

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 52	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2021 - * 009 Amendment No. (req. for Amendments *)
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Filing by The Nasdaq Stock Market LLC  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

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

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

A proposal to amend Rule 4754 to introduce price protections for the Limit-Up Limit-Down 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 \* Sun    Last Name \* Kim  
 Title \* Associate General Counsel  
 E-mail \* sun.kim@nasdaq.com  
 Telephone \* (646) 420-7816    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 \*)  
EVP and Chief Legal Counsel

Date 02/11/2021  
By John Zecca (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.

john.zecca@nasdaq.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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

**Exhibit 1 - Notice of Proposed Rule Change \***

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

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

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) The Nasdaq Stock Market LLC (“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 proposal to amend Rule 4754 to introduce price protections for the Limit-Up Limit-Down (“LULD”) Closing Cross<sup>3</sup> that are similar to the protections currently employed by the standard Nasdaq Closing Cross,<sup>4</sup> and to make other changes related to the LULD Closing Cross.

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 the Board of Directors (the “Board”) on November 5, 2020. 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.

<sup>3</sup> The LULD Closing Cross is the Exchange’s auction process for executing closing trades in Nasdaq-listed securities when a Trading Pause pursuant to Rule 4120(a)(12) exists at or after 3:50 p.m. and before 4:00 p.m. ET. See Rule 4754(b)(6).

<sup>4</sup> “Nasdaq Closing Cross” shall mean the process for determining the price at which orders shall be executed at the close and for executing those orders. See Rule 4754(a).

Sun Kim  
Associate General Counsel  
Nasdaq, Inc.  
(646) 420-7816

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 amend Rule 4754 to introduce price protections for the LULD Closing Cross that are similar to the protections currently employed by the standard Nasdaq Closing Cross, and to make other changes related to the LULD Closing Cross. With the proposed changes, the Exchange's LULD and standard Closing Cross processes will be more harmonized, which the Exchange believes will promote a more consistent experience for members and investors participating in the close and reduce any potential confusion regarding Nasdaq's closing processes.

Background

The Nasdaq Closing Cross is a transparent auction process that determines a single price for the close. The price determined by the Closing Cross is also the Nasdaq Official Closing Price ("NOCP") for securities that participate in the cross. Members can submit Limit on Close ("LOC") Orders,<sup>5</sup> Market on Close ("MOC") Orders,<sup>6</sup> and

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<sup>5</sup> A "Limit On Close Order" or "LOC Order" is an Order Type entered with a price that may be executed only in the Nasdaq Closing Cross, and only if the price determined by the Nasdaq Closing Cross is equal to or better than the price at which the LOC Order was entered. See Rule 4702(b)(12).

<sup>6</sup> A "Market On Close Order" or "MOC Order" is an Order Type entered without a price that may be executed only during the Nasdaq Closing Cross. See Rule 4702(b)(11).

Imbalance Only (“IO”) Orders<sup>7</sup> that are available to participate in the Closing Cross along with other Close Eligible Interest.<sup>8</sup> At 4:00 p.m. ET, the Exchange will execute the Nasdaq Closing Cross at a price determined in accordance with Rule 4754(b)(2).

When the Closing Cross price is calculated as described in Rule 4754(b)(2), the Exchange applies a boundary within which the cross must execute to ensure that the closing price derived does not exceed a price reasonably tied to the prevailing market at the time. Specifically, the Exchange applies a threshold amount to a benchmark value that, when applied to an individual security, determines the threshold price range that a security may cross, outside of which the closing price of a security may not occur.<sup>9</sup> If the Closing Cross price of a security would otherwise be outside of this threshold range, the Exchange will adjust the Closing Cross price of the security to a price within the threshold range that best satisfies the normal process for determining the Closing Cross price.<sup>10</sup> This adjustment happens automatically prior to execution of the Closing Cross. All unexecuted shares designated to expire upon the conclusion of the Closing Cross,<sup>11</sup> including those that fall outside of the calculated threshold price range, are cancelled.

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<sup>7</sup> An "Imbalance Only Order" or "IO Order" is an Order entered with a price that may be executed only in the Nasdaq Closing Cross and only against MOC Orders or LOC Orders. See Rule 4702(b)(13).

<sup>8</sup> "Close Eligible Interest" shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of SDAY, SGTC, MDAY, MGTC, SHEX, or GTMC. See Rule 4754(a)(1).

<sup>9</sup> See Rule 4754(b)(2)(E).

<sup>10</sup> See Rules 4754(b)(2)(A) – (D).

<sup>11</sup> These are: MOC, LOC, and IO Orders designated to participate in the Closing Cross. Prior to the Closing Cross, the Exchange maintains a continuous order book and a Closing Cross order book. Orders in the Closing Cross order book may execute only in the Closing Cross process, while Orders in the continuous

The threshold amounts and benchmarks are set by Nasdaq management in advance and communicated to market participants. Nasdaq may adjust the threshold amounts and benchmarks from time to time based on Nasdaq's experience with the Closing Cross. Nasdaq publishes this information publicly on its website, and sets the threshold amount so that repricing of a security is rare.<sup>12</sup> Currently, Nasdaq applies a threshold amount that is the greater of \$0.50 or 10%, which is applied to the Nasdaq Best Bid and Offer ("QBBO") midpoint and is added to the Nasdaq Offer and subtracted from the Nasdaq Bid to establish the threshold range. For example, if the QBBO is \$10.00 x \$11.00, then the midpoint is \$10.50 and the threshold amount is 10%, resulting in a threshold value of \$1.05 (10% of 10.50 = 1.05). This value is then added to the offer and subtracted from the bid to obtain the Closing Cross's threshold price range. In this example, it would result in a lower threshold of \$8.95 ( $10.00 - 1.05 = 8.95$ ) and an upper threshold of \$12.05 ( $11.00 + 1.05 = 12.05$ ), thus creating a range between \$8.95 to \$12.05, within which the Closing Cross can occur. This means \$8.95 is the lowest price at which the cross can occur, and \$12.05 is the highest price at which it can occur. The threshold range is dynamic; as the QBBO changes, the threshold price range changes. The Exchange believes that the foregoing price thresholds for the standard Closing Cross has been effective at facilitating price discovery and ensuring that the closing price of a security is reasonably based on current market conditions in the security, and therefore proposes to adopt similar thresholds for its LULD Closing Cross.

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book may execute in regular market hours or in the Closing Cross if the Order has a time-in-force that will allow it to remain active.

<sup>12</sup>

See  
[http://www.nasdaqtrader.com/content/ProductsServices/Trading/Crosses/open\\_close\\_faqs.pdf](http://www.nasdaqtrader.com/content/ProductsServices/Trading/Crosses/open_close_faqs.pdf).

