remove such Participant's orders in all series of the particular option.

(ii) Specified Engagement Size. The Specified Engagement Size is determined by the following: (A) For each series in an option, the counting program will determine the percentage that the number of contracts executed in that series represents relative to the Participant's total size at all price levels in that series ("series percentage"); (B) The counting program will determine the sum of the series percentages in the option issue ("issue percentage"); (C) Once the counting program determines that the issue percentage equals or exceeds a percentage established by the Participant ("Specified Percentage"), the number of executed contracts in the option issue equals the Specified Engagement Size.

The Specified Engagement Size will be automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period (the "Net Offset Specified Engagement Size"). Long call positions will only be offset by short call positions, and long put positions will only be offset by short put positions.

The Net Offset Specified Engagement Size for each series is determined by offsetting the number of contracts executed on the opposite side of the market for each series during the specified time period. The Risk Monitor Mechanism shall be engaged once the Net Offset Specified Engagement Size is for a net number of contracts executed among all series in an option issue during the specified time period that represents an issue percentage equal to or greater than the Specified Percentage.

(c) Any marketable orders, or quotes that are executable against a Participant's quotation that are received prior to the time the Risk Monitor Mechanism is engaged will be automatically executed at the price up to the Participant's size, regardless of whether such an execution results in executions in excess of the Participant's Specified Engagement Size.

(d) The system will automatically reset the counting program and commence a new specified time period when:

(i) a previous counting period has expired and a transaction occurs in any series in such option; or

(ii) the Participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.]

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Chapter VII Market Participants

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Sec. 6 Market Maker Quotations

(a) – (e) No Change.

(f) **Automated Removal of Orders and Quotes**

(i) [Reserved.] <u>A NOM Market Maker may provide a specified time period and specified percentage (as these terms are defined below) by which the Exchange's System will automatically remove a NOM Market Maker's quotes and orders in all series of an underlying security submitted through designated NOM protocols, as specified by the Exchange, during a specified time period established by the NOM Market Maker not to exceeds 15 seconds ("Percentage-Based Specified Time Period"). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the disseminated size of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a NOM Market Maker not less than 100% ("Specified Percentage"), the System will automatically remove a NOM Market Maker's quotes and orders in all series of the underlying security submitted through designated NOM protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period ("Percentage-Based Threshold"). A Percentage-Based Specified Time Period will commence for an option every time an</u>

execution occurs in any series in such option and will continue until the System removes quotes and orders as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage -Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

(ii) A NOM Market Maker may provide a specified time period and a volume threshold by which the Exchange's System will automatically remove a NOM Market Maker's quotes and orders in all series of an underlying security submitted through designated NOM protocols, as specified by the Exchange, during a specified time period established by the NOM Market Maker not to exceed 15 seconds ("Volume-Based Specified Time Period") when the NOM Market Maker executes a number of contracts which equals or exceeds the designated number of contracts in all options series in an underlying security ("Volume-Based Threshold"). The NOM Market Maker's Volume-Based Specified Time Period must be the same length of time as designated for purposes of the [Risk Monitor Mechanism in Chapter VI, Section 19 ("]Percentage Based Threshold[")]. A Volume-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes and orders as described in (f)(iv) or (f)(v) or the Volume-Based Specified Time Period expires. A Volume-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Volume-Based Specified Time Periods occurring simultaneously and such Volume-Based Specified Time periods may overlap.

(iii) A NOM Market Maker or NOM Market Maker Group (multiple affiliated NOM Market Makers is a "Group" as defined by a NOM Participant and provided by such Participant to the Exchange) may provide a specified time period and number of allowable triggers by which the Exchange will automatically remove quotes and orders in all options series in all underlying issues submitted through designated NOM protocols, as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period(s) established by the NOM Market Maker not to exceed 15 seconds ("Multi-Trigger Specified Time Period"), the number of times the System automatically removes the NOM Market Maker's or Group's quotes and orders in all options series will be based on the number of triggers of the Percentage-Based Threshold, described in (f)([i]i) above, as well as the Volume-Based Threshold described in (f)(ii) above. Once the System determines that the number of triggers equals or exceeds a number established by either the NOM Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes and orders in all options series in all underlying issues for that NOM Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes and orders in all options series in an underlying issue. A Multi-Trigger Specified Time Period will commence after every trigger of either the Percentage-Based Threshold or the Volume-Based Threshold and will continue until the System removes quotes and orders as described in (f)(iv) or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the NOM Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

(iv) The System will automatically remove quotes in all options in an underlying security when the Percentage-Based Threshold or Volume-Based Threshold has been reached. The System will automatically remove quotes in all options in all underlying securities when the Multi-Trigger Threshold has been reached. . The System will send a Purge Notification Message to the NOM Market Maker for all affected options when the above thresholds have been reached.

(a) The [two thresholds,] Percentage-Based Threshold or Volume-Based Threshold and Multi-Trigger Threshold, are considered independently of each other.

(b) Marketable orders or quotes will be automatically executed up to the NOM Market Maker's size regardless of whether the execution exceeds the Percentage-Based Threshold or Volume-Based Threshold.

(v) If a NOM Market Maker requests the System to remove quotes and orders in all options series in an underlying security, the System will automatically reset the Percentage-Based Threshold or Volume-Based Specified Time Period(s). The Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.

(vi) When the System removes quotes or orders as a result of the Percentage-Based Threshold or Volume-Based Threshold, the NOM Market Maker must send a re-entry indicator to re-enter the System. When the System removes quotes or orders as a result of the Multi-Trigger Threshold, the System will not accept orders or quotes through designated protocols until the NOM Market Maker manually requests re-entry. After quotes are removed as a result of the Multi-Trigger Threshold, Exchange staff must set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the Market Maker for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.

(vii) The Exchange will require NOM Market Makers to utilize either the Percentage-Based Threshold or the Volume-Based Threshold. The Multi-Trigger Threshold is optional.

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