

Required fields are shown with yellow backgrounds and asterisks.

Filing by NASDAQ Stock Market
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

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

A proposal to amend the rules of the NASDAQ Options Market LLC at Chapter VII, Section 6(f), entitled Automated Removal of Orders and Quotes.

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.

(Title *)

Date 06/13/2016	Executive Vice President and General Counsel
By Edward S. Knight	
(Name *)	

edward.knight@nasdaq.com

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.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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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 *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, 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

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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

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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

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) The NASDAQ Stock Market LLC. (“Exchange”), 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 the rules of the NASDAQ Options Market LLC (“NOM”) at Chapter VII, Section 6(f), entitled “Automated Removal of Orders and Quotes.”

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the “Board”) on July 1, 2015. 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.
215-496-5692.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

a. Purpose

The Exchange proposes to amend a NOM Rule at Chapter VII, Section 6(f), entitled “Automated Removal of Orders and Quotes” to modify the minimum Specified Percentage (as described below) determined by a NOM Market Maker³ to enable a NOM Market Maker to enhance its risk management for an underlying security as market conditions warrant, based on its own risk tolerance level and quoting behavior. The Exchange proposes to permit the NOM Market Maker to set the Specified Percentage more broadly, no less than 1% with this rule change. The Exchange also proposes to amend the definition of “disseminated size.”⁴

Background

Today, Chapter VII, Section 6(f) permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. A NOM Market Maker may provide a specified time period and a specified percentage 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

³ The term “Nasdaq Options Market Maker” or “Options Market Maker” (herein “NOM Market Maker”) means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules. See NOM Rules at Chapter I, Section 1(a)(26).

⁴ See Securities Exchange Act Release No 76316 (October 30, 2015), 80 FR 68595 at 68597 (November 5, 2015) (SR-NASDAQ-2015-122). The Exchange defined disseminated size in this rule change in footnote 13, as the original size quoted by the Participant.

designated NOM protocols, as specified by the Exchange, during a specified time period not to exceed 15 seconds (“Percentage-Based Specified Time Period.”).⁵

For each series in an option, the System determines: (i) the percentage that the number of contracts executed in that series represents relative to the NOM Market Maker’s disseminated⁶ size of each side in that series (“Series Percentage”); and (ii) the sum of the Series Percentage in the option issue (“Issue Percentage”). The Exchange proposes herein to redefine disseminated size as the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. 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. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the NOM Market Maker, not less than 100% (“Specified Percentage”), the System automatically removes 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 the Percentage-Based Specified Time.

⁵ A specified time period commences for an option when a transaction occurs in any series in such option.

⁶ The disseminated size is the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions.

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 Chapter VII, Section 6(iv) or (v) or the Percentage-Based Time Period expires. The Exchange counts (“SQF”)⁷ quotes and OTTO⁸ orders only in determining the number of contracts traded and removed by the System. 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.

Proposal

The Exchange proposes to lower the Specified Percentage from 100% to 1%. The proposal would provide that if the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the NOM Market Maker, not less than 1% (“Specified Percentage”), the System automatically removes a NOM Market Maker’s

⁷ SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also not included. The Exchange does not intend for auction mechanism responses to be removed with this risk feature in order that the rules governing the auction govern the manner in which quotes and orders will be executed. Market sweeps are one-sided and immediately executable against orders against which they are marketable.

⁸ OTTO immediate or cancel orders will not be included in the removal because, by definition, these orders will cancel if not executed. 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.

quotes and orders in all series of an underlying security submitted through designated NOM protocols, as specified by the Exchange, during the Percentage-Based Specified Time. This proposal would allow a NOM Market Maker to establish a Specified Percentage at any percentage level greater than or equal to 1% for an option in which the NOM Market Maker is appointed. Today, the Specified Percentage would be set at greater than or equal to 100%. This amendment will allow NOM Market Makers to better manage their risk and assist them to avoid trading a number of contracts that exceeds the NOM Market Maker's risk tolerance level across multiple series of a single underlying when such series are executed in rapid succession.