Today, in addition to the standard Nasdaq Closing Cross described above, the Exchange operates a LULD Closing Cross that provides an alternative process for executing closing trades on Nasdaq. The Exchange conducts this process (instead of the standard Closing Cross) for Nasdaq-listed securities when a Trading Pause pursuant to Rule 4120(a)(12) exists at or after 3:50 p.m. and before 4:00 p.m. ET.<sup>13</sup> The LULD Closing Cross price will be the NOCP for Nasdaq-listed securities that participate in the LULD Closing Cross. Unlike the standard Closing Cross, the LULD Closing Cross currently occurs at 4:00 p.m. ET, with no price thresholds, and may be extended pursuant to Rule 4754(b)(6)(A)(iii) if there is an order imbalance. In this case, the Exchange would extend the time of the LULD Closing Cross in one minute increments until the order imbalance no longer exists.<sup>14</sup> If this condition persists until 5:00 p.m., Nasdaq would not conduct a cross in that security and would instead use the last-sale on Nasdaq as the NOCP in that security for that trading day.

#### Price Thresholds

The Exchange now proposes to introduce price protections to the LULD Closing Cross that will be similar to the protections used today for the standard Closing Cross, and will ensure that the LULD Closing Cross price is reasonably related to current market conditions.

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<sup>13</sup> See Rule 4754(b)(6). While the current language indicates that the “stock” will resume trading via the LULD Closing Cross, the Exchange will amend this Rule to make clear that the LULD Closing Cross will apply only for Nasdaq-listed securities.

<sup>14</sup> Specifically, if the expected cross price moves the greater of 5% or 50 cents, or if all market orders will not be executed in the cross, Nasdaq will delay the execution of the LULD Closing Cross pursuant to Rule 4754(b)(6)(A)(iii). These volatility checks are governed by Rule 4120(c)(7)(C).

The proposed price thresholds will be calculated by applying a threshold amount set by Nasdaq management in advance and communicated to market participants (“LULD Price Thresholds”). The LULD Price Thresholds, like the thresholds presently used for the standard Closing Cross, will be published on Nasdaq’s public website. The LULD Price Thresholds will be applied to a benchmark associated with the LULD Band that triggered the Trading Pause to calculate the benchmark price range within which the LULD Closing Cross price must fall (“Benchmark Prices”). The Benchmark Prices will be published via the SIP and Exchange proprietary data feeds. Nasdaq will initially set the LULD Price Thresholds at the greater of \$1.00 or 10% for securities with a reference price greater than \$1.00 (or \$0.50 for securities with a benchmark equal to or less than \$1.00), which will be applied to the last disseminated LULD Auction Collar, or the LULD Band that triggered the Trading Pause in the direction of the trading that invoked the Trading Pause.

To effect these changes, the Exchange proposes in new paragraph (E) of Rule 4754(b)(6)<sup>15</sup> to provide that the Benchmark Prices within which the LULD Closing Cross price must fall is established by adding (or subtracting) a threshold amount from the:

- (i) Upper (or lower) Auction Collar that was last updated for any security that enters a Trading Pause that was extended prior to 3:50 p.m. ET, rounded to the nearest minimum price increment;
- (ii) Upper Auction Collar for a Limit Up triggered pause (or lower Auction Collar for a Limit Down triggered pause) for any security that entered a Trading Pause that was not extended prior to 3:50 p.m. ET, rounded to the nearest minimum price increment; or

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<sup>15</sup> With the proposed change, current paragraphs (C) and (D) will be renumbered as paragraphs (F) and (G).



(ii) Upper Band for a Limit Up triggered pause (or Lower Band for a Limit Down triggered pause) for any security that entered a Trading Pause at or after 3:50 p.m. ET, rounded to the nearest minimum price increment.

Nasdaq management shall set and modify such thresholds from time to time upon prior notice to market participants.

As applied, for securities that entered a Trading Pause prior to 3:50 p.m. ET and for which the Trading Pause was subsequently extended, the Exchange will calculate the lower and upper Benchmark Prices as follows:

- If the lower Auction Collar was the collar that was last widened for the security subject to the Trading Pause, the lower Benchmark Price will be calculated by subtracting 10% of the last updated lower Auction Collar price (or \$1.00 (or \$0.50 if the lower Auction Collar price is equal to or below \$1.00), whichever is greater) from the last updated lower Auction Collar price (rounded to the nearest minimum price increment). The upper Benchmark Price will be equal to the last updated upper Auction Collar price that was updated with the lower Auction Collar price used to calculate the lower Benchmark Price.
- If the upper Auction Collar was the collar that was last widened for the security subject to the Trading Pause, the upper Benchmark Price will be calculated by adding 10% of the last updated upper Auction Collar price (or \$1.00 (or \$0.50 if the upper Auction Collar price is equal to or below \$1.00), whichever is greater) to the last updated upper Auction Collar price (rounded to the nearest minimum price increment). The lower Benchmark Price will be equal to the last updated lower Auction Collar price that was updated with the upper Auction Collar price used to calculate the upper Benchmark Price.

For securities that entered a Trading Pause that was not extended prior to 3:50 p.m. ET,<sup>16</sup> the Exchange will calculate the lower and upper Benchmark Prices as follows:

- For a Limit Down triggered pause, the lower Benchmark Price will be calculated by subtracting 10% of the lower Auction Collar price (or \$1.00 (or \$0.50 if the lower Auction Collar price is equal to or below \$1.00), whichever is greater) from the lower Auction Collar price (rounded to the nearest minimum price increment). The upper Benchmark Price will be equal to the upper Auction Collar price that was disseminated with the lower Auction Collar price used to calculate the lower Benchmark Price.
- For a Limit Up triggered pause, the upper Benchmark Price will be calculated by adding 10% of the upper Auction Collar price (or \$1.00 (or \$0.50 if the upper Auction Collar price is equal to or below \$1.00), whichever is greater) to the upper Auction Collar price (rounded to the nearest minimum price increment). The lower Benchmark Price will be equal to the lower Auction Collar price that was disseminated with the upper Auction Collar price used to calculate the upper Benchmark Price.

For securities that entered a Trading Pause at or after 3:50 p.m. ET, the Exchange will calculate the lower and upper Benchmark Prices as follows:

- For a Limit Down triggered pause, the lower Benchmark Price will be calculated by subtracting 10% of the Lower LULD Band (or \$1.00 (or \$0.50 if the Lower LULD Band is equal to or below \$1.00), whichever is greater) from the Lower

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<sup>16</sup> This would occur if, for example, a security entered a Trading Pause between 3:45 and 3:50 p.m. ET, and the LULD Auction Collar had not yet been updated.

LULD Band (rounded to the nearest minimum price increment). The upper Benchmark Price will be equal to Upper LULD Band in place at the time the Trading Pause was triggered.

