

OMB APPROVAL
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**Required fields are shown with yellow backgrounds and asterisks.**

Page 1 of \* 35

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

File No.\* SR - 2018 - \* 031

Amendment No. (req. for Amendments \*)

Filing by The Nasdaq Stock Market LLC

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

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pilot	Extension of Time Period for Commission Action *	Date Expires *	Rule		
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	<input type="checkbox"/>
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	<input type="checkbox"/>
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	<input type="checkbox"/>
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) *		Section 806(e)(2) *	Section 3C(b)(2) *		
<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>		
Exhibit 2 Sent As Paper Document		Exhibit 3 Sent As Paper Document			
<input type="checkbox"/>		<input type="checkbox"/>			

### Description

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

A proposed rule change to amend Exchange rules to prevent MPPOs and Midpoint Pegged Orders from participating in the Nasdaq Halt Cross, and correct rule text related to the Nasdaq Opening Cross and Nasdaq Closing Cross

### 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 *	Adrian	Last Name *	Griffiths
Title *	Senior Associate General Counsel		
E-mail *	adrian.griffiths@nasdaq.com		
Telephone *	(212) 231-5176	Fax	<input type="text"/>

### 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

Executive Vice President and General Counsel

By

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 EDDS 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 (“Nasdaq” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to: (1) amend Rule 4702(b)(5) and Rule 4703(d) to prevent Midpoint Peg Post-Only Orders and Orders entered with a Midpoint Pegging Order Attribute from participating in the Nasdaq Halt Cross, and (2) to amend Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B) to state that Open Eligible Interest and Close Eligible Interest, respectively, are used in determining the “imbalance” for purposes of those rules.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of The Nasdaq Stock Market (the “Board”) on September 19, 2017. 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:

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

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

Adrian Griffiths  
Senior Associate General Counsel  
Nasdaq, Inc.  
212-231-5176

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

a. Purpose

The purpose of the proposed rule change is to: (1) amend Rule 4702(b)(5) and Rule 4703(d) to prevent Midpoint Peg Post-Only Orders (“MPPOs”) and Orders entered with a Midpoint Pegging Order Attribute (“Midpoint Pegged Orders”) from participating in the Nasdaq Halt Cross, and (2) to amend Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B) to state that Open Eligible Interest and Close Eligible Interest, respectively, are used in determining the “imbalance” for purposes of those rules.

Excluding MPPOs and Midpoint Pegged Orders from the Nasdaq Halt Cross

An “MPPO” is defined in Rule 4702(b)(5)(A) as an Order Type with a Non-Display Order Attribute that is priced at the midpoint between the national best bid and offer (“NBBO”), and that will execute upon entry only in circumstances where economically beneficial to the party entering the Order. Today, Rule 4702(b)(5)(C) provides that MPPOs are available during Market Hours only, and may not participate in the Nasdaq Opening Cross conducted pursuant to Rule 4752 or the Nasdaq Closing Cross conducted pursuant to Rule 4754.<sup>3</sup> However, MPPOs are not similarly prohibited from participating in the Nasdaq Halt Cross conducted pursuant to Rule 4753 – i.e., the process

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<sup>3</sup> An MPPO entered prior to the beginning of Market Hours will be rejected, and an MPPO remaining on the Nasdaq Book at 4:00 p.m. ET will be cancelled by the System. See Rule 4702(b)(5)(C).

for determining the price at which Eligible Interest shall be executed at the open of trading for a halted security and for executing that Eligible Interest.

Similar to current behavior for the Nasdaq Opening Cross and the Nasdaq Closing Cross, the Exchange believes that it would be beneficial for members and investors to prevent MPPOs from executing in the Nasdaq Halt Cross, as these Orders are designed for regular trading on the Exchange's continuous market where there is an active market that can be used to price these Orders. The Exchange therefore proposes to amend Rule 4702(b)(5)(C) to provide that MPPOs may not participate in the Nasdaq Halt Cross. Furthermore, the Exchange proposes to add language to Rule 4702(b)(5)(C) that explains that MPPOs will be cancelled by the System when a trading halt is declared, and any MPPOs entered during a trading halt will be rejected. The System currently rejects MPPOs entered when a trading halt is in effect but does not cancel existing MPPOs when the trading halt is declared. The proposed behavior will ensure that MPPOs do not participate in the subsequent reopening of the halted security in the Nasdaq Halt Cross by cancelling existing MPPOs when the trading halt is declared in addition to curtailing the ability of members to enter new MPPOs during the trading halt, which the Exchange believes is consistent with the intention of this Order Type. Furthermore, MPPOs will be handled consistently across the Nasdaq Opening Cross, Nasdaq Closing Cross, and Nasdaq Halt Cross, which is consistent with how the Exchange believes members want these orders treated.

Furthermore, the Exchange proposes to remove language describing MPPO behavior in a cross where the MPPO locks a preexisting Order. Specifically, Rule 4702(b)(5)(A) contains language that states that: "For purposes of any cross in which a

Midpoint Peg Post-Only Order participates, a Midpoint Peg Post-Only Order to buy (sell) that is locking a preexisting Order shall be deemed to have a price equal to the price of the highest sell Order (lowest buy Order) that would be eligible to execute against the Midpoint Peg Post-Only Order in such circumstances. Thus, a Midpoint Peg Post-Only Order to buy that locked a preexisting Non-Displayed Order to sell at \$11.03 would be deemed to have a price of \$11.02. It should be noted, however, that Midpoint Peg Post-Only Orders may not be entered prior to the Nasdaq Opening Cross, and the System cancels Midpoint Peg Post-Only Orders prior to the commencement of the Nasdaq Closing Cross.” This language, which only applies to MPPOs that participate in a cross, is no longer necessary as MPPOs will be systematically prohibited from trading in any cross – i.e., the Nasdaq Opening Cross, Nasdaq Halt Cross, or Nasdaq Closing Cross. The Exchange therefore proposes to eliminate this language from its rulebook.<sup>4</sup>

In addition to MPPOs the Exchange offers Midpoint Pegged Orders. Rule 4703(d) describes the Pegging Order Attribute, including Midpoint Pegging. Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO. Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer. Midpoint Pegged Orders are not displayed. Like MPPOs, Midpoint Pegged Orders are also designed for regular trading on the Exchange’s continuous market where there is an active market that can be used to price these Orders. Thus, similar to the proposed handling of MPPOs the Exchange proposes to prevent

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<sup>4</sup> This language references that MPPOs do not participate in the Nasdaq Opening Cross or Nasdaq Closing Cross. Although the Exchange is not changing that behavior, the Exchange proposes to remove this reference, which is duplicative of language described above in Rule 4702(b)(5)(C).