NOM Market Makers will be able to more precisely customize their risk settings within the System. NOM Market Makers will be able to consider factors such as present and anticipated market conditions, news in an option, and a sudden change in volatility of an option. NOM Market Makers are required to utilize either the Percentage Based Threshold or the Volume Based Threshold. NOM Market Makers that select to utilize the Percentage-Based Threshold will be able to adopt more precise controls with this proposal based on the NOM Market Maker's risk tolerance level.

Market Makers must utilize either the Percentage-Based⁹ or Volume-Based risk controls. Market Makers may contact Market Operations to set their percentage and specified time period.

⁹ NOM Market Makers selecting the Percentage-Based risk control in Chapter VII, Section 6(f)(i) are required to provide a specified time period, up to 15 seconds, and a specified percentage with a number of 1% or greater, as proposed herein, to the NOM Market Operations staff to select this risk control. If a NOM Market Maker does not desire to utilize the Percentage-Based risk control the NOM Market Maker must utilize the Volume-Based risk control which is similarly set-up by contacting Market Operations and providing certain settings.

By way of example, if a NOM Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on NOM and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6(f) would:

- (1) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (2) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

By way of example, if a Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on NOM and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6 would:

- (3) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (4) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

Another example is with multiple executions. Presume MM1 has a rapid fire percentage setting of 80% by 5 seconds and MM1 has a displayed quote of 2.00 (100) x 2.25 (100) for IBM May 20, 2016 70 puts and he is the only displayed size on the NOM. Also, presume an order comes in to buy 50 IBM May 20, 2016 70 puts for 2.25. The following executions would result:

MM1 receives an execution Sold 50 @ 2.25
MM1 quote updates to 2.00 (100) x 2.25 (50)
Within 1 second an order comes in to buy 45 IBM May 20, 2016 70 puts for 2.25
MM1 receives an execution Sold 45 @ 2.25
MM1 receives rapid fire for IBM

The Exchange also proposes to memorialize the definition of disseminated size, which is the original size quoted by the Market Maker, within Chapter VII, Section 6(f).

The Exchange also proposes to amend the definition of disseminated size as originally explained and memorialize the definition within Chapter VII, Section 6(f). With respect to the disseminated size, the Exchange previously defined disseminated size as "...the original size quoted by the Participant."¹⁰ The Exchange proposes to amend the definition to the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. For example, with the proposed definition, if a NOM Market Maker with a Percentage-Based Specified Time Period of 10 seconds and a Specified Percentage of 100% submits a quote over SQF of 1.00(100) x 1.10(100) and a buy order executes 75, the remaining size would be 1.00(100) x 1.10(25). Thereafter a new Percentage-Based Specified Time Period begins and current Series Percentage executed is 75 and three seconds pass and the NOM Market Maker re-quotes 1.00(100) x 1.10 (100), an incoming buy order of 43 would cause the Issue Percentage to meet the Percentage-Based Threshold. This is due to a disseminated size of 175 (the executed 75 plus the newly quoted 100) and rounding ($0.75+43/175=0.9957$ rounds up to 100%). If the former definition applied, the disseminated size would have been 100 and an execution of only 25 contracts on the same side would have caused the Issue Percentage to meet the Percentage-Based Threshold, which is not the case. In other words all current quotes and OTTO orders on that side for that series (for that NOM Market Maker) in addition to all the executions

¹⁰ See note 4 above.

that have occurred on that side for that series (for that NOM Market Maker) within the Percentage-Based Specified Time Period would comprise the disseminated size.

The Exchange believes that this new definition accurately represents the manner in which the Issue Percentage is calculated and seeks to amend the definition of “disseminated size” in this rule change. The Exchange has always calculated the disseminated size in the proposed fashion. The prior definition was not accurate and the Exchange seeks to amend the definition with this proposal and memorialize the definition within the rule.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹² 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.

NOM Market Makers are obligated to submit continuous two-sided quotations in a certain number of series in their appointed option classes for a certain percentage of each trading session,¹³ rendering them vulnerable to risk from unusual market condition,

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

¹³ 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

volatility in specific options, and other market events that may cause them to receive multiple, extremely rapid automatic executions before they can adjust their quotations and overall risk exposure in the market. Without adequate risk management tools in place on the Exchange, the incentive for NOM Market Makers to quote aggressively, respecting both price and size could be diminished. Such a result may undermine the quality of the markets, which are enhanced by the depth and liquidity such Market Makers provide in the marketplace.

