Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 45	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2018 - * 085
		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) * ☐

Rule

Pilot ☐	Extension of Time Period for Commission Action * ☐	Date Expires *	

☐ 19b-4(f)(1)   ☐ 19b-4(f)(4)
☐ 19b-4(f)(2)   ☐ 19b-4(f)(5)
☐ 19b-4(f)(3)   ☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * ☐ Section 806(e)(2) * ☐	Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document
☐

Exhibit 3 Sent As Paper Document
☐

Description

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

A proposal to amend various rules to reflect changes to The Nasdaq Options Market LLC (NOM) protocols.

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 *	Principal 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 10/29/2018	Global Legal and Policy Officer
By Edward S. Knight	
(Name *)	

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

edward.knight@nasdaq.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

[Add] [Remove] [View]

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

Exhibit 1 - Notice of Proposed Rule Change *

[Add] [Remove] [View]

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

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

[Add] [Remove] [View]

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

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

[Add] [Remove] [View]

Exhibit Sent As Paper Document
☐

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

Exhibit 3 - Form, Report, or Questionnaire

[Add] [Remove] [View]

Exhibit Sent As Paper Document
☐

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

Exhibit 4 - Marked Copies

[Add] [Remove] [View]

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

Exhibit 5 - Proposed Rule Text

[Add] [Remove] [View]

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

Partial Amendment

[Add] [Remove] [View]

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

1.   Text of the Proposed Rule Change

         (a)   The Nasdaq Stock Market LLC ("Nasdaq" or "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 ("SEC" or

"Commission") a proposal to amend various rules to reflect changes to The Nasdaq

Options Market LLC ("NOM") protocols.

         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 Exchange (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:

<div align="center">
Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692
</div>

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[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

Nasdaq recently filed a rule change[3] which adopted a new protocol "Ouch to

Trade Options" or "OTTO"[4] and renamed the current OTTO protocol as "Quote Using

Orders" or "QUO".[5] The Exchange proposes to reflect the changes made in the Prior

Rule Change within various NOM Rules which refer to protocols.

        The Prior Rule Change, which is effective but not yet operative, renamed the

current OTTO to "QUO." The proposed changes herein seek to rename that protocol

accordingly within the rules where OTTO is specified in the Rulebook. The Prior Rule

Change also adopted a new OTTO protocol, which is the same OTTO protocol currently

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[3]   See Securities Exchange Act Release No. 83888 (August 20, 2018), 83 FR 42954
        (August 24, 2018) (SR-NASDAQ-2018-069)("Prior Rule Change"). This rule
        change is immediately effective but will not be operative until such time as the
        Exchange issues an Options Trader Alert announcing the implementation date.
        This notification will be issued in Q4 2018. The Exchange notes that this filing
        renamed the current OTTO protocol as "QUO" and also proposed the adoption of
        a new OTTO protocol.

[4]   OTTO is an interface that allows Participants and their Sponsored Customers to
        connect, send, and receive messages related to orders to and from the Exchange.
        Features include the following: (1) options symbol directory messages (e.g.,
        underlying); (2) system event messages (e.g., start of trading hours messages and
        start of opening); (3) trading action messages (e.g., halts and resumes); (4)
        execution messages; (5) order messages; and (6) risk protection triggers and
        cancel notifications. See NOM Rules at Chapter VI, Section 21(a)(i)(C).

[5]   QUO is an interface that allows NOM Market Makers to connect, send, and
        receive messages related to single-sided orders to and from the Exchange. Order
        Features include the following: (1) options symbol directory messages (e.g.,
        underlying); (2) system event messages (e.g., start of trading hours messages and
        start of opening); (3) trading action messages (e.g., halts and resumes); (4)
        execution messages; (5) order messages; and (6) risk protection triggers and
        cancel notifications. Orders submitted by NOM Market Makers over this
        interface are treated as quotes. See NOM Rules at Chapter VI, Section
        21(a)(i)(D).

utilized by market participants on Nasdaq ISE, LLC ("ISE") today.[6] The proposal introduces the new OTTO protocol within NOM rules.

Detection of Loss of Communication

Chapter VI, Section 6(e), "Detection of Loss of Communication" describes the impact to NOM protocols in the event of a loss of a communication. The Exchange identifies the various protocols available on NOM within this rule. The Exchange proposes several amendments.

First, the Exchange proposes to replace references to the term "Participant" with "NOM Market Maker" within the current rule text where the protocol is only available to NOM Market Makers.[7] This new text will add greater specificity to the rule.

Second, the Exchange proposes to add the term "QUO" to Chapter VI, Section 6(e)(i)(A) which defines a "Heartbeat" to account for the renamed current OTTO protocol within the list. The existing reference to current OTTO would remain and such reference would now refer to the new OTTO protocol. No changes are necessary to the text because the operation of the two protocols are the same for purposes of this specific rule text.

Third, the Exchange notes that current OTTO is accounted for within NOM Rules at Chapter VI, Section 6(e). Specifically, Section 6(e)(iii) and current Section 6(e)(vi), which is proposed to be renumbered as Section 6(e)(viii), currently describe the current OTTO protocol. The Exchange is not amending this language because this language

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6   See Supplementary Material .03(b) to Rule 715.

7   The Exchange is proposing these changes within Chapter VI, Section 6(e)(i),
       Section 6(e)(i)(B), current Section 6(e)(iv), Section 6(e)(iv)(A) and Section
       6(e)(iv)(B).

would be the same for the new OTTO protocol. To avoid confusion in marking the text,

the Exchange proposes to allow this text to remain and simply replicate the text for the

renamed QUO protocol. No changes are necessary to the existing OTTO text because the

operation of the two protocols, as it relates to this specific text, is the same. The

standards for disconnecting current OTTO, renamed "QUO" and new OTTO are

identical. The Exchange therefore proposes a new Chapter VI, Section 6(e)(i)(D) to

define QUO as the Exchange's System component through which NOM Market Makers

communicate orders from the Client Application. Because the renamed QUO interface

accepts orders submitted by NOM Market Makers, which are treated as quotes for

purposes of quoting obligations, this interface is identified as an order entry interface.