Midpoint Pegged Orders from participating in the Nasdaq Halt Cross. As such, the Exchange proposes to amend Rule 4703(d) to provide that Orders with Midpoint Pegging will be cancelled by the System when a trading halt is declared, and any Orders with the Midpoint Pegging Order Attribute entered during a trading halt will be rejected. Similar to MPPOs, the System currently rejects Midpoint Pegged Orders entered when a trading halt is in effect but does not cancel existing Midpoint Pegged Orders when the trading halt is declared. Similar to the behavior of MPPOs described above, the proposed behavior for Midpoint Pegged Orders will ensure that Midpoint Pegged Orders do not participate in the subsequent reopening of the halted security in the Nasdaq Halt Cross by cancelling existing Midpoint Pegged Orders when the trading halt is declared in addition to curtailing the ability of members to enter new Midpoint Pegged Orders during the trading halt, thereby ensuring that no Orders with this Order Attribute will participate in the Nasdaq Halt Cross.

Nasdaq Opening Cross and Nasdaq Closing Cross Imbalance

The Exchange disseminates an Order Imbalance Indicator beginning at 9:28 a.m. to increase market transparency ahead of the Nasdaq Opening Cross, and beginning at 3:50 p.m. to increase market transparency ahead of the Nasdaq Closing Cross. The Order Imbalance Indicator includes several data elements that provide information about the crosses, including the Current Reference Price, the number of paired shares at that price, and the size of any Imbalance. On July 13, 2017, the Exchange filed a proposed rule change that, among other things, amended language describing the Current Reference

Price, the associated paired share count, and the definition of Imbalance.<sup>5</sup> Specifically, the Exchange amended Rule 4752(a) to exclude Open Eligible Interest from these data elements for the Nasdaq Opening Cross, and amended Rule 4754(a) to exclude Close Eligible Interest from these data elements for the Nasdaq Closing Cross.

With these changes, “Imbalance” is now correctly defined in the rulebook: (1) for the Nasdaq Opening Cross, as the number of shares of buy or sell MOO, LOO or Early Market Hours orders that may not be matched with other MOO, LOO, Early Market Hours, or OIO order shares at a particular price at any given time, and (2) for the Nasdaq Closing Cross, as the number of shares of buy or sell MOC or LOC orders that cannot be matched with other MOC or LOC, or IO order shares at a particular price at any given time. Prior to SR-Nasdaq-2017-061, the definition of Imbalance had mistakenly included Open Eligible Interest as contra-side interest for matching MOO, LOO or Early Market Hours orders when calculating the size of any Imbalance in the Nasdaq Opening Cross, and mistakenly included Close Eligible Interest as contra-side interest for matching MOC or LOC orders when calculating the size of any Imbalance for the Nasdaq Closing Cross.

The term Imbalance, however, is also used in other parts of the Nasdaq Opening Cross and Nasdaq Closing Cross rules. For example, the term Imbalance is used: (1) in Rule 4752(d)(2)(B) to describe a tie-breaker used to determine the Nasdaq Opening Cross price if more than one price would maximize the number of shares of MOO, LOO, OIO, Early Market Hours orders, and executable quotes and orders in the Nasdaq Market Center to be executed pursuant to Rule 4752(d)(2)(A), and (2) in Rule 4754(b)(2)(B) to

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<sup>5</sup> See Securities Exchange Act Release Nos. 81188 (July 21, 2017), 82 FR 35014 (July 27, 2017) (Notice); 81556 (September 8, 2017), 82 FR 43264 (September 14, 2017) (Approval Order) (SR-NASDAQ-2017-061).

describe a tie-breaker used to determine the Nasdaq Closing Cross price if more than one price would maximize the number of shares of Eligible Interest in the Nasdaq Market Center to be executed pursuant to Rule 4754(b)(2)(A). Specifically, these rules provide that if more than one price exists under Rule 4752(d)(2)(A) or Rule 4754(b)(2)(A), each of which are described above, the Nasdaq Opening Cross and Nasdaq Closing Cross, respectively, shall occur at the price that minimizes any Imbalance.

In fact, if more than one price exists under Rule 4752(d)(2)(A), the Nasdaq Opening Cross shall occur at the price that minimizes the number of shares of buy or sell MOO, LOO or Early Market Hours orders that may not be matched with other MOO, LOO, Early Market Hours, Open Eligible Interest, or OIO order shares – i.e., the previous definition of Imbalance under Rule 4752(a)(1). Similarly, if more than one price exists under Rule 4754(b)(2)(A), the Nasdaq Closing Cross shall occur at the price that minimizes the number of shares of buy or sell MOC or LOC orders that cannot be matched with other MOC or LOC, Close Eligible Interest or IO order shares – i.e., the previous definition of Imbalance under Rule 4754(a)(2). While Open Eligible Interest and Close Eligible Interest are not included in the definition of Imbalance for purposes of the Order Imbalance Indicator as such interest may be executed prior to the execution of the cross, they are included in the cross price calculation if remaining on the book at the time the cross is executed. The Exchange therefore proposes to amend Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B) to appropriately describe the tie-breakers discussed above using the previous definition of Imbalance for the Nasdaq Opening Cross and Nasdaq Closing Cross, respectively.