By allowing the percentage to be reduced from 100% to 1%, the Exchange provides its NOM Market Makers the desired flexibility to take into account such factors as present and anticipated market conditions, news in an option or sudden change in volatility of an option without any limitation regarding the Specified Percentage. This should encourage NOM Market Makers to provide additional depth and liquidity to the Exchange's markets, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

The proposal is consistent with the Act because the reduction of the Specified Percentage to not less than 1% provides more alternatives to NOM Market Makers in setting their percentage without impacting their firm quote obligations. 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

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.

the removal of such quotes and orders by the Percentage-Based Threshold. NOM Market Makers are required to provide continuous two-sided quotes on a daily basis.¹⁴ 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 the change prohibit the Exchange from taking disciplinary action against a NOM Market Maker for failing to meet the continuous quoting obligation each trading day. All quotes entered into the System are considered firm. Quotes will only be removed from the System once the Percentage-Based Threshold has been met if the quote was not otherwise executed by an incoming order.

This risk feature will continue to remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest by allowing NOM Market Makers to remove their quotes and orders in the event that market conditions warrant, based on their own risk tolerance level. NOM Market Makers provide liquidity to the market place and have obligations unlike other market participants.¹⁵ This risk feature is important because it will enable NOM Market Makers to manage their exposure at the Exchange. Further, permitting a broader setting would continue to allow NOM Market Makers to have flexibility in setting their risk exposure to prevent unintended triggers of the Percentage-Based Threshold and it continues to allow NOM Market Makers to set a Specified Time Period. Each NOM Market Maker has different levels of sensitivity and their own system

¹⁴ Id.

¹⁵ Id.

safeguards as well. The proposed setting would permit each NOM Market Maker to select a setting that is appropriate to capture the needs of that NOM Market Maker.

Further, it is important to note that any interest that is executable against a NOM Market Maker's quotes and orders that are received¹⁶ 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 NOM 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.

The Exchange notes that Miami International Securities Exchange, LLC (“MIAX”) implemented a rule that changed its Allowable Engagement Percentage from 100% to any percentage established by the Market Maker.¹⁷ The NOM rule is similar to MIAX’s in that a member is required to have a setting, although MIAX has a default setting in place in the instance that no percentage is provided. Market Makers that select the Percentage-Based risk tool must provide the Exchange with a specified time period and a percentage greater than or equal to 1%.

Amending the definition of disseminated size will provide market participants with greater information on the manner in which the Exchange computes the Issue Percentage. The Exchange believes that the manner in which the Exchange utilizes disseminated size to calculate the Issue Percentage is consistent with the Act. The

¹⁶ The time of receipt for an order or quote is the time such message is processed by the Exchange book.

¹⁷ See Securities Exchange Act Release No. 77817 (May 12, 2016), 81 FR 31286 (May 18, 2016) (SR-MIAX-2016-10).

counting method permits the Exchange to update the reference number to include the executed contracts. While this method differs from the method previously described, the Exchange believes that there is no industry standard for counting and its method permits market participants to achieve the risk protection that is desired. With the proposed definition, each execution uses the Percentage-Based Specified Time Period that existed at the time of the execution. NOM Market Makers can change the Percentage-Based Specified Time Period at any time. If a NOM Market Maker is using a Percentage-Based Specified Time Period of 15 seconds when an execution happens, then changes the Percentage-Based Specified Time Period to half a second, that first execution will not expire until 15 seconds have passed. The selected Percentage-Based Specified Time Period will persist for 15 seconds and the number of executed contracts will be included in the denominator of subsequent executions for a full 15 seconds.

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 exposure to excessive risk. The Exchange believes this proposal will foster competition by providing Exchange NOM Market Makers with the ability to enhance and customize their percentage in order to compete for executions and order flow. 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.¹⁸ NOM Market Makers quote

¹⁸ See Section 8 of the 19b4.

across many series in an option creating 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 NOM 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. 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.