Chapter VI, Section 6(e)(i)(D), defining Client Application, is being re-lettered to Section

6(e)(i)(E). Also, the Exchange proposes a new Section 6(e)(iv) which provides,

> 'When the QUO Port detects the loss of communication with a NOM
> Market Maker's Client Application because the Exchange's server does
> not receive a Heartbeat message for a certain time period ("nn" seconds),
> the Exchange will automatically logoff the NOM Market Maker's
> affected Client Application and if the NOM Market Maker has elected to
> have its orders cancelled pursuant to Chapter VI, Section 6(e)(viii)
> automatically cancel all open orders posted.'

The Exchange also proposes to renumber subsequent sections and add a corresponding

new section for QUO within Section 6(e)(viii) which provides,

> 'The default time period ("nn" seconds) for QUO Ports shall be fifteen
> (15) seconds for the disconnect and, if elected, the removal of orders. If
> the NOM Market Maker elects to have its orders removed, in addition to
> the disconnect, the NOM Market Maker may determine another time
> period of "nn" seconds of no technical connectivity, as required in
> paragraph (iii) above, to trigger the disconnect and removal of orders and
> communicate that time to the Exchange. The period of "nn" seconds may
> be modified to a number between one hundred (100) milliseconds and
> 99,999 milliseconds for QUO Ports prior to each session of connectivity to

the Exchange. This feature may be disabled for the removal of orders, however the NOM Market Maker will be disconnected.

(A) If the NOM Market Maker systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The NOM Market Maker may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the NOM Market Maker shall persist for each subsequent session of connectivity until the NOM Market Maker either contacts Exchange operations and changes the setting or the NOM Market Maker systemically selects another time period prior to the next session of connectivity.'

These sections will refer to the renamed QUO protocol separately from the new OTTO protocol. As noted above, the existing OTTO rule text would refer to the new OTTO and would have the same 15 second default time period as current OTTO, renamed "QUO." The new section for QUO will represent that protocol going forward so that all NOM protocols are represented within the rule.

Fifth, the Exchange proposes to renumber Section 6(e)(vii) to Section 6(e)(ix) and add references to the renamed QUO protocol in this paragraph. The trigger for all protocols is described in this section. The current OTTO reference shall now refer to the new OTTO and renamed QUO is being added so all protocols are accounted for within the text.

Opening and Halt Cross

The Exchange proposes to amend Chapter VI, Section 8, "Nasdaq Opening and Halt Cross," at Section 8(a)(4), "Eligible Interest," to reflect the addition of an order entry protocol. As explained above, the current OTTO was renamed "QUO" and a new "OTTO" protocol will be added to NOM. The Exchange proposes to add "OTTO" to the

list of protocols that may submit orders, prior to the Nasdaq Opening Cross designated with a time-in-force of IOC will be rejected and shall not be considered eligible interest. The Exchange proposes to add "QUO" to the list of protocols that may submit orders that may be submitted as quotes prior to the Nasdaq Opening Cross, designated with a time-in-force of IOC that will remain in-force through the opening and would be cancelled immediately after the opening. The Exchange also proposes to add the words "quotes received via" before SQF to make clear that quotes are submitted into the SQF protocol.

Further, the Exchange proposes to amend Chapter VI, Section 8(a)(6), "Valid Width National Best Bid or Offer" or "Valid Width NBBO" to add QUO and remove OTTO to the list of protocols that may submit orders or quotes to account for the renaming of the current protocol. Today, the SQF protocol is a quoting protocol used by NOM Market Makers. QUO will permit orders to be entered, which would be treated as quotes for purposes of quoting obligations, which orders would be eligible for the Opening Process provided they are within a specified bid/ask differential as established and published by the Exchange. The new OTTO would be an order entry protocol only and therefore not eligible to be utilized to submit a Valid Width National Best Bid or Offer during the Opening Process.

Data Feeds

The Exchange proposes to amend Chapter VI, Section 19, "Data Feeds and Trade Information" to amend "OTTO DROP" to "QUO DROP." The same description would apply as this data feed is simply being renamed. The Exchange notes that the Exchange is not offering a similar data feed for the new OTTO.

Definitions

The Exchange proposes to add three new definitions to Chapter I, Section 1. These definitions are utilized in technical documents issued by the Exchange and will provide an ease of reference for understanding these terms. The Exchange proposes to define account number at Chapter I, Section 1(a)(69) as a number assigned to a Participant. Participants may have more than one account number. The Exchange proposes to define "badge" at Chapter I, Section 1(a)(70) as an account number, which may contain letters and/or numbers, assigned to NOM Market Makers. A NOM Market Maker account may be associated with multiple badges. Finally, the Exchange proposes to defined "mnemonic" at Chapter I, Section 1(a)(71) as an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics.

Risk Protections

Finally, the Exchange proposes to amend Chapter VI, Section 18 to make various amendments as detailed below.

Order Price Protection

The Exchange proposes to amend the current rule text at Chapter VI, Section 18(a)(1) related to the Order Price Protection rule or "OPP." First the Exchange proposes to add punctuation and OPP at the beginning of that sentence to conform the text to the remainder of the rule.

Second, the Exchange proposes to remove the example within Chapter VI, Section 18(a)(1)(B)(i) which states, " For example, if the Reference BBO on the offer side is $1.10, an order to buy options for more than $1.65 would be rejected. Similarly, if

the Reference BBO on the bid side is $1.10, an order to sell options for less than $0.55 will be rejected." The Exchange also proposes to remove the example within Chapter VI, Section 18(a)(1)(B)(ii) which states, "For example, if the Reference BBO on the offer side is $1.00, an order to buy options for more than $2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to $1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit." The Exchange notes that while the examples remain accurate, the Exchange proposes to remove the text to conform the rule text to other risk protections. The Exchange does not believe it is necessary to have these examples within the rule text.

Third, the Exchange proposes to state, with the introduction of "QUO" that OPP shall not apply to orders entered through QUO. Today, the Exchange does not offer OPP via current OTTO, which is being renamed "QUO."[8] The Exchange proposes to memorialize its current practice within the rule. The Exchange does not offer OPP on current OTTO, renamed "QUO" because unlike other market participants, Market Makers have sophisticated infrastructures as compared to other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.[9] This would not be a change from the current practice.

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[8]   See Securities Exchange Act Release No. 64312 (April 20, 2011), 76 FR 23351 (April 26, 2011) (SR-NASDAQ-2011-053). The Exchange noted in the filing that, "Like the PHLX's OPP, NOM's will be available for Participants' orders, but not for market making."