### Implementation

The Exchange proposes to introduce the changes described in this proposed rule change in Q2 2018. The Exchange will announce the implementation date of this functionality in an Equity Trader Alert issued to members prior to the launch date.

### b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>7</sup> 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.

### Excluding MPPOs and Midpoint Pegged Orders from the Nasdaq Halt Cross

As indicated in the Exchange's current rules, MPPOs are designed for Market Hours trading and therefore do not participate in either the Nasdaq Opening Cross or Nasdaq Closing Cross. Nevertheless, MPPOs may trade in the Nasdaq Halt Cross today. The Exchange believes that members prefer not to have their MPPOs executed in any of the crosses, including the Nasdaq Halt Cross, and is therefore proposing to cancel MPPOs when a trading halt is initiated. Furthermore, the System already prevents the subsequent entry of MPPOs during the trading halt as reflected in the proposed rule. The Exchange believes that it is consistent with the protection of investors and the public interest to treat MPPOs similarly across all three crosses so that members have a consistent experience when entering MPPOs at different times of the trading day.

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

The proposed changes would also eliminate language in the MPPO rules that describe MPPO handling during a cross. As explained in the purpose section of this proposed rule change, this language will no longer be necessary since MPPOs will be prohibited from participating in any of the Exchange's three crosses – i.e., the Nasdaq Opening Cross, Nasdaq Closing Cross, and Nasdaq Halt Cross. The Exchange believes that this proposed change is consistent with the protection of investors and the public interest because it will properly reflect that MPPOs are no longer eligible for any crosses, and will only trade on the continuous book.

Similar to the proposed handling of MPPOs, the Exchange is also proposing to prevent Midpoint Pegging Orders from participating in the Nasdaq Halt Cross. The Exchange believes that it is consistent with the protection of investors and the public interest to cancel these Orders when a trading halt is initiated so that they cannot participate in the Nasdaq Halt Cross. Furthermore, the System already prevents the subsequent entry of additional such Orders during a trading halt. The Exchange believes that members do not want their Midpoint Pegging Orders to trade in the Nasdaq Halt Cross and is therefore introducing functionality that will ensure that these Orders will not do so.

#### Nasdaq Opening Cross and Nasdaq Closing Cross Imbalance

The Exchange believes that the proposed changes regarding the Nasdaq Opening Cross and Nasdaq Closing Cross price calculations are consistent with the protection of investors and the public interest because these changes properly identify the tie-breakers used to determine the opening and closing prices when multiple prices would satisfy the maximum quantity requirements of Rule 4752(d)(2)(A) or Rule 4754(b)(2)(A),

respectively. Open Eligible Interest or Close Eligible Interest are not used in determining the size of any Imbalance for the Order Imbalance Indicator because such interest may be executed before the time of the cross. Such interest is used in the opening and closing price tie-breakers pursuant to Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B), however, because it is available to execute in the crosses if remaining on the book at the time of the cross price calculation. Using all available interest in these price calculations, rather than only on-open or on-close order types ensures that these price discovery mechanisms properly reflect the interest available at the time the crosses are conducted. The Exchange's rules previously included Open Eligible Interest and Close Eligible Interest in the tie-breakers when such interest was included in the definition of Imbalance. With the recent changes to those definitions – which now align with the interest considered in the Imbalance field of the Order Imbalance Indictor – the Exchange believes that it is necessary to update Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B).

#### 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. Currently, MPPOs and Midpoint Pegging Orders can participate in the Nasdaq Halt Cross despite the fact that these Orders are designed for regular trading on the continuous book. The Exchange is now enhancing MPPO and Midpoint Pegging Order handling to prevent all such Orders from participating in the Nasdaq Halt Cross by cancelling existing interest on the Exchange's order book in addition to rejecting new Orders as done by the System today. The Exchange does not believe this change will have any significant impact on competition as the proposed changes will apply to all MPPOs and Midpoint Pegging Orders. Moreover, the Exchange believes that this is how members

want these Orders treated. Furthermore, the proposed changes with respect to the Nasdaq Opening Cross and Nasdaq Closing Cross price calculations are rule corrections and will therefore have no impact on competition.

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)(iii)<sup>8</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>9</sup> 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 believes that the proposed rule change does not significantly affect the protection of investors or the public interest, and does not impose any significant burden on competition, as it eliminates the possibility that MPPOs and Midpoint Pegging Orders may participate in the Nasdaq Halt Cross, and makes other corrections to rules related to the Nasdaq Opening Cross and Nasdaq Closing Cross. The Exchange believes

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

that the proposed rule change will more closely align the MPPOs and Midpoint Pegging Orders with members' desired order handling by ensuring that these Orders do not participate in the Nasdaq Halt Cross. Furthermore, the proposed rule change will increase transparency around the operation of the Exchange by introducing language for the Nasdaq Opening Cross and Nasdaq Closing Cross that includes all relevant interest in the cross price calculations. With the proposed changes, the Nasdaq Opening Cross and Nasdaq Closing Cross tie-breaker for minimizing any imbalance will be consistent with language that was operative prior to SR-Nasdaq-2017-061, which modified the definition of Imbalance to be consistent with the information disseminated to market participants in the Order Imbalance Indicator. These proposed changes raise no novel regulatory issues, and the Exchange therefore believes that the proposed rule change qualifies for immediate effectiveness as a "non-controversial" rule change.