The Exchange believes that amending the definition of disseminated size does not create an undue burden on competition because the Exchange will uniformly calculate the Percentage-Based Threshold in a uniform manner for all NOM Market Makers. The Exchange is memorializing the definition within the Rule.

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)¹⁹ of the Act and Rule 19b-4(f)(6) thereunder²⁰ 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 proposed rule change does not significantly affect the protection of investors or the public interest because the proposal provides more alternatives to NOM Market Makers in setting their percentage without impacting their firm quote obligations. Without adequate risk management tools in place on the Exchange, the incentive for NOM Market Makers to quote aggressively, respecting both price and size could be diminished. Such a result may undermine the quality of the markets, which are enhanced by the depth and liquidity such NOM Market Makers provide. By allowing the percentage to be reduced from 100% to 1%, the Exchange provides its NOM Market Makers the desired flexibility to take into account such factors as present and anticipated market conditions, news in an option or sudden change in volatility of an option without any limitation regarding the Specified Percentage. This should encourage NOM Market Makers to provide additional depth and liquidity to the Exchange's markets. The proposal does not impose any significant burden on competition, rather it fosters competition by providing NOM

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6).

Market Makers with the ability to enhance and customize their percentage in order to compete for executions and order flow. NOM Market Makers quote across many series in an option creating 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 proposed rule is similar to other options rules²¹ and does not raise any novel or unique regulatory issues. While the other exchange rules are not precisely identical, they are substantially similar in that they permit a market maker to select the appropriate risk level for the removal of quotes and orders. The Exchange’s proposal to amend the definition of disseminated size does not significantly affect the protection of investors or the public interest because the counting method permits the Exchange to update the reference number to include the executed contracts. While this method differs from the method previously described, the Exchange believes that there is no industry standard for counting and its method permits market participants to achieve the risk protection that is desired. With the proposed definition, each execution uses the Percentage-Based Specified Time Period that existed at the time of the execution. In other words all current quotes on that side for that series (for that NOM Market Maker) in addition to all the executions that have occurred on that side for that series (for that NOM Market Maker) within the Percentage-Based Specified Time Period would comprise the disseminated size. The proposal does not impose any significant burden on competition because the Exchange will uniformly calculate the Percentage-Based Threshold in a uniform manner for all NOM Market Makers.

²¹ See note 17 above.

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 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 operative delay contained in Rule 19b-4(f)(6)(iii) so that it may effectively compete with MIAX and offer its members the ability to select a percentage that is lower than 100% for this risk feature. This feature will permit NOM Market Makers to manage their risk and appropriately tailor their settings to effectively submit quotes and orders and protect against exposure to excessive risk.

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

The Exchange notes that MIAX recently filed to amend its Allowable Engagement Percentage from 100% to any percentage established by the Market

Maker.²² The NOM rule is similar to MIAX's in that a member is required to have a setting, although MIAX has a default setting in place in the instance that no percentage is provided. Also, MIAX differs from NOM because a setting of 0 is permitted at MIAX. NOM would enforce its NOM Market Makers providing a percentage greater than or equal to 1% for Market Makers that elect to utilize the Percentage-Based Threshold.

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

²²

Id.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-NASDAQ-2016-087)

June __, 2016

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Automated Removal of Orders and Quotes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on June 13, 2016, The NASDAQ Stock Market LLC (“Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend the rules of the NASDAQ Options Market LLC (“NOM”) at Chapter VII, Section 6(f), entitled “Automated Removal of Orders and Quotes.”

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

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

1. Purpose

The Exchange proposes to amend a NOM Rule at Chapter VII, Section 6(f), entitled “Automated Removal of Orders and Quotes” to modify the minimum Specified Percentage (as described below) determined by a NOM Market Maker³ to enable a NOM Market Maker to enhance its risk management for an underlying security as market conditions warrant, based on its own risk tolerance level and quoting behavior. The Exchange proposes to permit the NOM Market Maker to set the Specified Percentage more broadly, no less than 1% with this rule change. The Exchange also proposes to amend the definition of “disseminated size.”⁴

³ The term “Nasdaq Options Market Maker” or “Options Market Maker” (herein “NOM Market Maker”) means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules. See NOM Rules at Chapter I, Section 1(a)(26).