[9]   QUO, similar to SQF, is subject to the quote protections listed in Chapter VI, Section 18(c).

Market Order Spread Protection

The Exchange proposes two changes to the Market Order Spread Protection rule at Chapter VI, Section 18(a)(2). First, NOM proposes to add the word "trading" before the word "halt" Section 18(a)(2) for consistency. In the OPP rule text halts are referred to as "trading halts." This will avoid confusion as to the use of this term.

Second, the Exchange proposes to amend the Market Order Spread Protection Rule in Chapter VI, Section 18(a)(2) to permit NOM to establish different thresholds for one or more series or classes of options, which is the same as Phlx.[10] The Exchange desires, the same as Phlx, to be permitted the flexibility to allow it to determine a threshold suitable for each series or class of option. The Exchange's current rule provides no discretion to permit different thresholds for one or more series or classes of options. By adding this rule text, the Exchange proposes to permit one or more series or classes of options to set a different threshold, which the Exchange would announce via an Options Trader Alert, similar to Phlx. The Exchange desires to conform this protection to Phlx so that it could set the same threshold across affiliated markets. The Phlx Rule Change provided that the $5 threshold is appropriate because it seeks to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. Further the Exchange noted that this protection will bolster the normal resilience and market behavior that persistently produces robust reference prices. This feature should create a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute. The Exchange

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[10] Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018) (SR-Phlx-2018-32) ("Phlx Rule Change"). Footnote 11 of this filing provides that Exchange may establish differences other than the referenced threshold for one or more series or classes of options.

notes that those goals remain consistent with the Exchange's goals today for this risk feature. The Exchange would establish different thresholds for one or more series or classes of options if it believed that the threshold should differ to retain these goals.

Anti-Internalization

The Exchange proposes to amend Chapter VI, Section 18(c)(1) to make minor changes to capitalize the term "market maker" and remove the word "participant," make plural the word "identifier," and change the word "member" to "Participant." These changes are intended to conform the language to the remainder of the risk protection rules. Further, the Exchange proposes to replace the phrase "Exchange account identifier or member firm identifier" with "account number or Participant identifier." The Exchange defined "account number" herein and proposes that definition in place of "Exchange account identifier." Also, for consistency, "member" is being replaced with "Participant" in this sentence as well.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Chapter VI, Section 18(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" to conform the title across Nasdaq markets.

Implementation

The Exchange proposes to implement the rule changes for QUO and OTTO at the same time that the Exchange announces SR-NASDAQ-2018-069 will be operative.[11] The Exchange proposes to implement the changes for OPP in Q4 of 2018. The Exchange will announce the date of implementation via an Options Traders Alert.

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[11]   See note 3 above.

b.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act,[12] in general, and furthers the objectives of Section 6(b)(5) of the Act,[13] in particular,

in that it is designed to promote just and equitable principles of trade, to remove

impediments to and perfect the mechanism of a free and open market and a national

market system, and, in general to protect investors and the public interest by adopting

new definitions and amending the rule text for Anti-Internalization to conform the rule

text to other risk protection rules and utilize a proposed new definition. The Exchange

believes that these proposed amendments will add greater transparency to the Exchange's

rules.

Detection of Loss of Communication

With respect to the new OTTO protocol which was introduced with the Prior Rule

Change, all NOM Participants will be able to utilize this protocol. The Exchange

believes that applying the removal functionality specified within NOM Rules at Chapter

VI, Section 6(e) for the new OTTO protocol is consistent with the Act because it prevents

disruption in the marketplace by protecting market participants. Market participants

utilizing new OTTO will have the option to either enable or disable the cancellation

feature, thereby offering the same risk protections throughout the market to participants

utilizing other protocols. Further, it is appropriate to offer this removal feature as

optional to all market participants utilizing new OTTO, because unlike NOM Market

Makers who are required to provide quotes in all products in which they are registered,

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[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

market participants utilizing new OTTO do not bear the same magnitude of risk of

potential erroneous or unintended executions. In addition, market participants utilizing

new OTTO may desire their orders to remain on the order book despite a technical

disconnect, so as not to miss any opportunities for execution of such orders while the

OTTO port is disconnected. The Exchange believes that it is consistent with the Act to

require other market participants to be disconnected because the Participant is otherwise

not connected to the Exchange's System and the Participant simply needs to reconnect to

commence submitting and cancelling orders.

Opening and Halt Cross

The Exchange's proposal to reflect QUO, the renamed current OTTO protocol,

within Chapter VI at Sections 6(e), 8 and 19 and permit the references to the current

OTTO protocol to reflect the new OTTO protocol will account for all the protocols

available on NOM within these Rules. Specifically, the Exchange's proposal will make

clear that QUO will be available to NOM Market Makers and would be considered

eligible interest during the Opening Process and which types of orders are eligible as

Valid Width Quotes. Finally, the features available for disconnects and the availability of

QUO DROP are being specified in this proposal. The Exchange believes that the

proposed rule change is consistent with the protection of investors and the public interest

because current OTTO is simply being renamed "QUO." Renaming this protocol with its

rules will make clear how QUO orders may be entered and cancelled by the System and

avoid confusion for investors. With respect to the Opening Process described in NOM

Rules at Chapter VI, Section 8, the Exchange's proposal to replace "OTTO" with "QUO"

reflects the name change. Only quotes and in this case orders, which are treated as quotes

for quoting obligations, may qualify for a Valid Width National Best Bid or Offer during

the Opening Process. Also, adding QUO to the list of Eligible Interest brings greater

clarity to market participants regarding the changes to the NOM protocols. The current

OTTO references will reflect the new OTTO protocol with these changes. Finally, the

change to Chapter VI, Section 19(b) simply accounts for the name change. The

Exchange is not amending the proposed "QUO DROP" functionality.

Risk Protections

With respect to not offering OPP for QUO, the Exchange believes it is consistent

with the Act because unlike other market participants, Market Makers have sophisticated

infrastructures as compared to other market participants and are able to manage their risk,

particularly with respect to quoting, using tools that are not available to other market

participants. Also, QUO is subject to the quote protections listed in Chapter VI, Section

18(c). Market Makers handle a large amount of risk when quoting and in addition to the

risk protections required by the Exchange and utilize their own risk management

parameters when entering orders, minimizing the likelihood of error. The Exchange

believes that Market Makers, unlike other market participants, have the ability to manage

their risk and are being offered two protocols to quote.