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 the Exchange can ensure that MPPO and Midpoint Pegged Orders behave in a manner consistent with members' expected behavior, and so that the Exchange can update its rules immediately to reflect the current operation of the Nasdaq Opening Cross and Nasdaq Closing Cross price calculation. The Exchange believes that members would be better served by having their MPPOs and Midpoint Pegged Orders cancelled prior to the Nasdaq Halt Cross so that these Orders, which are designed for trading on the continuous book, do not participate in the cross. Furthermore, the Exchange believes that the corrections being made to the Nasdaq Opening Cross and Nasdaq Closing Cross rules should be made expeditiously to reduce any potential member confusion surrounding the cross price calculations, which use Open Eligible Interest and Close Eligible Interest, respectively, in the cross price tie-breakers described in this proposed rule change.

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

Not applicable.

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

Not applicable.

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

Not applicable.

11. Exhibits

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

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_; File No. SR-NASDAQ-2018-031)

April \_\_\_, 2018

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 4702(b)(5) and Rule 4703(d)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 18, 2018 The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rule 4702(b)(5) and Rule 4703(d) to prevent Midpoint Peg Post-Only Orders and Orders entered with a Midpoint Pegging Order Attribute from participating in the Nasdaq Halt Cross, and (2) to amend Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B) to state that Open Eligible Interest and Close Eligible Interest, respectively, are used in determining the “imbalance” for purposes of those rules.

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

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

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

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

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

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

**1. Purpose**

The purpose of the proposed rule change is to: (1) amend Rule 4702(b)(5) and Rule 4703(d) to prevent Midpoint Peg Post-Only Orders (“MPPOs”) and Orders entered with a Midpoint Pegging Order Attribute (“Midpoint Pegged Orders”) from participating in the Nasdaq Halt Cross, and (2) to amend Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B) to state that Open Eligible Interest and Close Eligible Interest, respectively, are used in determining the “imbalance” for purposes of those rules.

**Excluding MPPOs and Midpoint Pegged Orders from the Nasdaq Halt Cross**

An “MPPO” is defined in Rule 4702(b)(5)(A) as an Order Type with a Non-Display Order Attribute that is priced at the midpoint between the national best bid and offer (“NBBO”), and that will execute upon entry only in circumstances where economically beneficial to the party entering the Order. Today, Rule 4702(b)(5)(C) provides that MPPOs are available during Market Hours only, and may not participate in

the Nasdaq Opening Cross conducted pursuant to Rule 4752 or the Nasdaq Closing Cross conducted pursuant to Rule 4754.<sup>3</sup> However, MPPOs are not similarly prohibited from participating in the Nasdaq Halt Cross conducted pursuant to Rule 4753 – i.e., the process for determining the price at which Eligible Interest shall be executed at the open of trading for a halted security and for executing that Eligible Interest.

Similar to current behavior for the Nasdaq Opening Cross and the Nasdaq Closing Cross, the Exchange believes that it would be beneficial for members and investors to prevent MPPOs from executing in the Nasdaq Halt Cross, as these Orders are designed for regular trading on the Exchange’s continuous market where there is an active market that can be used to price these Orders. The Exchange therefore proposes to amend Rule 4702(b)(5)(C) to provide that MPPOs may not participate in the Nasdaq Halt Cross. Furthermore, the Exchange proposes to add language to Rule 4702(b)(5)(C) that explains that MPPOs will be cancelled by the System when a trading halt is declared, and any MPPOs entered during a trading halt will be rejected. The System currently rejects MPPOs entered when a trading halt is in effect but does not cancel existing MPPOs when the trading halt is declared. The proposed behavior will ensure that MPPOs do not participate in the subsequent reopening of the halted security in the Nasdaq Halt Cross by cancelling existing MPPOs when the trading halt is declared in addition to curtailing the ability of members to enter new MPPOs during the trading halt, which the Exchange believes is consistent with the intention of this Order Type. Furthermore, MPPOs will be handled consistently across the Nasdaq Opening Cross, Nasdaq Closing Cross, and

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<sup>3</sup> An MPPO entered prior to the beginning of Market Hours will be rejected, and an MPPO remaining on the Nasdaq Book at 4:00 p.m. ET will be cancelled by the System. See Rule 4702(b)(5)(C).

Nasdaq Halt Cross, which is consistent with how the Exchange believes members want these orders treated.

Furthermore, the Exchange proposes to remove language describing MPPO behavior in a cross where the MPPO locks a preexisting Order. Specifically, Rule 4702(b)(5)(A) contains language that states that: “For purposes of any cross in which a Midpoint Peg Post-Only Order participates, a Midpoint Peg Post-Only Order to buy (sell) that is locking a preexisting Order shall be deemed to have a price equal to the price of the highest sell Order (lowest buy Order) that would be eligible to execute against the Midpoint Peg Post-Only Order in such circumstances. Thus, a Midpoint Peg Post-Only Order to buy that locked a preexisting Non-Displayed Order to sell at \$11.03 would be deemed to have a price of \$11.02. It should be noted, however, that Midpoint Peg Post-Only Orders may not be entered prior to the Nasdaq Opening Cross, and the System cancels Midpoint Peg Post-Only Orders prior to the commencement of the Nasdaq Closing Cross.” This language, which only applies to MPPOs that participate in a cross, is no longer necessary as MPPOs will be systematically prohibited from trading in any cross – i.e., the Nasdaq Opening Cross, Nasdaq Halt Cross, or Nasdaq Closing Cross. The Exchange therefore proposes to eliminate this language from its rulebook.<sup>4</sup>

In addition to MPPOs the Exchange offers Midpoint Pegged Orders. Rule 4703(d) describes the Pegging Order Attribute, including Midpoint Pegging. Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO. Midpoint Pegging means Pegging with reference to the midpoint between the

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<sup>4</sup> This language references that MPPOs do not participate in the Nasdaq Opening Cross or Nasdaq Closing Cross. Although the Exchange is not changing that behavior, the Exchange proposes to remove this reference, which is duplicative of language described above in Rule 4702(b)(5)(C).