- For a Limit Up triggered pause, the upper Benchmark Price will be calculated by adding 10% of the Upper LULD Band (or \$1.00 (or \$0.50 if the Upper LULD Band is equal to or below \$1.00), whichever is greater) to the Upper LULD Band (rounded to the nearest minimum price increment). The lower Benchmark Price will be equal to Lower LULD Band in place at the time the Trading Pause was triggered.

At 4:00 p.m. ET, Nasdaq will conduct the LULD Closing Cross, and if the cross price would fall outside of the Benchmark Prices as calculated above, the LULD Closing Cross will execute all available orders at a price within or equal to the Benchmark Prices. Any unexecuted orders intended for the Closing Cross (i.e., MOC, LOC, and IO Orders), including those that fall outside of the Benchmark Prices, will be cancelled. This will be similar to the current standard Closing Cross functionality as described above. All other orders not executed in the LULD Closing Cross will be processed according to the entering firm's instructions, consistent with the current LULD Closing Cross rule.

The following illustrate how the proposed Benchmark Prices will be calculated:

***Example 1: Security Enters Trading Pause prior to 3:50 p.m.***

Assume:

Symbol ABC is a Tier 1 security  
Last sale/reference price: \$100  
LULD price bands: \$95 X \$105

NBBO updates to \$94.50 X \$95

At 3:38 p.m., Symbol ABC enters a Trading Pause

LULD Auction Collars calculated:

Upper Collar: \$105  
Lower Collar: \$90.25

At 3:43 p.m., due to a market order imbalance, the LULD halt cross will not occur and the LULD Auction Collars (1<sup>st</sup> extension) are calculated:

Upper Collar: \$105  
Lower Collar: \$85.50

At 3:48 p.m., due to a market order imbalance, the LULD halt cross will not occur and the LULD Auction Collars (2<sup>nd</sup> extension) are calculated:

Upper Collar: \$105  
Lower Collar: \$80.75

At 3:50 p.m., the security enters a LULD Closing Cross and the Benchmark Prices will be calculated:

Upper Benchmark Price: \$105  
Lower Benchmark Price: \$72.68

Here, the lower Auction Collar is the collar that was widened in the last dissemination of the LULD Auction Collars message, so the Benchmark Prices will be calculated from the last updated lower Auction Collar (\$80.75). The threshold amount is 8.075 (10% of  $80.75 = 8.075$ ), which is subtracted from the last updated Auction Collar (rounded to the nearest price increment) to calculate the lower Benchmark Price of 72.68 ( $80.75 - 8.075 = 72.675$ ) (i.e., 72.68 when rounded to the nearest price increment). The upper Benchmark Price of \$105 is equal to the last updated upper Auction Collar price that was

disseminated with the lower Auction Collar price used to calculate the lower Benchmark Price. Thus, \$72.68 is the lowest price at which the LULD Closing Cross can occur, and \$105 is the highest price at which the cross can occur.

***Example 2: Security Enters Trading Pause after 3:50 p.m.***

Assume:

Symbol ABC is a Tier 1 security  
Last sale/reference price: \$100  
LULD price bands: \$95 X \$105

NBBO updates to \$94.50 X \$95

At 3:53 p.m., Symbol ABC enters a Trading Pause and will go through a LULD Closing Cross. The Benchmark Prices will be calculated:

Upper Benchmark Price: \$105  
Lower Benchmark Price: \$85.50

Here, the security entered a Limit Down triggered pause, so the Benchmark Prices will be calculated from the Lower LULD Band (\$95). The threshold amount is 9.50 (10% of 95 = 9.50), which is subtracted from the Lower LULD Band to calculate the lower Benchmark Price of 85.50 ( $95 - 9.50 = 85.50$ ). The upper Benchmark Price of \$105 is equal to the Upper LULD Band in place at the time the Trading Pause was triggered. Thus, \$85.50 is the lowest price at which the LULD Closing Cross can occur, and \$105 is the highest price at which the cross can occur.

Execution Processing

In connection with the changes proposed above to introduce price protections for the LULD Closing Cross, the Exchange proposes to amend the methodology for

determining the LULD cross price. Specifically, the Exchange proposes the following in new paragraph (D) of Rule 4754(b)(6):

(D)(i) The LULD Closing Cross will occur at the price within the benchmark prices established pursuant to paragraph (E) below (“Benchmark Prices”) that maximizes the number of shares of Eligible Interest in the Nasdaq Market Center to be executed.

(ii) If more than one price exists under subparagraph (i), the LULD Closing Cross shall occur at the price within the Benchmark Prices that minimizes any Imbalance.

(iii) If more than one price exists under subparagraph (ii), the LULD Closing Cross shall occur at the entered price within the Benchmark Prices at which shares will remain unexecuted in the cross.

(iv) If there is no price within the Benchmark Prices that satisfies the above conditions, then the LULD Closing Cross shall occur at:

(a) if an Imbalance exists, a price equal to the upper (lower) Benchmark Price for a buy (sell) Imbalance; or

(b) if no Imbalance exists, a price that minimizes the distance from the last published Upper Band (Lower Band) for a Limit Up (Limit Down) Trading Pause.

Today, the LULD Closing Cross price is determined by the same execution algorithm as currently used by the standard Closing Cross.<sup>17</sup> As discussed below, the proposed execution algorithm retains many aspects of the standard cross methodology with certain intended differences.

The first tiebreaker in new paragraph (D)(i) will be substantially similar to the existing tiebreaker in Rule 4754(b)(2)(A),<sup>18</sup> except that the proposed language will

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<sup>17</sup> See Rule 4754(b)(2)(A) – (D).

<sup>18</sup> Rule 4754(b)(2)(A) currently provides that 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.

specify the LULD cross price must also fall within the proposed Benchmark Prices established pursuant to new paragraph (E) of Rule 4754(b)(6). In connection with this change, the Exchange also proposes to add a definition for “Eligible Interest,” which is currently undefined in this Rule. Specifically, the Exchange proposes to add in new paragraph (A)(i) of Rule 4754(b)(6) that for purposes of the LULD Closing Cross rule, Eligible Interest shall have the same meaning as “Close Eligible Interest” in Rule 4754(a), with the addition of any new orders, with an eligible underlying Order Type and Attribute, entered during the Trading Pause. The proposed change reflects current system behavior, and indicates that there is an additional category of orders that may participate in the LULD Closing Cross (i.e., new incoming orders, with an eligible underlying Order Type and Attribute, entered during the Trading Pause), which are not fully applicable in the context of the standard close. The Exchange therefore believes that using the proposed definition throughout the LULD Closing Cross rule (instead of “Close Eligible Interest” as currently used in the standard Closing Cross) will better align the rule to the current operation of the system.