⁴ See Securities Exchange Act Release No 76316 (October 30, 2015), 80 FR 68595 at 68597 (November 5, 2015) (SR-NASDAQ-2015-122). The Exchange defined disseminated size in this rule change in footnote 13, as the original size quoted by the Participant.

Background

Today, Chapter VII, Section 6(f) permits NOM Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security. A NOM Market Maker may provide a specified time period and a specified percentage 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 not to exceed 15 seconds ("Percentage-Based Specified Time Period").⁵

For each series in an option, the System determines: (i) the percentage that the number of contracts executed in that series represents relative to the NOM Market Maker's disseminated⁶ size of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The Exchange proposes herein to redefine disseminated size as the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. 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

⁵ A specified time period commences for an option when a transaction occurs in any series in such option.

⁶ The disseminated size is the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions.

calls and the sell-side calls. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the NOM Market Maker, not less than 100% (“Specified Percentage”), the System automatically removes 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 the Percentage-Based Specified Time.

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 Chapter VII, Section 6(iv) or (v) or the Percentage-Based Time Period expires. The Exchange counts (“SQF”)⁷ quotes and OTTO⁸ orders only in determining the number of contracts traded and removed by the System. 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

⁷ SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also not included. The Exchange does not intend for auction mechanism responses to be removed with this risk feature in order that the rules governing the auction govern the manner in which quotes and orders will be executed. Market sweeps are one-sided and immediately executable against orders against which they are marketable.

⁸ OTTO immediate or cancel orders will not be included in the removal because, by definition, these orders will cancel if not executed. 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.

Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

Proposal

The Exchange proposes to lower the Specified Percentage from 100% to 1%. The proposal would provide that if the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by the NOM Market Maker, not less than 1% (“Specified Percentage”), the System automatically removes 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 the Percentage-Based Specified Time. This proposal would allow a NOM Market Maker to establish a Specified Percentage at any percentage level greater than or equal to 1% for an option in which the NOM Market Maker is appointed. Today, the Specified Percentage would be set at greater than or equal to 100%. This amendment will allow NOM Market Makers to better manage their risk and assist them to avoid trading a number of contracts that exceeds the NOM Market Maker’s risk tolerance level across multiple series of a single underlying when such series are executed in rapid succession.

NOM Market Makers will be able to more precisely customize their risk settings within the System. NOM Market Makers will be able to consider factors such as present and anticipated market conditions, news in an option, and a sudden change in volatility of an option. NOM Market Makers are required to utilize either the Percentage Based Threshold or the Volume Based Threshold. NOM Market Makers that select to utilize the Percentage-Based Threshold will be able to adopt more precise controls with this proposal based on the NOM Market Maker’s risk tolerance level.

Market Makers must utilize either the Percentage-Based⁹ or Volume-Based risk controls. Market Makers may contact Market Operations to set their percentage and specified time period.

By way of example, if a NOM Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on NOM and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6(f) would:

- (1) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (2) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

By way of example, if a Market Maker has a rapid fire percentage setting of 50% and a Specified Time Period of 15 seconds and the Order Book reflects:

MM 1 has a displayed quote of 1.10 (100) x 1.20 (100) for IBM May 20, 2016 70 puts and MM1 is the only displayed size on NOM and an order is submitted to buy 75 IBM May 20, 2016 70 Puts for 1.20

Chapter VII, Section 6 would:

- (3) Provide MM1 with an execution --Sld 75 @ 1.20; and
- (4) Trigger the Percentage-Based Threshold and remove MM1's quotes in IBM.

Another example is with multiple executions. Presume MM1 has a rapid fire percentage setting of 80% by 5 seconds and MM1 has a displayed quote of 2.00 (100) x

⁹ NOM Market Makers selecting the Percentage-Based risk control in Chapter VII, Section 6(f)(i) are required to provide a specified time period, up to 15 seconds, and a specified percentage with a number of 1% or greater, as proposed herein, to the NOM Market Operations staff to select this risk control. If a NOM Market Maker does not desire to utilize the Percentage-Based risk control the NOM Market Maker must utilize the Volume-Based risk control which is similarly set-up by contacting Market Operations and providing certain settings.