The Exchange's proposal to expand the Market Order Spread Protection permits

the Exchange to establish different thresholds for one or more series or classes of options

which is the same as Phlx. The Exchange desires this flexibility to allow it, the same as

Phlx,[14] to determine a threshold suitable for each series or class of option. The Exchange

believes that expanding this capability is consistent with the Act because it would allow

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[14]   See note 10 above.

the Exchange to consider thresholds for Market Order Spread Protection at a more granular level, per series or class, to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. The Exchange intends that this risk protection would bolster the normal resilience and market behavior that persistently produces robust reference prices, while creating a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute.

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 Exchange's proposal to adopt new definitions and amend the rule text for Anti-Internalization to conform the rule text to other risk protection rules and utilize a proposed new definition does not impose an undue burden on competition because the proposal brings transparency to the Exchange's rules.

The Exchange's proposal to add references to renamed QUO to Chapter VI, Sections 6(e), 8 and 19 will clarify the name change of the current OTTO protocol to renamed "QUO" and will also make clear that QUO is available only to NOM Market Makers. The Exchange's proposal to introduce the new OTTO protocol for purposes of the detection of loss of communication functionality does not impose an undue burden on competition because all market participants will be permitted to utilize OTTO to submit orders during the opening and will also be able to avail themselves of the protections offered by a loss of communication, similar to other protocols.

Finally, no Market Maker would receive OPP protection, however all Market Makers would receive the quote protections listed in Chapter VI, Section 18(c). The

Exchange believes that unlike other market participants, Market Makers have

sophisticated infrastructures as compared to other market participants and are able to

manage their risk, particularly with respect to quoting, using tools that are not available to

other market participants.

The Exchange's proposal to expand the Market Order Spread Protection to permit

the Exchange to establish different thresholds for one or more series or classes of options,

the same as Phlx, would apply uniformly to all market participants.

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)[15] of the Act and Rule 19b-4(f)(6) thereunder[16] 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 proposal does not significantly affect the

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[15]   15 U.S.C. 78s(b)(3)(A)(iii).

[16]   17 CFR 240.19b-4(f)(6).

protection of investors or the public interest for the below reasons. The Exchange's adoption of new definitions and amendments to the rule text for Anti-Internalization conform the rule text to other risk protection rules and the utilization of a proposed new definition brings greater transparency to the Exchange's rules. The Exchange's proposal to add current OTTO, renamed "QUO" to Chapter VI, Sections 6(e), 8 and 19 will clarify the name change and make clear that QUO is available to NOM Market Makers. The Exchange's proposal to adopt a new OTTO protocol is being reflected within the Opening Process rule to make clear that Participants may utilize OTTO to submit orders during the opening. This new protocol is specifically being added within the current rules to reflect the new OTTO protocol. Participants utilizing new OTTO will be able to avail themselves of the protections offered by a loss of communication and the manner by which that may occur, similar to FIX today. With respect to not offering OPP for QUO, unlike other market participants, Market Makers have sophisticated infrastructures as compared to other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.[17] Market Makers handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange, Market Makers utilize their own risk management parameters when entering orders, minimizing the likelihood of a Market Maker order resulting from an error from being entered. The Exchange's proposal with respect to the Market Order Spread Protection provides the Exchange with flexibility to allow it to determine a threshold suitable for each series or class of option the same as Phlx. The Exchange believes that these proposals do not significantly affect the protection of

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[17]   QUO is subject to the quote protections listed in Chapter VI, Section 18(c).

investors or the public interest because adopting new definitions and the amendments for Anti-Internalization to conform the rule text to other risk protection rules and the utilization of a proposed new definition bring clarity to the rules. The Exchange's proposal to add current OTTO, renamed "QUO" to Chapter VI, Sections 6(e), 8 and 19 simply represents a name change. The Exchange's proposal to adopt a new OTTO protocol is reflected in the Opening Process clarifies how Participants may utilize the new OTTO. Similar to the ISE OTTO,[18] the Exchange is permitting the detection of loss of communication functionality for the new OTTO protocol on NOM. With respect to OPP, not offering OPP on QUO does not significantly affect the protection of investors or the public interest because unlike other market participants, Market Makers have the ability to manage their risk and are being offered two protocols to quote. Also, Market Makers are offered quote protections.[19] The Market Order Spread Protection proposal is the same flexibility offered on Phlx today.

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

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[18]   See Rule 711(d).

[19]   See NOM Rules at Chapter VI, Section 18(c).

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 operative delay to permit the Exchange to reflect the proposed amendments with respect to QUO and OTTO at the same time as it proposes to implement the new OTTO functionality. In addition, the Exchange requests the waiver of the operative delay to permit it to add other clarifying language, as proposed herein, to its risk protections. The Exchange believes that the proposed text adds greater transparency to the risk protection rules for the benefit of investors and the general public.

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

The proposed amendment to the Market Order Spread Protection Rule is based on a Phlx rule change.[20] The amendment relating to detection of loss of communication functionality for new OTTO is the same functionality as described within ISE Rule 711(e) for ISE OTTO.

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

Not applicable.

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

Not applicable.

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[20]   <u>See</u> note 10 above.

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-2018-085)

October __, 2018

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Various Rules to Reflect Changes to The Nasdaq Options Market LLC ("NOM") Protocols

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on October 29, 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 various rules to reflect changes to The Nasdaq Options Market LLC ("NOM") protocols.

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.

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[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

Nasdaq recently filed a rule change[3] which adopted a new protocol "Ouch to Trade Options" or "OTTO"[4] and renamed the current OTTO protocol as "Quote Using Orders" or "QUO".[5] The Exchange proposes to reflect the changes made in the Prior Rule Change within various NOM Rules which refer to protocols.

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[3]   See Securities Exchange Act Release No. 83888 (August 20, 2018), 83 FR 42954 (August 24, 2018) (SR-NASDAQ-2018-069)("Prior Rule Change"). This rule change is immediately effective but will not be operative until such time as the Exchange issues an Options Trader Alert announcing the implementation date. This notification will be issued in Q4 2018. The Exchange notes that this filing renamed the current OTTO protocol as "QUO" and also proposed the adoption of a new OTTO protocol.