Inside Bid and the Inside Offer. Midpoint Pegged Orders are not displayed. Like MPPOs, Midpoint Pegged Orders are also designed for regular trading on the Exchange's continuous market where there is an active market that can be used to price these Orders. Thus, similar to the proposed handling of MPPOs the Exchange proposes to prevent Midpoint Pegged Orders from participating in the Nasdaq Halt Cross. As such, the Exchange proposes to amend Rule 4703(d) to provide that Orders with Midpoint Pegging will be cancelled by the System when a trading halt is declared, and any Orders with the Midpoint Pegging Order Attribute entered during a trading halt will be rejected. Similar to MPPOs, the System currently rejects Midpoint Pegged Orders entered when a trading halt is in effect but does not cancel existing Midpoint Pegged Orders when the trading halt is declared. Similar to the behavior of MPPOs described above, the proposed behavior for Midpoint Pegged Orders will ensure that Midpoint Pegged Orders do not participate in the subsequent reopening of the halted security in the Nasdaq Halt Cross by cancelling existing Midpoint Pegged Orders when the trading halt is declared in addition to curtailing the ability of members to enter new Midpoint Pegged Orders during the trading halt, thereby ensuring that no Orders with this Order Attribute will participate in the Nasdaq Halt Cross.

#### Nasdaq Opening Cross and Nasdaq Closing Cross Imbalance

The Exchange disseminates an Order Imbalance Indicator beginning at 9:28 a.m. to increase market transparency ahead of the Nasdaq Opening Cross, and beginning at 3:50 p.m. to increase market transparency ahead of the Nasdaq Closing Cross. The Order Imbalance Indicator includes several data elements that provide information about the crosses, including the Current Reference Price, the number of paired shares at that price,

and the size of any Imbalance. On July 13, 2017, the Exchange filed a proposed rule change that, among other things, amended language describing the Current Reference Price, the associated paired share count, and the definition of Imbalance.<sup>5</sup> Specifically, the Exchange amended Rule 4752(a) to exclude Open Eligible Interest from these data elements for the Nasdaq Opening Cross, and amended Rule 4754(a) to exclude Close Eligible Interest from these data elements for the Nasdaq Closing Cross.

With these changes, “Imbalance” is now correctly defined in the rulebook: (1) for the Nasdaq Opening Cross, as the number of shares of buy or sell MOO, LOO or Early Market Hours orders that may not be matched with other MOO, LOO, Early Market Hours, or OIO order shares at a particular price at any given time, and (2) for the Nasdaq Closing Cross, as the number of shares of buy or sell MOC or LOC orders that cannot be matched with other MOC or LOC, or IO order shares at a particular price at any given time. Prior to SR-Nasdaq-2017-061, the definition of Imbalance had mistakenly included Open Eligible Interest as contra-side interest for matching MOO, LOO or Early Market Hours orders when calculating the size of any Imbalance in the Nasdaq Opening Cross, and mistakenly included Close Eligible Interest as contra-side interest for matching MOC or LOC orders when calculating the size of any Imbalance for the Nasdaq Closing Cross.

The term Imbalance, however, is also used in other parts of the Nasdaq Opening Cross and Nasdaq Closing Cross rules. For example, the term Imbalance is used: (1) in Rule 4752(d)(2)(B) to describe a tie-breaker used to determine the Nasdaq Opening Cross price if more than one price would maximize the number of shares of MOO, LOO, OIO,

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<sup>5</sup> See Securities Exchange Act Release Nos. 81188 (July 21, 2017), 82 FR 35014 (July 27, 2017) (Notice); 81556 (September 8, 2017), 82 FR 43264 (September 14, 2017) (Approval Order) (SR-NASDAQ-2017-061).

Early Market Hours orders, and executable quotes and orders in the Nasdaq Market Center to be executed pursuant to Rule 4752(d)(2)(A), and (2) in Rule 4754(b)(2)(B) to describe a tie-breaker used to determine the Nasdaq Closing Cross price if more than one price would maximize the number of shares of Eligible Interest in the Nasdaq Market Center to be executed pursuant to Rule 4754(b)(2)(A). Specifically, these rules provide that if more than one price exists under Rule 4752(d)(2)(A) or Rule 4754(b)(2)(A), each of which are described above, the Nasdaq Opening Cross and Nasdaq Closing Cross, respectively, shall occur at the price that minimizes any Imbalance.

In fact, if more than one price exists under Rule 4752(d)(2)(A), the Nasdaq Opening Cross shall occur at the price that minimizes the number of shares of buy or sell MOO, LOO or Early Market Hours orders that may not be matched with other MOO, LOO, Early Market Hours, Open Eligible Interest, or OIO order shares – i.e., the previous definition of Imbalance under Rule 4752(a)(1). Similarly, if more than one price exists under Rule 4754(b)(2)(A), the Nasdaq Closing Cross shall occur at the price that minimizes the number of shares of buy or sell MOC or LOC orders that cannot be matched with other MOC or LOC, Close Eligible Interest or IO order shares – i.e., the previous definition of Imbalance under Rule 4754(a)(2). While Open Eligible Interest and Close Eligible Interest are not included in the definition of Imbalance for purposes of the Order Imbalance Indicator as such interest may be executed prior to the execution of the cross, they are included in the cross price calculation if remaining on the book at the time the cross is executed. The Exchange therefore proposes to amend Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B) to appropriately describe the tie-breakers discussed above using the

previous definition of Imbalance for the Nasdaq Opening Cross and Nasdaq Closing Cross, respectively.

### Implementation

The Exchange proposes to introduce the changes described in this proposed rule change in Q2 2018. The Exchange will announce the implementation date of this functionality in an Equity Trader Alert issued to members prior to the launch date.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>7</sup> 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.