The second tiebreaker in new paragraph (D)(ii) will be based on the same principle as the existing tiebreaker in Rule 4754(b)(2)(B) (i.e., to minimize the number of shares that cannot be matched in the cross).<sup>19</sup> However, the new tiebreaker will specify that the LULD Closing Cross price must be within the proposed Benchmark Prices and at the price that minimizes any Imbalance, which will be defined in new paragraph (A)(ii) of Rule 4754(b)(6) as the number of shares of buy or sell MOC or LOC orders or Eligible

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<sup>19</sup> Rule 4754(b)(2)(B) currently provides that if more than one price exists under subparagraph (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.

Interest that cannot be matched with other MOC, LOC, or IO order shares or Eligible Interest at a particular price at any given time. The Exchange notes that the proposed change to state that the LULD cross price must minimize any Imbalance within the second tiebreaker is a corrective change to more accurately reflect how the system in the LULD Closing Cross currently behaves. Specifically, the change addresses that during a LULD Closing Cross, the Exchange considers all orders when calculating the Imbalance, whereas the standard Closing Cross considers orders specifically designated for participation in the Closing Cross (i.e., MOC, LOC, or IO orders). This reflects current system behavior, which automatically designates all orders (whether resting on the book, or new incoming orders entered during the cross) for participation in LULD Closing Cross.

The third tiebreaker in new paragraph (D)(iii) will be substantially similar to the existing tiebreaker in Rule 4754(b)(2)(C),<sup>20</sup> except that the proposed language will specify the LULD cross price must also fall within the proposed Benchmark Prices.

The fourth and final tiebreaker in new paragraph (D)(iv) will be used if there is no price within the proposed Benchmark Prices that satisfies the conditions described above in (D)(i) – (iii), and speaks to two possible outcomes. The first outcome is reached when an Imbalance exists, in which case the LULD cross price would be the upper (lower) Benchmark Price for a buy (sell) Imbalance. The Exchange believes that this outcome is the appropriate result in the presence of an Imbalance as it best reflects current market forces while also making it clear to market participants that the imbalance exists. The

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<sup>20</sup> Rule 4754(b)(2)(C) currently provides that if more than one price exists under subparagraph (B), the Nasdaq Closing Cross shall occur at the entered price at which shares will remain unexecuted in the cross.



second outcome is reached when there is no Imbalance, in which case the LULD Closing Cross would occur at a price that minimizes the distance from the last published Upper Band (Lower Band) for a Limit Up (Limit Down) Trading Pause. This tiebreaker is similar to the existing tiebreaker in Rule 4754(b)(2)(D)<sup>21</sup> in that the price that minimizes the distance from the last published Upper or Lower Band is effectively considered the midpoint price for the LULD Closing Cross. Unlike the existing tiebreaker, which uses the price that minimizes the distance from the System bid-ask midpoint, the proposed tiebreaker will use the relevant LULD Band. The Exchange believes this is the more appropriate result because unlike a standard Closing Cross, there is no continuous market just prior to the execution of the LULD Closing Cross, so using the relevant LULD Band more accurately reflects current market conditions as opposed to the System bid-ask midpoint.

#### Timing of LULD Closing Cross

The Exchange also proposes to amend the LULD Closing Cross Rule to remove all provisions relating to extending the cross past 4:00 p.m. ET as this language will no longer be necessary with the changes proposed herein. In particular, the Exchange proposes to delete Rule 4754(b)(6)(A)(iii) as this provision relates to how the Exchange would extend the time of the LULD Closing Cross. Further, the Exchange proposes to amend current Rule 4754(b)(6)(C)(iii) (renumbered to Rule 4754(b)(6)(D)(iii) under this proposal) to delete the last two sentences, which provide how certain new orders may be entered or modified after 4:00 p.m. ET.

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<sup>21</sup> Rule 4754(b)(2)(D) currently provides that if more than one price exists under subparagraph (C), the Nasdaq Closing Cross shall occur at: a price that minimizes the distance from the System bid-ask midpoint at the time of the Nasdaq Closing Cross.

### MOC/LOC/IO Order Handling

The Exchange also proposes other aligning changes to the LULD Closing Cross that would more closely harmonize this process with the current standard Closing Cross. In Rule 4754(b)(6)(C)(iii) (renumbered to Rule 4754(b)(6)(D)(iii)), the Exchange proposes to remove the parenthetical that excludes MOC and LOC orders from being entered, modified, and cancelled in the LULD Closing Cross. The Exchange proposes to allow MOC and LOC orders to participate in the LULD Closing Cross in order to align with the regular Closing Cross where such orders may participate pursuant to Rules 4702(b)(11) and 4702(b)(12). The Exchange similarly proposes to allow IO orders to participate in the LULD Closing Cross in the same manner as in the regular Closing Cross (i.e., pursuant to Rule 4702(b)(13)). Accordingly, the Exchange will add that MOC, LOC and IO orders may be entered, modified, and cancelled pursuant to Rules 4702(b)(11), 4702(b)(12) and 4702(b)(13). The Exchange will also delete current Rule 4754(b)(6)(C)(i), which sets forth special handling instructions for MOC, LOC, and IO orders in an LULD Closing Cross. In particular, this Rule stipulates that in the event of an LULD Closing Cross, MOC, LOC and IO orders intended for the closing cross entered into the system and placed on the book prior to the Trading Pause will remain on the book to participate in the LULD Closing Cross, and that such orders may not be modified or cancelled. With the proposed changes to allow MOC, LOC, and IO orders to participate in the LULD Closing Cross in the same way as a standard Closing Cross, this provision is no longer necessary.

### Net Order Imbalance Indicator

The Exchange proposes to amend Rule 4754(b)(6)(B), which governs the Net Order Imbalance Indicator (“NOII”) message for the LULD Closing Cross and disseminates information about MOC, LOC, IO, and Close Eligible Interest and the price at which those orders would execute at the time of dissemination. The Rule currently provides that Nasdaq shall continue disseminating the NOII every second until After Hours Trading begins. The Exchange notes, however, that it recently updated its Closing Cross to allow for the dissemination of abbreviated NOII data (i.e., Early Order Imbalance Indicator)<sup>22</sup> every 10 seconds between 3:50 p.m. ET and 3:55 p.m. ET, which would be followed by the dissemination of regular NOII data between 3:55 and market close.<sup>23</sup> This change should have been reflected in the LULD Closing Cross rule in Rule 4754(b)(6)(B) as well. Accordingly, the Exchange proposes to amend the Rule to more accurately reflect current System behavior, and provide that Nasdaq shall continue disseminating the NOII pursuant to Rule 4754(b)(1) until After Hours Trading begins.

The Rule also indicates that the NOII message displays the Near Price, Far Price, and Reference Prices, which all currently represent the price at which the LULD Closing Cross would execute should the cross conclude at that time. With the proposed changes to implement the new Benchmark Prices, the Near Price and Reference Price will both represent the price at which the LULD Closing Cross would execute, bounded by the Benchmark Prices, at the time of dissemination. The Far Price will represent the price at

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<sup>22</sup> "Early Order Imbalance Indicator" shall mean a message disseminated by electronic means containing the same information as the Order Imbalance Indicator, except that it will exclude information about indicative prices, as set forth in subparagraph (a)(7)(E) of Rule 4754. See Rule 4754(a)(10).