[4]   OTTO is an interface that allows Participants and their Sponsored Customers to connect, send, and receive messages related to orders to and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; and (6) risk protection triggers and cancel notifications. See NOM Rules at Chapter VI, Section 21(a)(i)(C).

[5]   QUO is an interface that allows NOM Market Makers to connect, send, and receive messages related to single-sided orders to and from the Exchange. Order Features include the following: (1) options symbol directory messages (e.g., underlying); (2) system event messages (e.g., start of trading hours messages and

The Prior Rule Change, which is effective but not yet operative, renamed the

current OTTO to "QUO." The proposed changes herein seek to rename that protocol

accordingly within the rules where OTTO is specified in the Rulebook. The Prior Rule

Change also adopted a new OTTO protocol, which is the same OTTO protocol currently

utilized by market participants on Nasdaq ISE, LLC ("ISE") today.[6] The proposal

introduces the new OTTO protocol within NOM rules.

Detection of Loss of Communication

Chapter VI, Section 6(e), "Detection of Loss of Communication" describes the

impact to NOM protocols in the event of a loss of a communication. The Exchange

identifies the various protocols available on NOM within this rule. The Exchange

proposes several amendments.

First, the Exchange proposes to replace references to the term "Participant" with

"NOM Market Maker" within the current rule text where the protocol is only available to

NOM Market Makers.[7] This new text will add greater specificity to the rule.

Second, the Exchange proposes to add the term "QUO" to Chapter VI, Section

6(e)(i)(A) which defines a "Heartbeat" to account for the renamed current OTTO

protocol within the list. The existing reference to current OTTO would remain and such

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start of opening); (3) trading action messages (e.g., halts and resumes); (4)
execution messages; (5) order messages; and (6) risk protection triggers and
cancel notifications. Orders submitted by NOM Market Makers over this
interface are treated as quotes. See NOM Rules at Chapter VI, Section
21(a)(i)(D).

[6]   See Supplementary Material .03(b) to Rule 715.

[7]   The Exchange is proposing these changes within Chapter VI, Section 6(e)(i),
Section 6(e)(i)(B), current Section 6(e)(iv), Section 6(e)(iv)(A) and Section
6(e)(iv)(B).

reference would now refer to the new OTTO protocol. No changes are necessary to the text because the operation of the two protocols are the same for purposes of this specific rule text.

Third, the Exchange notes that current OTTO is accounted for within NOM Rules at Chapter VI, Section 6(e). Specifically, Section 6(e)(iii) and current Section 6(e)(vi), which is proposed to be renumbered as Section 6(e)(viii), currently describe the current OTTO protocol. The Exchange is not amending this language because this language would be the same for the new OTTO protocol. To avoid confusion in marking the text, the Exchange proposes to allow this text to remain and simply replicate the text for the renamed QUO protocol. No changes are necessary to the existing OTTO text because the operation of the two protocols, as it relates to this specific text, is the same. The standards for disconnecting current OTTO, renamed "QUO" and new OTTO are identical. The Exchange therefore proposes a new Chapter VI, Section 6(e)(i)(D) to define QUO as the Exchange's System component through which NOM Market Makers communicate orders from the Client Application. Because the renamed QUO interface accepts orders submitted by NOM Market Makers, which are treated as quotes for purposes of quoting obligations, this interface is identified as an order entry interface. Chapter VI, Section 6(e)(i)(D), defining Client Application, is being re-lettered to Section 6(e)(i)(E). Also, the Exchange proposes a new Section 6(e)(iv) which provides,

> 'When the QUO Port detects the loss of communication with a NOM Market Maker's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the NOM Market Maker's affected Client Application and if the NOM Market Maker has elected to have its orders cancelled pursuant to Chapter VI, Section 6(e)(viii) automatically cancel all open orders posted.'

The Exchange also proposes to renumber subsequent sections and add a corresponding

new section for QUO within Section 6(e)(viii) which provides,

> 'The default time period ("nn" seconds) for QUO Ports shall be fifteen
> (15) seconds for the disconnect and, if elected, the removal of orders. If
> the NOM Market Maker elects to have its orders removed, in addition to
> the disconnect, the NOM Market Maker may determine another time
> period of "nn" seconds of no technical connectivity, as required in
> paragraph (iii) above, to trigger the disconnect and removal of orders and
> communicate that time to the Exchange. The period of "nn" seconds may
> be modified to a number between one hundred (100) milliseconds and
> 99,999 milliseconds for QUO Ports prior to each session of connectivity to
> the Exchange. This feature may be disabled for the removal of orders,
> however the NOM Market Maker will be disconnected.
>
> (A) If the NOM Market Maker systemically changes the default number of
> "nn" seconds, that new setting shall be in effect throughout the current
> session of connectivity and will then default back to fifteen seconds. The
> NOM Market Maker may change the default setting systemically prior to
> each session of connectivity.
>
> (B) If a time period is communicated to the Exchange by calling Exchange
> operations, the number of "nn" seconds selected by the NOM Market
> Maker shall persist for each subsequent session of connectivity until the
> NOM Market Maker either contacts Exchange operations and changes the
> setting or the NOM Market Maker systemically selects another time
> period prior to the next session of connectivity.'

These sections will refer to the renamed QUO protocol separately from the new OTTO

protocol. As noted above, the existing OTTO rule text would refer to the new OTTO and

would have the same 15 second default time period as current OTTO, renamed "QUO."

The new section for QUO will represent that protocol going forward so that all NOM

protocols are represented within the rule.

Fifth, the Exchange proposes to renumber Section 6(e)(vii) to Section 6(e)(ix) and

add references to the renamed QUO protocol in this paragraph. The trigger for all

protocols is described in this section. The current OTTO reference shall now refer to the

new OTTO and renamed QUO is being added so all protocols are accounted for within

the text.

Opening and Halt Cross

The Exchange proposes to amend Chapter VI, Section 8, "Nasdaq Opening and Halt Cross," at Section 8(a)(4), "Eligible Interest," to reflect the addition of an order entry protocol. As explained above, the current OTTO was renamed "QUO" and a new "OTTO" protocol will be added to NOM. The Exchange proposes to add "OTTO" to the list of protocols that may submit orders, prior to the Nasdaq Opening Cross designated with a time-in-force of IOC will be rejected and shall not be considered eligible interest. The Exchange proposes to add "QUO" to the list of protocols that may submit orders that may be submitted as quotes prior to the Nasdaq Opening Cross, designated with a time-in-force of IOC that will remain in-force through the opening and would be cancelled immediately after the opening. The Exchange also proposes to add the words "quotes received via" before SQF to make clear that quotes are submitted into the SQF protocol.