### Excluding MPPOs and Midpoint Pegged Orders from the Nasdaq Halt Cross

As indicated in the Exchange's current rules, MPPOs are designed for Market Hours trading and therefore do not participate in either the Nasdaq Opening Cross or Nasdaq Closing Cross. Nevertheless, MPPOs may trade in the Nasdaq Halt Cross today. The Exchange believes that members prefer not to have their MPPOs executed in any of the crosses, including the Nasdaq Halt Cross, and is therefore proposing to cancel MPPOs when a trading halt is initiated. Furthermore, the System already prevents the subsequent entry of MPPOs during the trading halt as reflected in the proposed rule. The Exchange believes that it is consistent with the protection of investors and the public

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

interest to treat MPPOs similarly across all three crosses so that members have a consistent experience when entering MPPOs at different times of the trading day.

The proposed changes would also eliminate language in the MPPO rules that describe MPPO handling during a cross. As explained in the purpose section of this proposed rule change, this language will no longer be necessary since MPPOs will be prohibited from participating in any of the Exchange's three crosses – i.e., the Nasdaq Opening Cross, Nasdaq Closing Cross, and Nasdaq Halt Cross. The Exchange believes that this proposed change is consistent with the protection of investors and the public interest because it will properly reflect that MPPOs are no longer eligible for any crosses, and will only trade on the continuous book.

Similar to the proposed handling of MPPOs, the Exchange is also proposing to prevent Midpoint Pegging Orders from participating in the Nasdaq Halt Cross. The Exchange believes that it is consistent with the protection of investors and the public interest to cancel these Orders when a trading halt is initiated so that they cannot participate in the Nasdaq Halt Cross. Furthermore, the System already prevents the subsequent entry of additional such Orders during a trading halt. The Exchange believes that members do not want their Midpoint Pegging Orders to trade in the Nasdaq Halt Cross and is therefore introducing functionality that will ensure that these Orders will not do so.

#### Nasdaq Opening Cross and Nasdaq Closing Cross Imbalance

The Exchange believes that the proposed changes regarding the Nasdaq Opening Cross and Nasdaq Closing Cross price calculations are consistent with the protection of investors and the public interest because these changes properly identify the tie-breakers

used to determine the opening and closing prices when multiple prices would satisfy the maximum quantity requirements of Rule 4752(d)(2)(A) or Rule 4754(b)(2)(A), respectively. Open Eligible Interest or Close Eligible Interest are not used in determining the size of any Imbalance for the Order Imbalance Indicator because such interest may be executed before the time of the cross. Such interest is used in the opening and closing price tie-breakers pursuant to Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B), however, because it is available to execute in the crosses if remaining on the book at the time of the cross price calculation. Using all available interest in these price calculations, rather than only on-open or on-close order types ensures that these price discovery mechanisms properly reflect the interest available at the time the crosses are conducted. The Exchange's rules previously included Open Eligible Interest and Close Eligible Interest in the tie-breakers when such interest was included in the definition of Imbalance. With the recent changes to those definitions – which now align with the interest considered in the Imbalance field of the Order Imbalance Indictor – the Exchange believes that it is necessary to update Rule 4752(d)(2)(B) and Rule 4754(b)(2)(B).

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. Currently, MPPOs and Midpoint Pegging Orders can participate in the Nasdaq Halt Cross despite the fact that these Orders are designed for regular trading on the continuous book. The Exchange is now enhancing MPPO and Midpoint Pegging Order handling to prevent all such Orders from participating in the Nasdaq Halt Cross by cancelling existing interest on the Exchange's order book in addition to rejecting new Orders as done by the System today. The Exchange does not believe this change will have any

significant impact on competition as the proposed changes will apply to all MPPOs and Midpoint Pegging Orders. Moreover, the Exchange believes that this is how members want these Orders treated. Furthermore, the proposed changes with respect to the Nasdaq Opening Cross and Nasdaq Closing Cross price calculations are rule corrections and will therefore have no impact on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>8</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>9</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form  
[\(<http://www.sec.gov/rules/sro.shtml>\)](http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2018-031 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2018-031. 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-2018-031 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**The Nasdaq Stock Market Rules**

\* \* \* \* \*

**4702. Order Types.**

\* \* \* \* \*

(b) Except where stated otherwise, the following Order Types are available to all Participants:

\* \* \* \* \*

(5) (A) A "Midpoint Peg Post-Only Order" is an Order Type with a Non-Display Order Attribute that is priced at the midpoint between the NBBO and that will execute upon entry only in circumstances where economically beneficial to the party entering the Order. The Midpoint Peg Post-Only Order is available during Market Hours only.

A Midpoint Peg Post-Only Order must be assigned a limit price. When a Midpoint Peg Post-Only Order is entered, it will be priced at the midpoint between the NBBO, unless such midpoint is higher than (lower than) the limit price of an Order to buy (sell), in which case the Order will be priced at its limit price. If the NBBO is locked, the Midpoint Peg Post-Only Order will be priced at the locking price, if the NBBO is crossed or if there is no NBBO, the Order will not be accepted. The Midpoint Peg Post-Only Order will post to the Nasdaq Book unless it is a buy (sell) Order that is priced higher than (lower than) a sell (buy) Order on the Nasdaq Book, in which case it will execute at the price of the Order on the Nasdaq Book; provided, however, that if the Order has a Time-in-Force of IOC, the Order will be cancelled after determining whether it can be executed. For example, if the Best Bid was \$11 and the Best Offer was \$11.06, the price of the Midpoint Peg Post-Only Order would be \$11.03. If there was a Non-Displayed Order (or another Order with a Non-Display Order Attribute) on the Nasdaq Book to sell at \$11.02, the incoming Midpoint Peg Post-Only Order would execute against it at \$11.02. However, if there was a Non-Displayed Order (or another Order with a Non-Display Order Attribute) to sell at \$11.03, the Midpoint Peg Post-Only Order would post at \$11.03. While a Midpoint Peg Post-Only Order that posts to the Nasdaq Book is locking a preexisting Order, the Midpoint Peg Post-Only Order will execute against an incoming Order only if the price of the incoming sell (buy) Order is lower (higher) than the price of the preexisting Order. Thus, in the previous example, if the incoming Midpoint Peg Post-Only Order locked the preexisting Non-Displayed Order at \$11.03, the Midpoint Peg Post-Only Order could execute only against an incoming Order to sell priced at less than \$11.03.