<sup>23</sup> See Securities Exchange Act Release No. 85292 (March 12, 2019), 84 FR 9848 (March 18, 2019) (SR-NASDAQ-2019-010).

which the LULD Closing Cross would execute if the cross were not bounded by the Benchmark Prices. The Far Price will be different from the Near Price and Reference Price to indicate that not all marketable orders can be filled within the Benchmark Prices. To effect this change, Rule 4754(b)(6)(B) will be amended to provide that the Near Price and Reference Prices contained in the NOII will represent the price at which the LULD Closing Cross would execute should the cross conclude at that time, and the Far Price will represent the price at which Eligible Interest would execute.

#### Corrective Changes

The Exchange proposes a corrective change in Rule 4754(b)(6)(A)(i), which currently contains language relating to Trading Pauses “triggered” at or after 3:50 and before 4:00 p.m. The Exchange previously amended paragraph (b)(6) of Rule 4754 in 2017 to provide that the cross is employed when a Trading Pause exists at or after 3:50 and before 4:00 p.m., but inadvertently did not make a similar change in paragraph (b)(6)(A)(i) of this Rule.<sup>24</sup> The Exchange now proposes to amend this provision accordingly.

Lastly, the Exchange proposes to update obsolete cross-cites to Rule 4751 within Rules 4756(c)(3)(B) and 4763(b). Rule 4751 was previously relocated as part of a prior rule filing, so the proposed changes will update the obsolete references to their current locations in the Rulebook.<sup>25</sup>

#### b. Statutory Basis

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<sup>24</sup> See Securities Exchange Act Release No. 79876 (January 25, 2017), 82 FR 8888 (January 31, 2017) (SR-NASDAQ-2016-131).

<sup>25</sup> See Securities Exchange Act Release No. 75252 (June 22, 2015), 80 FR 36865 (June 26, 2015) (SR-NASDAQ-2015-024).

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>26</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>27</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.

The Exchange believes that its proposal will promote just and equitable principles of trade because it will implement price protections for the LULD Closing Cross that are similar to the protections used today for the standard Closing Cross. As explained above, the Exchange currently calculates and applies a price threshold range within which the standard Closing Cross must execute. The Exchange believes that this mechanism has been effective in facilitating a fair and orderly price discovery process at the close, and ensuring that the cross price derived does not exceed a price reasonably tied to the prevailing market at the time. The Exchange has therefore determined to apply similar protections for the LULD Closing Cross. The Exchange believes that its proposal will benefit members and investors by facilitating price discovery. Additionally, introducing price protections to the LULD Closing Cross in the manner discussed above will further harmonize the Exchange's LULD and standard Closing Cross processes, thereby promoting a more consistent experience for members and investors, and reducing any potential confusion regarding Nasdaq's closing processes. The Exchange believes that calculating price thresholds associated with the LULD band that triggered the Trading Pause as discussed above will ensure that the LULD Closing Cross executes at a

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<sup>26</sup> 15 U.S.C. 78f(b).

<sup>27</sup> 15 U.S.C. 78f(b)(5).

reasonable level relative to the last disseminated LULD Auction Collar, or the LULD band itself, thereby mitigating price dislocations in the cross. The Exchange also believes that allowing members to enter, modify and cancel new MOC, LOC and IO orders pursuant to Rules 4702(b)(11), 4702(b)(12), and 4702(b)(13) in the LULD Closing Cross will keep these close order type functionality consistent with the standard close behavior, and will facilitate a more efficient closing auction by allowing additional interest to participate in the close.

The Exchange believes that the amended execution algorithm for the LULD Closing Cross is consistent with the Act because it is substantially similar to the execution logic that is used for the cross today, with certain intended differences. The proposed tiebreakers in new paragraphs (D)(i) – (iii) of Rule 4754(b)(6) are designed to preserve to the extent possible the current tiebreakers in paragraphs (B)(2)(A) – (C) of Rule 4754(b)(2) while accommodating the proposed Benchmark Prices. The proposed changes to add the definitions of Eligible Interest and Imbalance as used in the proposed first and second tiebreakers are consistent with the protection of investors and the public interest because these changes will more accurately describe how the LULD Closing Cross price will be determined pursuant to the tiebreakers in proposed Rule 4754(b)(6)(A) and (B). As it relates to the fourth tiebreaker proposed in new paragraph (D)(iv) of Rule 4754(b)(6), the Exchange believes that using the Benchmark Price in the presence of an Imbalance is appropriate and best reflects current market forces while also making it clear to market participants that the Imbalance exists. The Exchange also believes that using the price that minimizes the distance from the last published LULD Band more accurately reflects current market conditions as opposed to using the existing

tiebreaker based on the System bid-ask midpoint as there is no continuous market just prior to the execution of the LULD Closing Cross.

With respect to not extending a LULD Closing Cross past 4:00 p.m. ET, the Exchange believes that the clarity that comes from requiring that the LULD Closing Cross occur at 4:00 p.m. ET will help reduce uncertainty for members participating in the cross. While the Exchange recognizes the reasons for extending the LULD Closing Cross may exist where there are unmatched market orders or dramatic price movements during the cross, the Exchange believes based on its experience with the cross that these concerns are outweighed by the importance of providing members and the investing public with a definitive market close and a NOCP at 4:00 p.m. ET. Taken together with the proposed price thresholds, the Exchange believes that the LULD Closing Cross process, as amended, will reduce unnecessary confusion by providing certainty that the LULD Closing Cross will occur at a specified time, and will occur at a price that is reasonably based on current market conditions.

The Exchange also believes that it is appropriate to amend Rule 4754(b)(6)(B) to specify the contents of the NOII message for LULD Closing Cross. The proposed changes will bring greater transparency around what information is disseminated for the LULD Closing Cross, and is therefore consistent with the public interest and the protection of investors.

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. Today, the standard Nasdaq Closing Cross provides a transparent auction process for executing member interest at the close. The proposed rule change is designed to

further align the Exchange's LULD Closing Cross with the standard Closing Cross to promote a more consistent experience for members and investors, and reducing any potential confusion regarding Nasdaq's closing processes. Further, the proposed changes will allow additional interest (i.e. new MOC, LOC, and IO orders) to participate in the LULD Closing Cross, and thereby provide a more efficient process for executing closing interest, and enhancing price discovery during the close.