Further, the Exchange proposes to amend Chapter VI, Section 8(a)(6), "Valid Width National Best Bid or Offer" or "Valid Width NBBO" to add QUO and remove OTTO to the list of protocols that may submit orders or quotes to account for the renaming of the current protocol. Today, the SQF protocol is a quoting protocol used by NOM Market Makers. QUO will permit orders to be entered, which would be treated as quotes for purposes of quoting obligations, which orders would be eligible for the Opening Process provided they are within a specified bid/ask differential as established and published by the Exchange. The new OTTO would be an order entry protocol only and therefore not eligible to be utilized to submit a Valid Width National Best Bid or Offer during the Opening Process.

Data Feeds

The Exchange proposes to amend Chapter VI, Section 19, "Data Feeds and Trade Information" to amend "OTTO DROP" to "QUO DROP." The same description would apply as this data feed is simply being renamed. The Exchange notes that the Exchange is not offering a similar data feed for the new OTTO.

Definitions

The Exchange proposes to add three new definitions to Chapter I, Section 1. These definitions are utilized in technical documents issued by the Exchange and will provide an ease of reference for understanding these terms. The Exchange proposes to define account number at Chapter I, Section 1(a)(69) as a number assigned to a Participant. Participants may have more than one account number. The Exchange proposes to define "badge" at Chapter I, Section 1(a)(70) as an account number, which may contain letters and/or numbers, assigned to NOM Market Makers. A NOM Market Maker account may be associated with multiple badges. Finally, the Exchange proposes to defined "mnemonic" at Chapter I, Section 1(a)(71) as an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics.

Risk Protections

Finally, the Exchange proposes to amend Chapter VI, Section 18 to make various amendments as detailed below.

Order Price Protection

The Exchange proposes to amend the current rule text at Chapter VI, Section 18(a)(1) related to the Order Price Protection rule or "OPP." First the Exchange proposes

to add punctuation and OPP at the beginning of that sentence to conform the text to the remainder of the rule.

Second, the Exchange proposes to remove the example within Chapter VI, Section 18(a)(1)(B)(i) which states, " For example, if the Reference BBO on the offer side is $1.10, an order to buy options for more than $1.65 would be rejected. Similarly, if the Reference BBO on the bid side is $1.10, an order to sell options for less than $0.55 will be rejected." The Exchange also proposes to remove the example within Chapter VI, Section 18(a)(1)(B)(ii) which states, "For example, if the Reference BBO on the offer side is $1.00, an order to buy options for more than $2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to $1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit." The Exchange notes that while the examples remain accurate, the Exchange proposes to remove the text to conform the rule text to other risk protections. The Exchange does not believe it is necessary to have these examples within the rule text.

Third, the Exchange proposes to state, with the introduction of "QUO" that OPP shall not apply to orders entered through QUO. Today, the Exchange does not offer OPP via current OTTO, which is being renamed "QUO."[8] The Exchange proposes to memorialize its current practice within the rule. The Exchange does not offer OPP on current OTTO, renamed "QUO" because unlike other market participants, Market Makers have sophisticated infrastructures as compared to other market participants and

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[8]   See Securities Exchange Act Release No. 64312 (April 20, 2011), 76 FR 23351 (April 26, 2011) (SR-NASDAQ-2011-053). The Exchange noted in the filing that, "Like the PHLX's OPP, NOM's will be available for Participants' orders, but not for market making."

are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.[9] This would not be a change from the current practice.

Market Order Spread Protection

The Exchange proposes two changes to the Market Order Spread Protection rule at Chapter VI, Section 18(a)(2). First, NOM proposes to add the word "trading" before the word "halt" Section 18(a)(2) for consistency. In the OPP rule text halts are referred to as "trading halts." This will avoid confusion as to the use of this term.

Second, the Exchange proposes to amend the Market Order Spread Protection Rule in Chapter VI, Section 18(a)(2) to permit NOM to establish different thresholds for one or more series or classes of options, which is the same as Phlx.[10] The Exchange desires, the same as Phlx, to be permitted the flexibility to allow it to determine a threshold suitable for each series or class of option. The Exchange's current rule provides no discretion to permit different thresholds for one or more series or classes of options. By adding this rule text, the Exchange proposes to permit one or more series or classes of options to set a different threshold, which the Exchange would announce via an Options Trader Alert, similar to Phlx. The Exchange desires to conform this protection to Phlx so that it could set the same threshold across affiliated markets. The Phlx Rule Change provided that the $5 threshold is appropriate because it seeks to ensure that the

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[9]   QUO, similar to SQF, is subject to the quote protections listed in Chapter VI, Section 18(c).

[10]   Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018) (SR-Phlx-2018-32) ("Phlx Rule Change"). Footnote 11 of this filing provides that Exchange may establish differences other than the referenced threshold for one or more series or classes of options.

displayed bid and offer are within reasonable ranges and do not represent erroneous prices. Further the Exchange noted that this protection will bolster the normal resilience and market behavior that persistently produces robust reference prices. This feature should create a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute. The Exchange notes that those goals remain consistent with the Exchange's goals today for this risk feature. The Exchange would establish different thresholds for one or more series or classes of options if it believed that the threshold should differ to retain these goals.

Anti-Internalization

The Exchange proposes to amend Chapter VI, Section 18(c)(1) to make minor changes to capitalize the term "market maker" and remove the word "participant," make plural the word "identifier," and change the word "member" to "Participant." These changes are intended to conform the language to the remainder of the risk protection rules. Further, the Exchange proposes to replace the phrase "Exchange account identifier or member firm identifier" with "account number or Participant identifier." The Exchange defined "account number" herein and proposes that definition in place of "Exchange account identifier." Also, for consistency, "member" is being replaced with "Participant" in this sentence as well.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Chapter VI, Section 18(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" to conform the title across Nasdaq markets.