[For purposes of any cross in which a Midpoint Peg Post-Only Order participates, a Midpoint Peg Post-Only Order to buy (sell) that is locking a preexisting Order shall be deemed to have a price equal to the price of the highest sell Order (lowest buy Order) that would be eligible to execute against the Midpoint Peg Post-Only Order in such circumstances. Thus, a Midpoint Peg Post-Only Order to buy that locked a preexisting Non-Displayed Order to sell at \$11.03 would be deemed to have a price of \$11.02. It should be noted, however, that Midpoint Peg Post-Only Orders may not be entered prior to the Nasdaq Opening Cross, and the System cancels Midpoint Peg Post-Only Orders prior to the commencement of the Nasdaq Closing Cross.]

A Midpoint Peg Post-Only Order that would be assigned a price of \$1 or less per share will not be accepted.

(B) If a Midpoint Peg Post-Only Order is entered through RASH, QIX, or FIX, the Midpoint Peg Post-Only Order may be adjusted in the following manner after initial entry and posting to the Nasdaq Book:

- The price of the Midpoint Peg Post-Only Order will be updated repeatedly to equal the midpoint between the NBBO; provided, however, that the Order will not be priced higher (lower) than the limit price of an Order to buy (sell). In the event that the midpoint between the NBBO becomes higher than (lower than) the limit price of an Order to buy (sell), the price of the Order will stop updating and the Order will post (with a Non-Display Attribute) at its limit price, but will resume updating if the midpoint becomes lower than (higher than) the limit price of an Order to buy (sell). Similarly, if a Midpoint Peg Post-Only Order is on the Nasdaq Book and subsequently the NBBO is crossed, or if there is no NBBO, the Order will be removed from the Nasdaq Book and will be re-entered at the new midpoint once there is a valid NBBO that is not crossed. The Midpoint Peg Post-Only Order receives a new timestamp each time its price is changed.

If a Midpoint Peg Post-Only Order is entered through OUCH or FLITE, the Midpoint Peg Post-Only Order may be adjusted in the following manner after initial entry and posting to the Nasdaq Book:

- The price at which the Midpoint Peg Post-Only Order is ranked on the Nasdaq Book is the midpoint between the NBBO, unless the Order has a limit price that is lower than the midpoint between the NBBO for an Order to buy (higher than the midpoint between the NBBO for an Order to sell), in which case the Order will be ranked on the Nasdaq Book at its limit price. The price of the Order will not thereafter be adjusted based on changes to the NBBO. If, after being posted to the Nasdaq Book, the NBBO changes so that midpoint between the NBBO is lower than (higher than) the price of a Midpoint Peg Post-Only Order to buy (sell), or the NBBO is crossed, or there is no NBBO, the Midpoint Peg Post-Only Order will be cancelled back to the Participant. For example, if the Best Bid is \$11 and the Best Offer is \$11.06, a Midpoint Peg Post- Only Order to buy would post at

\$11.03. If, thereafter, the Best Offer is reduced to \$11.05, the Midpoint Peg Post-Only Order will be cancelled back to the Participant.

(C) The following Order Attributes may be assigned to a Midpoint Peg Post-Only Order:

- Price of more than \$1 per share.
- Size.
- Time-in-Force; provided, however, that a Midpoint Peg Post-Only Order with a Time-in-Force of IOC may not be entered through RASH, QIX or FIX, and provided further that regardless of the Time-in-Force entered, a Midpoint Post-Only Order may not be active outside of Market Hours. Midpoint Peg Post-Only Orders may not participate in the Nasdaq Opening Cross, Nasdaq Halt Cross, or the Nasdaq Closing Cross. A Midpoint Peg Post-Only Order entered prior to the beginning of Market Hours will be rejected. Midpoint Peg Post-Only Orders will be cancelled by the System when a trading halt is declared, and any Midpoint Peg Post-Only Orders entered during a trading halt will be rejected. A Midpoint Peg Post-Only Order remaining on the Nasdaq Book at 4:00 p.m. ET will be cancelled by the System.
- Pegging to the midpoint is required for Midpoint Peg Post-Only Orders entered through RASH, QIX or FIX. As discussed above, the price of a Midpoint Peg Post-Only Order entered through OUCH or FLITE will be pegged to the midpoint upon entry and not adjusted thereafter.
- Minimum Quantity.
- Non-Display. All Midpoint Peg Post-Only Orders are Non-Displayed.
- Trade Now (available through OUCH, RASH, FLITE and FIX).

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4703. Order Attributes

As described in Rule 4702, the following Order Attributes may be assigned to those Order Types for which they are available.

\* \* \* \* \*

(d) Pegging. Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO; provided, however, that if Nasdaq is the sole market center at the Best Bid or Best Offer (as applicable), then the price of any Displayed Order with Primary Pegging (as defined below) will be set with reference to the highest bid or lowest offer disseminated by a market center other than Nasdaq. An Order with a Pegging Order Attribute may be referred to as a "Pegged Order." For purposes of this rule, the price to which an Order is pegged will be referred to as the

Inside Quotation, the Inside Bid, or the Inside Offer, as appropriate. There are three varieties of Pegging:

- Primary Pegging means Pegging with reference to the Inside Quotation on the same side of the market. For example, if the Inside Bid was \$11, an Order to buy with Primary Pegging would be priced at \$11.
- Market Pegging means Pegging with reference to the Inside Quotation on the opposite side of the market. For example, if the Inside Offer was \$11.06, an Order to buy with Market Pegging would be priced at \$11.06.
- Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer (the "Midpoint"). Thus, if the Inside Bid was \$11 and the Inside Offer was \$11.06, an Order with Midpoint Pegging would be priced at \$11.03. An Order with Midpoint Pegging is not displayed. An Order with Midpoint Pegging may be executed in sub-pennies if necessary to obtain a midpoint price.