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

The Exchange does not consent to an extension of the time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

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-2021-009)

February \_\_, 2021

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Rule 4754

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 February 11, 2021, 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 4754 to introduce price protections for the Limit-Up Limit-Down (“LULD”) Closing Cross<sup>3</sup> that are similar to the protections

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

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

<sup>3</sup> The LULD Closing Cross is the Exchange’s auction process for executing closing trades in Nasdaq-listed securities when a Trading Pause pursuant to Rule 4120(a)(12) exists at or after 3:50 p.m. and before 4:00 p.m. ET. See Rule 4754(b)(6).

currently employed by the standard Nasdaq Closing Cross,<sup>4</sup> and to make other changes related to the LULD Closing Cross.

The text of the proposed rule change is available on the Exchange's Website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, 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 amend Rule 4754 to introduce price protections for the LULD Closing Cross that are similar to the protections currently employed by the standard Nasdaq Closing Cross, and to make other changes related to the LULD Closing Cross. With the proposed changes, the Exchange's LULD and standard Closing Cross processes will be more harmonized, which the Exchange believes will promote a more consistent experience for members and investors participating in the close and reduce any potential confusion regarding Nasdaq's closing processes.

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<sup>4</sup> "Nasdaq Closing Cross" shall mean the process for determining the price at which orders shall be executed at the close and for executing those orders. See Rule 4754(a).

### Background

The Nasdaq Closing Cross is a transparent auction process that determines a single price for the close. The price determined by the Closing Cross is also the Nasdaq Official Closing Price (“NOCP”) for securities that participate in the cross. Members can submit Limit on Close (“LOC”) Orders,<sup>5</sup> Market on Close (“MOC”) Orders,<sup>6</sup> and Imbalance Only (“IO”) Orders<sup>7</sup> that are available to participate in the Closing Cross along with other Close Eligible Interest.<sup>8</sup> At 4:00 p.m. ET, the Exchange will execute the Nasdaq Closing Cross at a price determined in accordance with Rule 4754(b)(2).

When the Closing Cross price is calculated as described in Rule 4754(b)(2), the Exchange applies a boundary within which the cross must execute to ensure that the closing price derived does not exceed a price reasonably tied to the prevailing market at the time. Specifically, the Exchange applies a threshold amount to a benchmark value that, when applied to an individual security, determines the threshold price range that a security may cross, outside of which the closing price of a security may not occur.<sup>9</sup> If the

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<sup>5</sup> A "Limit On Close Order" or "LOC Order" is an Order Type entered with a price that may be executed only in the Nasdaq Closing Cross, and only if the price determined by the Nasdaq Closing Cross is equal to or better than the price at which the LOC Order was entered. See Rule 4702(b)(12).

<sup>6</sup> A "Market On Close Order" or "MOC Order" is an Order Type entered without a price that may be executed only during the Nasdaq Closing Cross. See Rule 4702(b)(11).

<sup>7</sup> An "Imbalance Only Order" or "IO Order" is an Order entered with a price that may be executed only in the Nasdaq Closing Cross and only against MOC Orders or LOC Orders. See Rule 4702(b)(13).

<sup>8</sup> "Close Eligible Interest" shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of SDAY, SGTC, MDAY, MGTC, SHEX, or GTMC. See Rule 4754(a)(1).

<sup>9</sup> See Rule 4754(b)(2)(E).

Closing Cross price of a security would otherwise be outside of this threshold range, the Exchange will adjust the Closing Cross price of the security to a price within the threshold range that best satisfies the normal process for determining the Closing Cross price.<sup>10</sup> This adjustment happens automatically prior to execution of the Closing Cross. All unexecuted shares designated to expire upon the conclusion of the Closing Cross,<sup>11</sup> including those that fall outside of the calculated threshold price range, are cancelled.

The threshold amounts and benchmarks are set by Nasdaq management in advance and communicated to market participants. Nasdaq may adjust the threshold amounts and benchmarks from time to time based on Nasdaq's experience with the Closing Cross. Nasdaq publishes this information publicly on its website, and sets the threshold amount so that repricing of a security is rare.<sup>12</sup> Currently, Nasdaq applies a threshold amount that is the greater of \$0.50 or 10%, which is applied to the Nasdaq Best Bid and Offer ("QBBO") midpoint and is added to the Nasdaq Offer and subtracted from the Nasdaq Bid to establish the threshold range. For example, if the QBBO is \$10.00 x \$11.00, then the midpoint is \$10.50 and the threshold amount is 10%, resulting in a threshold value of \$1.05 (10% of 10.50 = 1.05). This value is then added to the offer and subtracted from the bid to obtain the Closing Cross's threshold price range. In this

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<sup>10</sup> See Rules 4754(b)(2)(A) – (D).

<sup>11</sup> These are: MOC, LOC, and IO Orders designated to participate in the Closing Cross. Prior to the Closing Cross, the Exchange maintains a continuous order book and a Closing Cross order book. Orders in the Closing Cross order book may execute only in the Closing Cross process, while Orders in the continuous book may execute in regular market hours or in the Closing Cross if the Order has a time-in-force that will allow it to remain active.

<sup>12</sup> See [http://www.nasdaqtrader.com/content/ProductsServices/Trading/Crosses/open\\_close\\_faqs.pdf](http://www.nasdaqtrader.com/content/ProductsServices/Trading/Crosses/open_close_faqs.pdf).

example, it would result in a lower threshold of \$8.95 ( $10.00 - 1.05 = 8.95$ ) and an upper threshold of \$12.05 ( $11.00 + 1.05 = 12.05$ ), thus creating a range between \$8.95 to \$12.05, within which the Closing Cross can occur. This means \$8.95 is the lowest price at which the cross can occur, and \$12.05 is the highest price at which it can occur. The threshold range is dynamic; as the QBBO changes, the threshold price range changes. The Exchange believes that the foregoing price thresholds for the standard Closing Cross has been effective at facilitating price discovery and ensuring that the closing price of a security is reasonably based on current market conditions in the security, and therefore proposes to adopt similar thresholds for its LULD Closing Cross.

Today, in addition to the standard Nasdaq Closing Cross described above, the Exchange operates a LULD Closing Cross that provides an alternative process for executing closing trades on Nasdaq. The Exchange conducts this process (instead of the standard Closing Cross) for Nasdaq-listed securities when a Trading Pause pursuant to Rule 4120(a)(12) exists at or after 3:50 p.m. and before 4:00 p.m. ET.<sup>13</sup> The LULD Closing Cross price will be the NOCP for Nasdaq-listed securities that participate in the LULD Closing Cross. Unlike the standard Closing Cross, the LULD Closing Cross currently occurs at 4:00 p.m. ET, with no price thresholds, and may be extended pursuant to Rule 4754(b)(6)(A)(iii) if there is an order imbalance. In this case, the Exchange would extend the time of the LULD Closing Cross in one minute increments until the

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<sup>13</sup> See Rule 4754(b)(6). While the current language indicates that the “stock” will resume trading via the LULD Closing Cross, the Exchange will amend this Rule to make clear that the LULD Closing Cross will apply only for Nasdaq-listed securities.

order imbalance no longer exists.<sup>14</sup> If this condition persists until 5:00 p.m., Nasdaq would not conduct a cross in that security and would instead use the last-sale on Nasdaq as the NOCP in that security for that trading day.