Implementation

The Exchange proposes to implement the rule changes for QUO and OTTO at the same time that the Exchange announces SR-NASDAQ-2018-069 will be operative.[11] The Exchange proposes to implement the changes for OPP in Q4 of 2018. The Exchange will announce the date of implementation via an Options Traders Alert.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[12] in general, and furthers the objectives of Section 6(b)(5) of the Act,[13] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest by adopting new definitions and amending the rule text for Anti-Internalization to conform the rule text to other risk protection rules and utilize a proposed new definition. The Exchange believes that these proposed amendments will add greater transparency to the Exchange's rules.

Detection of Loss of Communication

With respect to the new OTTO protocol which was introduced with the Prior Rule Change, all NOM Participants will be able to utilize this protocol. The Exchange believes that applying the removal functionality specified within NOM Rules at Chapter VI, Section 6(e) for the new OTTO protocol is consistent with the Act because it prevents disruption in the marketplace by protecting market participants. Market participants

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[11]   See note 3 above.

[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

utilizing new OTTO will have the option to either enable or disable the cancellation

feature, thereby offering the same risk protections throughout the market to participants

utilizing other protocols. Further, it is appropriate to offer this removal feature as

optional to all market participants utilizing new OTTO, because unlike NOM Market

Makers who are required to provide quotes in all products in which they are registered,

market participants utilizing new OTTO do not bear the same magnitude of risk of

potential erroneous or unintended executions. In addition, market participants utilizing

new OTTO may desire their orders to remain on the order book despite a technical

disconnect, so as not to miss any opportunities for execution of such orders while the

OTTO port is disconnected. The Exchange believes that it is consistent with the Act to

require other market participants to be disconnected because the Participant is otherwise

not connected to the Exchange's System and the Participant simply needs to reconnect to

commence submitting and cancelling orders.

Opening and Halt Cross

The Exchange's proposal to reflect QUO, the renamed current OTTO protocol,

within Chapter VI at Sections 6(e), 8 and 19 and permit the references to the current

OTTO protocol to reflect the new OTTO protocol will account for all the protocols

available on NOM within these Rules. Specifically, the Exchange's proposal will make

clear that QUO will be available to NOM Market Makers and would be considered

eligible interest during the Opening Process and which types of orders are eligible as

Valid Width Quotes. Finally, the features available for disconnects and the availability of

QUO DROP are being specified in this proposal. The Exchange believes that the

proposed rule change is consistent with the protection of investors and the public interest

because current OTTO is simply being renamed "QUO." Renaming this protocol with its rules will make clear how QUO orders may be entered and cancelled by the System and avoid confusion for investors. With respect to the Opening Process described in NOM Rules at Chapter VI, Section 8, the Exchange's proposal to replace "OTTO" with "QUO" reflects the name change. Only quotes and in this case orders, which are treated as quotes for quoting obligations, may qualify for a Valid Width National Best Bid or Offer during the Opening Process. Also, adding QUO to the list of Eligible Interest brings greater clarity to market participants regarding the changes to the NOM protocols. The current OTTO references will reflect the new OTTO protocol with these changes. Finally, the change to Chapter VI, Section 19(b) simply accounts for the name change. The Exchange is not amending the proposed "QUO DROP" functionality.

Risk Protections

With respect to not offering OPP for QUO, the Exchange believes it is consistent with the Act because unlike other market participants, Market Makers have sophisticated infrastructures as compared to other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants. Also, QUO is subject to the quote protections listed in Chapter VI, Section 18(c). Market Makers handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange and utilize their own risk management parameters when entering orders, minimizing the likelihood of error. The Exchange believes that Market Makers, unlike other market participants, have the ability to manage their risk and are being offered two protocols to quote.

The Exchange's proposal to expand the Market Order Spread Protection permits

the Exchange to establish different thresholds for one or more series or classes of options which is the same as Phlx. The Exchange desires this flexibility to allow it, the same as Phlx,[14] to determine a threshold suitable for each series or class of option. The Exchange believes that expanding this capability is consistent with the Act because it would allow the Exchange to consider thresholds for Market Order Spread Protection at a more granular level, per series or class, to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. The Exchange intends that this risk protection would bolster the normal resilience and market behavior that persistently produces robust reference prices, while creating a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute.

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 Exchange's proposal to adopt new definitions and amend the rule text for Anti-Internalization to conform the rule text to other risk protection rules and utilize a proposed new definition does not impose an undue burden on competition because the proposal brings transparency to the Exchange's rules.

The Exchange's proposal to add references to renamed QUO to Chapter VI, Sections 6(e), 8 and 19 will clarify the name change of the current OTTO protocol to renamed "QUO" and will also make clear that QUO is available only to NOM Market Makers. The Exchange's proposal to introduce the new OTTO protocol for purposes of

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[14]   See note 10 above.

the detection of loss of communication functionality does not impose an undue burden on competition because all market participants will be permitted to utilize OTTO to submit orders during the opening and will also be able to avail themselves of the protections offered by a loss of communication, similar to other protocols.

Finally, no Market Maker would receive OPP protection, however all Market Makers would receive the quote protections listed in Chapter VI, Section 18(c). The Exchange believes that unlike other market participants, Market Makers have sophisticated infrastructures as compared to other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.

The Exchange's proposal to expand the Market Order Spread Protection to permit the Exchange to establish different thresholds for one or more series or classes of options, the same as Phlx, would apply uniformly to all market participants.

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[15] and subparagraph (f)(6) of Rule 19b-4 thereunder.[16]

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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV.   Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2018-085 on the subject line.

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[15]   15 U.S.C. 78s(b)(3)(A)(iii).

[16]   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.

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-2018-085. 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-2018-085 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.[17]

Eduardo A. Aleman
Assistant Secretary

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

EXHIBIT 5

New text is underlined; deleted text is in brackets.

The Nasdaq Stock Market Rules

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Chapter I General Provisions

Sec. 1 Definitions
(a) No change.

(69) An "**account number**" shall mean a number assigned to a Participant. Participants may have more than one account number.

(70) A "**badge**" shall mean an account number, which may contain letters and/or numbers, assigned to NOM Market Makers. A NOM Market Maker account may be associated with multiple badges.

(71) A "**mnemonic**" shall mean an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics.