Pegging is available only during Market Hours. An Order with Pegging may specify a limit price beyond which the Order may not be executed; provided, however, that if an Order has been assigned a Pegging Order Attribute and a Discretion Order Attribute, the Order may execute at any price within the discretionary price range, even if beyond the limit price specified with respect to the Pegging Order Attribute. If an Order with Pegging is priced at its limit price, the price of the Order may nevertheless be changed to a less aggressive price based on changes to the Inside Quotation. In addition, an Order with Primary Pegging or Market Pegging may specify an Offset Amount, such that the price of the Order will vary from the Inside Quotation by the selected Offset Amount. The Offset Amount may be either aggressive or passive. Thus, for example, if a Participant entered an Order to buy with Primary Pegging and a passive Offset Amount of \$0.05 and the Inside Bid was \$11, the Order would be priced at \$10.95. If the Participant selected an aggressive Offset Amount of \$0.02, however, the Order would be priced at \$11.02. An Order with Primary Pegging and an Offset Amount will not be Displayed, unless the Order is Attributable. An Order with Midpoint Pegging will not be Displayed. An Order with Market Pegging and no Offset behaves as a "market order" with respect to any liquidity on the Nasdaq Book at the Inside Quotation on the opposite side of the market because it is immediately executable at that price. If, at the time of entry, there is no price to which a Pegged Order can be pegged, the Order will be rejected; provided, however, that a Displayed Order that has Market Pegging, or an Order with a Non-Display Attribute that has Primary Pegging or Market Pegging, will be accepted at its limit price. In the case of an Order with Midpoint Pegging, if the Inside Bid and Inside Offer are locked, the Order will be priced at the locking price, if the Inside Bid and Inside Offer are crossed or if there is no Inside Bid and/or Inside Offer, the Order will not be accepted. However, even if the Inside Bid and Inside Offer are locked, an Order with Midpoint Pegging that locked an Order on the Nasdaq Book would execute (provided, however, that a Midpoint Peg Post-Only Order would execute or post as described in Rule 4702(b)(5)(A)).

Primary Pegging and Market Pegging are available through RASH, QIX, and FIX only. An Order entered through OUCH or FLITE with Midpoint Pegging will have its price set upon initial entry to the Midpoint, unless the Order has a limit price that is lower than the Midpoint for an Order to buy (higher than the Midpoint for an Order to sell), in which case the Order will be ranked on the Nasdaq Book at its limit price. Thereafter, if the Inside Bid and Inside Offer changes so that: the Midpoint is lower than (higher than) the price of an Order to buy (sell), the Inside Bid and Inside Offer are crossed or if there is no Inside Bid and/or Inside Offer, the Pegged Order will be cancelled back to the Participant.

An Order entered through RASH, QIX or FIX with Pegging will have its price set upon initial entry and will thereafter have its price reset in accordance with changes to the relevant Inside Quotation. An Order with Pegging receives a new timestamp whenever its price is updated and therefore will be evaluated with respect to possible execution (and routing, if it has been assigned a Routing Order Attribute) in the same manner as a newly entered Order. If the price to which an Order is pegged is not available, the Order will be rejected. For an Order with Midpoint Pegging, if the Inside Bid and Inside Offer become crossed or if there is no Inside Bid and/or Inside Offer, the Order will be removed from the Nasdaq Book and will be re-entered at the new midpoint once there is a valid Inside Bid and Inside Offer that is not crossed.

Primary Pegging Orders and Market Pegging Orders are subject to a collar. Any portion of a Primary Pegging Order or Market Pegging Order that would execute, either on the Exchange or when routed to another market center, at a price of more than \$0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled.

Orders with Midpoint Pegging will be cancelled by the System when a trading halt is declared, and any Orders with Midpoint Pegging entered during a trading halt will be rejected.

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## 4752. Opening Process

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(d) Processing of Nasdaq Opening Cross. For System securities, the Nasdaq Opening Cross shall occur at 9:30, and market hours trading shall commence when the Nasdaq Opening Cross concludes.

(1) No change.

(2) (A) The Nasdaq Opening Cross shall occur at the price that maximizes the number of shares of MOO, LOO, OIO, Early Market Hours orders, and executable quotes and orders in the Nasdaq Market Center to be executed.

(B) If more than one price exists under subparagraph (A), the Nasdaq Opening Cross shall occur at the price that minimizes [any Imbalance] the number of shares of buy or sell MOO, LOO or Early Market Hours orders that may not be matched with other MOO, LOO, Early Market Hours, Open Eligible Interest, or OIO order shares.

(C) – (E) No change.

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#### **4754. Nasdaq Closing Cross**

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(b) Processing of Nasdaq Closing Cross. The Nasdaq Closing Cross will begin at 4:00:00 p.m. EST, and post-market hours trading will commence when the Nasdaq Closing Cross concludes.

(1) No change.

(2) (A) The Nasdaq Closing Cross will occur at the price that maximizes the number of shares of Eligible Interest in the Nasdaq Market Center to be executed.

(B) If more than one price exists under subparagraph (A), the Nasdaq Closing Cross shall occur at the price that minimizes [any Imbalance] the number of shares of buy or sell MOC or LOC orders that cannot be matched with other MOC or LOC, Close Eligible interest, or IO order shares.

(C) – (E) No change.

(3) – (8) No change

\* \* \* \* \*