2.25 (100) for IBM May 20, 2016 70 puts and he is the only displayed size on the NOM.

Also, presume an order comes in to buy 50 IBM May 20, 2016 70 puts for 2.25. The following executions would result:

MM1 receives an execution Sold 50 @ 2.25

MM1 quote updates to 2.00 (100) x 2.25 (50)

Within 1 second an order comes in to buy 45 IBM May 20, 2016 70 puts for 2.25

MM1 receives an execution Sold 45 @ 2.25

MM1 receives rapid fire for IBM

The Exchange also proposes to memorialize the definition of disseminated size, which is the original size quoted by the Market Maker, within Chapter VII, Section 6(f).

The Exchange also proposes to amend the definition of disseminated size as originally explained and memorialize the definition within Chapter VII, Section 6(f). With respect to the disseminated size, the Exchange previously defined disseminated size as "...the original size quoted by the Participant."¹⁰ The Exchange proposes to amend the definition to the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions. For example, with the proposed definition, if a NOM Market Maker with a Percentage-Based Specified Time Period of 10 seconds and a Specified Percentage of 100% submits a quote over SQF of 1.00(100) x 1.10(100) and a buy order executes 75, the remaining size would be 1.00(100) x 1.10(25). Thereafter a new Percentage-Based Specified Time Period begins and current Series Percentage executed is 75 and three seconds pass and the NOM Market Maker re-quotes 1.00(100) x 1.10 (100), an incoming buy order of 43 would cause the Issue Percentage to meet the Percentage-Based Threshold. This is due to a

¹⁰ See note 4 above.

disseminated size of 175 (the executed 75 plus the newly quoted 100) and rounding ($0.75 + 43/175 = 0.9957$ rounds up to 100%). If the former definition applied, the disseminated size would have been 100 and an execution of only 25 contracts on the same side would have caused the Issue Percentage to meet the Percentage-Based Threshold, which is not the case. In other words all current quotes and OTTO orders on that side for that series (for that NOM Market Maker) in addition to all the executions that have occurred on that side for that series (for that NOM Market Maker) within the Percentage-Based Specified Time Period would comprise the disseminated size.

The Exchange believes that this new definition accurately represents the manner in which the Issue Percentage is calculated and seeks to amend the definition of “disseminated size” in this rule change. The Exchange has always calculated the disseminated size in the proposed fashion. The prior definition was not accurate and the Exchange seeks to amend the definition with this proposal and memorialize the definition within the rule.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹² 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.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

NOM Market Makers are obligated to submit continuous two-sided quotations in a certain number of series in their appointed option classes for a certain percentage of each trading session,¹³ rendering them vulnerable to risk from unusual market condition, volatility in specific options, and other market events that may cause them to receive multiple, extremely rapid automatic executions before they can adjust their quotations and overall risk exposure in the market. Without adequate risk management tools in place on the Exchange, the incentive for NOM Market Makers to quote aggressively, respecting both price and size could be diminished. Such a result may undermine the quality of the markets, which are enhanced by the depth and liquidity such Market Makers provide in the marketplace.

By allowing the percentage to be reduced from 100% to 1%, the Exchange provides its NOM Market Makers the desired flexibility to take into account such factors as present and anticipated market conditions, news in an option or sudden change in volatility of an option without any limitation regarding the Specified Percentage. This should encourage NOM Market Makers to provide additional depth and liquidity to the Exchange's markets, thereby removing impediments to and perfecting the mechanisms of a free and open market and a national market system and, in general, protecting investors and the public interest.

¹³ 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.

The proposal is consistent with the Act because the reduction of the Specified Percentage to not less than 1% provides more alternatives to NOM Market Makers in setting their percentage without impacting their firm quote obligations. 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 and orders by the Percentage-Based Threshold. NOM Market Makers are required to provide continuous two-sided quotes on a daily basis.¹⁴ 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 the change prohibit the Exchange from taking disciplinary action against a NOM Market Maker for failing to meet the continuous quoting obligation each trading day. All quotes entered into the System are considered firm. Quotes will only be removed from the System once the Percentage-Based Threshold has been met if the quote was not otherwise executed by an incoming order.