#### Price Thresholds

The Exchange now proposes to introduce price protections to the LULD Closing Cross that will be similar to the protections used today for the standard Closing Cross, and will ensure that the LULD Closing Cross price is reasonably related to current market conditions.

The proposed price thresholds will be calculated by applying a threshold amount set by Nasdaq management in advance and communicated to market participants (“LULD Price Thresholds”). The LULD Price Thresholds, like the thresholds presently used for the standard Closing Cross, will be published on Nasdaq’s public website. The LULD Price Thresholds will be applied to a benchmark associated with the LULD Band that triggered the Trading Pause to calculate the benchmark price range within which the LULD Closing Cross price must fall (“Benchmark Prices”). The Benchmark Prices will be published via the SIP and Exchange proprietary data feeds. Nasdaq will initially set the LULD Price Thresholds at the greater of \$1.00 or 10% for securities with a reference price greater than \$1.00 (or \$0.50 for securities with a benchmark equal to or less than \$1.00), which will be applied to the last disseminated LULD Auction Collar, or the LULD Band that triggered the Trading Pause in the direction of the trading that invoked the Trading Pause.

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<sup>14</sup> Specifically, if the expected cross price moves the greater of 5% or 50 cents, or if all market orders will not be executed in the cross, Nasdaq will delay the execution of the LULD Closing Cross pursuant to Rule 4754(b)(6)(A)(iii). These volatility checks are governed by Rule 4120(c)(7)(C).

To effect these changes, the Exchange proposes in new paragraph (E) of Rule 4754(b)(6)<sup>15</sup> to provide that the Benchmark Prices within which the LULD Closing Cross price must fall is established by adding (or subtracting) a threshold amount from the:

(i) Upper (or lower) Auction Collar that was last updated for any security that enters a Trading Pause that was extended prior to 3:50 p.m. ET, rounded to the nearest minimum price increment;

(ii) Upper Auction Collar for a Limit Up triggered pause (or lower Auction Collar for a Limit Down triggered pause) for any security that entered a Trading Pause that was not extended prior to 3:50 p.m. ET, rounded to the nearest minimum price increment; or

(ii) Upper Band for a Limit Up triggered pause (or Lower Band for a Limit Down triggered pause) for any security that entered a Trading Pause at or after 3:50 p.m. ET, rounded to the nearest minimum price increment.

Nasdaq management shall set and modify such thresholds from time to time upon prior notice to market participants.

As applied, for securities that entered a Trading Pause prior to 3:50 p.m. ET and for which the Trading Pause was subsequently extended, the Exchange will calculate the lower and upper Benchmark Prices as follows:

- If the lower Auction Collar was the collar that was last widened for the security subject to the Trading Pause, the lower Benchmark Price will be calculated by subtracting 10% of the last updated lower Auction Collar price (or \$1.00 (or \$0.50 if the lower Auction Collar price is equal to or below \$1.00), whichever is greater) from the last updated lower Auction Collar price (rounded to the nearest minimum price increment). The upper Benchmark Price will be equal to the last

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<sup>15</sup> With the proposed change, current paragraphs (C) and (D) will be renumbered as paragraphs (F) and (G).

updated upper Auction Collar price that was updated with the lower Auction Collar price used to calculate the lower Benchmark Price.

- If the upper Auction Collar was the collar that was last widened for the security subject to the Trading Pause, the upper Benchmark Price will be calculated by adding 10% of the last updated upper Auction Collar price (or \$1.00 (or \$0.50 if the upper Auction Collar price is equal to or below \$1.00), whichever is greater) to the last updated upper Auction Collar price (rounded to the nearest minimum price increment). The lower Benchmark Price will be equal to the last updated lower Auction Collar price that was updated with the upper Auction Collar price used to calculate the upper Benchmark Price.

For securities that entered a Trading Pause that was not extended prior to 3:50 p.m. ET,<sup>16</sup> the Exchange will calculate the lower and upper Benchmark Prices as follows:

- For a Limit Down triggered pause, the lower Benchmark Price will be calculated by subtracting 10% of the lower Auction Collar price (or \$1.00 (or \$0.50 if the lower Auction Collar price is equal to or below \$1.00), whichever is greater) from the lower Auction Collar price (rounded to the nearest minimum price increment). The upper Benchmark Price will be equal to the upper Auction Collar price that was disseminated with the lower Auction Collar price used to calculate the lower Benchmark Price.
- For a Limit Up triggered pause, the upper Benchmark Price will be calculated by adding 10% of the upper Auction Collar price (or \$1.00 (or \$0.50 if the upper

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<sup>16</sup> This would occur if, for example, a security entered a Trading Pause between 3:45 and 3:50 p.m. ET, and the LULD Auction Collar had not yet been updated.



Auction Collar price is equal to or below \$1.00), whichever is greater) to the upper Auction Collar price (rounded to the nearest minimum price increment).

The lower Benchmark Price will be equal to the lower Auction Collar price that was disseminated with the upper Auction Collar price used to calculate the upper Benchmark Price.

For securities that entered a Trading Pause at or after 3:50 p.m. ET, the Exchange will calculate the lower and upper Benchmark Prices as follows:

- For a Limit Down triggered pause, the lower Benchmark Price will be calculated by subtracting 10% of the Lower LULD Band (or \$1.00 (or \$0.50 if the Lower LULD Band is equal to or below \$1.00), whichever is greater) from the Lower LULD Band (rounded to the nearest minimum price increment). The upper Benchmark Price will be equal to Upper LULD Band in place at the time the Trading Pause was triggered.
- For a Limit Up triggered pause, the upper Benchmark Price will be calculated by adding 10% of the Upper LULD Band (or \$1.00 (or \$0.50 if the Upper LULD Band is equal to or below \$1.00), whichever is greater) to the Upper LULD Band (rounded to the nearest minimum price increment). The lower Benchmark Price will be equal to Lower LULD Band in place at the time the Trading Pause was triggered.

At 4:00 p.m. ET, Nasdaq will conduct the LULD Closing Cross, and if the cross price would fall outside of the Benchmark Prices as calculated above, the LULD Closing Cross will execute all available orders at a price within or equal to the Benchmark Prices. Any unexecuted orders intended for the Closing Cross (i.e., MOC, LOC, and IO Orders),

including those that fall outside of the Benchmark Prices, will be cancelled. This will be similar to the current standard Closing Cross functionality as described above. All other orders not executed in the LULD Closing Cross will be processed according to the entering firm's instructions, consistent with the current LULD Closing Cross rule.