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Chapter VI Trading Systems

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Sec. 6 Acceptance of Quotes and Orders
All bids or offers made and accepted on NOM in accordance with the NOM Rules shall constitute binding contracts, subject to applicable requirements of the Rules of the Exchange and the Rules of the Clearing Corporation.

(a) – (d) No change.

(e) **Detection of Loss of Communication**

(i) When the SQF Port detects the loss of communication with a [Participant's]NOM Market Maker's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the [Participant's]NOM Market Maker's affected Client Application and automatically cancel all of the [Participant's]NOM Market Maker's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same NOM Market Maker ID and underlying issues.

(A) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF, FIX, QUO or OTTO Port and the Client Application. The

Heartbeat message sent by the Participant and subsequently received by the Exchange allows the SQF, FIX, QUO or OTTO Port to continually monitor its connection with the Participant.

(B) SQF Port is the Exchange's System component through which [Participants]NOM Market Makers communicate their quotes from the Client Application.

(C) FIX and OTTO Ports are the Exchange's System components through which Participants communicate their orders from the Client Application.

(D) QUO is the Exchange's System component through which NOM Market Makers communicate orders from the Client Application.

([D]E) Client Application is the System component of the Participant through which the Exchange Participant communicates its quotes and orders to the Exchange.

(ii) When the FIX Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to Chapter VI, Section 6(e)(vi) automatically cancel all open orders posted.

(iii) When the OTTO Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to Chapter VI, Section 6(e)(vii) automatically cancel all open orders posted.

(iv) When the QUO Port detects the loss of communication with a NOM Market Maker's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the NOM Market Maker's affected Client Application and if the NOM Market Maker has elected to have its orders cancelled pursuant to Chapter VI, Section 6(e)(viii) automatically cancel all open orders posted.

([i]v) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A [Participant]NOM Market Maker may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of

connectivity to the Exchange. This feature is enabled for each [Participant]NOM Market Maker and may not be disabled.

(A) If the [Participant]NOM Market Maker systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The [Participant]NOM Market Maker may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the [Participant]NOM Market Maker shall persist for each subsequent session of connectivity until the [Participant]NOM Market Maker either contacts Exchange operations and changes the setting or the [Participant]NOM Market Maker systemically selects another time period prior to the next session of connectivity.

(vi) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (ii) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(A) and (B) No change.

(vii) The default time period ("nn" seconds) for OTTO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (iii) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for OTTO Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(A) and (B) no change.

(viii) The default time period ("nn" seconds) for QUO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. If the NOM Market Maker elects to have its orders removed, in addition to the disconnect, the NOM Market Maker may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (iii) above, to trigger the

disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for QUO Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the NOM Market Maker will be disconnected.

(A) If the NOM Market Maker systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The NOM Market Maker may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the NOM Market Maker shall persist for each subsequent session of connectivity until the NOM Market Maker either contacts Exchange operations and changes the setting or the NOM Market Maker systemically selects another time period prior to the next session of connectivity.

([vii]ix) The trigger for the SQF, FIX, QUO and OTTO Ports is event and Client Application specific. The automatic cancellation of the NOM Market Maker's quotes for SQF Ports and open orders for FIX, QUO and OTTO Ports entered into the respective SQF, FIX, QUO or OTTO Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other NOM Market Makers entered into SQF Ports or orders of the same or other Participants entered into the FIX, QUO or OTTO Ports via a separate and distinct Client Application.

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Sec. 8 Nasdaq Opening and Halt Cross
(a) Definitions. For the purposes of this rule the term:

(1) – (3) No change.

(4) "Eligible Interest" shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of IOC (immediate-or-cancel), DAY (day order), GTC (good-till-cancelled), and OPG (On the Open Order). However, orders received via FIX and OTTO protocol prior to the Nasdaq Opening Cross designated with a time-in-force of IOC will be rejected and shall not be considered eligible interest. Orders received via QUO [OTTO]and quotes received via SQF prior to the Nasdaq Opening Cross designated with a time-in-force of IOC will remain in-force through the opening and shall be cancelled immediately after the opening.

(5) No change.

(6) "Valid Width National Best Bid or Offer" or "Valid Width NBBO" shall mean the combination of all away market quotes and any combination of NOM-registered Market Maker orders and quotes received over the QUO [OTTO] or SQF Protocols within a specified bid/ask differential as established and published by the Exchange. The Valid Width NBBO will be configurable by underlying, and tables with valid width differentials will be posted by Nasdaq on its website. Away markets that are crossed will void all Valid Width NBBO calculations. If any Market Maker orders or quotes on NOM are crossed internally, then all such orders and quotes will be excluded from the Valid Width NBBO calculation.

(7) No change.

(b) and (c) No change.

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Sec. 18 Risk Protections
(a) The following are order risk protections on NOM:

(1) **Order Price Protection ("OPP")**. OPP is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to market orders or Intermarket Sweep Orders. OPP does not apply to orders entered through QUO.

    (A) No change.

    (B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

        (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt. [For example, if the Reference BBO on the offer side is $1.10, an order to buy options for more than $1.65 would be rejected. Similarly, if the Reference BBO on the bid side is $1.10, an order to sell options for less than $0.55 will be rejected.]

        (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt. [For example, if the Reference BBO on the offer side is $1.00, an order to buy options for more than $2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to $1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit.]

(2) **Market Order Spread Protection.** System Orders that are Market Orders will be rejected if the best of the NBBO and the internal market BBO (the "Reference BBO") is wider than a preset threshold at the time the order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.

(b) The following are order and quote risk protections on NOM:

   (1) No change.

(c) The following are Market Maker risk protections on NOM:

   (1) **Anti-Internalization.** Quotes and orders entered by Options Market Makers will not be executed against quotes and orders entered on the opposite side of the market by the same market maker using the same [m]Market Maker [participant] identifiers, or alternatively, if selected by the [member]Participant, the same [Exchange account identifier or member firm identifier]account number or Participant identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution.

   (2) [**Automated Removal of Quotes and Orders**]Quotation Adjustments.

   (A) – (G) No change.

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Sec. 19 Data Feeds and Trade Information
(a) No change.

(b) The following order and execution information is available to Participants:

   (1) - (3) No change.

   (4) [**OTTO**]QUO **DROP** provides real-time information regarding orders entered through [OTTO]QUO and the execution of those orders. The [OTTO]QUO DROP data feed is not a trading interface and does not accept order messages.

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