This risk feature will continue to remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest by allowing NOM Market Makers to remove their quotes and orders in the event that market conditions warrant, based on their own risk tolerance level. NOM Market Makers provide liquidity to the market place and have obligations unlike other market participants.¹⁵ This risk feature is important because it will enable

¹⁴ Id.

¹⁵ Id.

NOM Market Makers to manage their exposure at the Exchange. Further, permitting a broader setting would continue to allow NOM Market Makers to have flexibility in setting their risk exposure to prevent unintended triggers of the Percentage-Based Threshold and it continues to allow NOM Market Makers to set a Specified Time Period. Each NOM Market Maker has different levels of sensitivity and their own system safeguards as well. The proposed setting would permit each NOM Market Maker to select a setting that is appropriate to capture the needs of that NOM Market Maker.

Further, it is important to note that any interest that is executable against a NOM Market Maker's quotes and orders that are received¹⁶ 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 NOM 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.

The Exchange notes that Miami International Securities Exchange, LLC (“MIAX”) implemented a rule that changed its Allowable Engagement Percentage from 100% to any percentage established by the Market Maker.¹⁷ The NOM rule is similar to MIAX’s in that a member is required to have a setting, although MIAX has a default setting in place in the instance that no percentage is provided. Market Makers that select

¹⁶ The time of receipt for an order or quote is the time such message is processed by the Exchange book.

¹⁷ See Securities Exchange Act Release No. 77817 (May 12, 2016), 81 FR 31286 (May 18, 2016) (SR-MIAX-2016-10).

the Percentage-Based risk tool must provide the Exchange with a specified time period and a percentage greater than or equal to 1%.

Amending the definition of disseminated size will provide market participants with greater information on the manner in which the Exchange computes the Issue Percentage. The Exchange believes that the manner in which the Exchange utilizes disseminated size to calculate the Issue Percentage is consistent with the Act. The counting method permits the Exchange to update the reference number to include the executed contracts. While this method differs from the method previously described, the Exchange believes that there is no industry standard for counting and its method permits market participants to achieve the risk protection that is desired. With the proposed definition, each execution uses the Percentage-Based Specified Time Period that existed at the time of the execution. NOM Market Makers can change the Percentage-Based Specified Time Period at any time. If a NOM Market Maker is using a Percentage-Based Specified Time Period of 15 seconds when an execution happens, then changes the Percentage-Based Specified Time Period to half a second, that first execution will not expire until 15 seconds have passed. The selected Percentage-Based Specified Time Period will persist for 15 seconds and the number of executed contracts will be included in the denominator of subsequent executions for a full 15 seconds.

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 exposure to excessive risk. The Exchange believes this proposal will foster competition by providing Exchange NOM Market Makers with the ability to enhance and customize

their percentage in order to compete for executions and order flow. 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.¹⁸ NOM Market Makers quote across many series in an option creating 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 NOM 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. 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.

The Exchange believes that amending the definition of disseminated size does not create an undue burden on competition because the Exchange will uniformly calculate the Percentage-Based Threshold in a uniform manner for all NOM Market Makers. The Exchange is memorializing the definition within the Rule.

¹⁸ See Section 8 of the 19b4.

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 Act¹⁹ and subparagraph (f)(6) of Rule 19b-4 thereunder.²⁰

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.

¹⁹ 15 U.S.C. 78s(b)(3)(a)(iii).

²⁰ 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.

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-2016-087 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2016-087. 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-2016-087 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.²¹

Robert W. Errett
Deputy Secretary

²¹ 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 VII Market Participants

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Sec. 6 Market Maker Quotations

(a) – (e) No Change.

(f) Automated Removal of Orders and Quotes

(i) 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 exceed 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 (the number of relevant contracts available at the time of execution plus the number of contracts executed in unexpired prior executions) 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]1% (“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 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) – (vii) No change.

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