The following illustrate how the proposed Benchmark Prices will be calculated:

***Example 1: Security Enters Trading Pause prior to 3:50 p.m.***

Assume:

Symbol ABC is a Tier 1 security  
Last sale/reference price: \$100  
LULD price bands: \$95 X \$105

NBBO updates to \$94.50 X \$95

At 3:38 p.m., Symbol ABC enters a Trading Pause

LULD Auction Collars calculated:

Upper Collar: \$105  
Lower Collar: \$90.25

At 3:43 p.m., due to a market order imbalance, the LULD halt cross will not occur and the LULD Auction Collars (1<sup>st</sup> extension) are calculated:

Upper Collar: \$105  
Lower Collar: \$85.50

At 3:48 p.m., due to a market order imbalance, the LULD halt cross will not occur and the LULD Auction Collars (2<sup>nd</sup> extension) are calculated:

Upper Collar: \$105  
Lower Collar: \$80.75

At 3:50 p.m., the security enters a LULD Closing Cross and the Benchmark Prices will be calculated:

Upper Benchmark Price: \$105  
Lower Benchmark Price: \$72.68

Here, the lower Auction Collar is the collar that was widened in the last dissemination of the LULD Auction Collars message, so the Benchmark Prices will be calculated from the last updated lower Auction Collar (\$80.75). The threshold amount is 8.075 (10% of  $80.75 = 8.075$ ), which is subtracted from the last updated Auction Collar (rounded to the nearest price increment) to calculate the lower Benchmark Price of 72.68 ( $80.75 - 8.075 = 72.675$ ) (i.e., 72.68 when rounded to the nearest price increment). The upper Benchmark Price of \$105 is equal to the last updated upper Auction Collar price that was disseminated with the lower Auction Collar price used to calculate the lower Benchmark Price. Thus, \$72.68 is the lowest price at which the LULD Closing Cross can occur, and \$105 is the highest price at which the cross can occur.

***Example 2: Security Enters Trading Pause after 3:50 p.m.***

Assume:

Symbol ABC is a Tier 1 security  
Last sale/reference price: \$100  
LULD price bands: \$95 X \$105

NBBO updates to \$94.50 X \$95

At 3:53 p.m., Symbol ABC enters a Trading Pause and will go through a LULD Closing Cross. The Benchmark Prices will be calculated:

Upper Benchmark Price: \$105  
Lower Benchmark Price: \$85.50

Here, the security entered a Limit Down triggered pause, so the Benchmark Prices will be calculated from the Lower LULD Band (\$95). The threshold amount is 9.50 (10% of 95 = 9.50), which is subtracted from the Lower LULD Band to calculate the lower Benchmark Price of 85.50 ( $95 - 9.50 = 85.50$ ). The upper Benchmark Price of \$105 is equal to the Upper LULD Band in place at the time the Trading Pause was triggered. Thus, \$85.50 is the lowest price at which the LULD Closing Cross can occur, and \$105 is the highest price at which the cross can occur.

#### Execution Processing

In connection with the changes proposed above to introduce price protections for the LULD Closing Cross, the Exchange proposes to amend the methodology for determining the LULD cross price. Specifically, the Exchange proposes the following in new paragraph (D) of Rule 4754(b)(6):

(D)(i) The LULD Closing Cross will occur at the price within the benchmark prices established pursuant to paragraph (E) below (“Benchmark Prices”) that maximizes the number of shares of Eligible Interest in the Nasdaq Market Center to be executed.

(ii) If more than one price exists under subparagraph (i), the LULD Closing Cross shall occur at the price within the Benchmark Prices that minimizes any Imbalance.

(iii) If more than one price exists under subparagraph (ii), the LULD Closing Cross shall occur at the entered price within the Benchmark Prices at which shares will remain unexecuted in the cross.

(iv) If there is no price within the Benchmark Prices that satisfies the above conditions, then the LULD Closing Cross shall occur at:

(a) if an Imbalance exists, a price equal to the upper (lower) Benchmark Price for a buy (sell) Imbalance; or

(b) if no Imbalance exists, a price that minimizes the distance from the last published Upper Band (Lower Band) for a Limit Up (Limit Down) Trading Pause.

Today, the LULD Closing Cross price is determined by the same execution algorithm as currently used by the standard Closing Cross.<sup>17</sup> As discussed below, the proposed execution algorithm retains many aspects of the standard cross methodology with certain intended differences.

The first tiebreaker in new paragraph (D)(i) will be substantially similar to the existing tiebreaker in Rule 4754(b)(2)(A),<sup>18</sup> except that the proposed language will specify the LULD cross price must also fall within the proposed Benchmark Prices established pursuant to new paragraph (E) of Rule 4754(b)(6). In connection with this change, the Exchange also proposes to add a definition for “Eligible Interest,” which is currently undefined in this Rule. Specifically, the Exchange proposes to add in new paragraph (A)(i) of Rule 4754(b)(6) that for purposes of the LULD Closing Cross rule, Eligible Interest shall have the same meaning as “Close Eligible Interest” in Rule 4754(a), with the addition of any new orders, with an eligible underlying Order Type and Attribute, entered during the Trading Pause. The proposed change reflects current system behavior, and indicates that there is an additional category of orders that may participate in the LULD Closing Cross (i.e., new incoming orders, with an eligible underlying Order Type and Attribute, entered during the Trading Pause), which are not fully applicable in the context of the standard close. The Exchange therefore believes that using the

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<sup>17</sup> See Rule 4754(b)(2)(A) – (D).

<sup>18</sup> Rule 4754(b)(2)(A) currently provides that 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.

proposed definition throughout the LULD Closing Cross rule (instead of “Close Eligible Interest” as currently used in the standard Closing Cross) will better align the rule to the current operation of the system.

The second tiebreaker in new paragraph (D)(ii) will be based on the same principle as the existing tiebreaker in Rule 4754(b)(2)(B) (i.e., to minimize the number of shares that cannot be matched in the cross).<sup>19</sup> However, the new tiebreaker will specify that the LULD Closing Cross price must be within the proposed Benchmark Prices and at the price that minimizes any Imbalance, which will be defined in new paragraph (A)(ii) of Rule 4754(b)(6) as the number of shares of buy or sell MOC or LOC orders or Eligible Interest that cannot be matched with other MOC, LOC, or IO order shares or Eligible Interest at a particular price at any given time. The Exchange notes that the proposed change to state that the LULD cross price must minimize any Imbalance within the second tiebreaker is a corrective change to more accurately reflect how the system in the LULD Closing Cross currently behaves. Specifically, the change addresses that during a LULD Closing Cross, the Exchange considers all orders when calculating the Imbalance, whereas the standard Closing Cross considers orders specifically designated for participation in the Closing Cross (i.e., MOC, LOC, or IO orders). This reflects current system behavior, which automatically designates all orders (whether resting on the book, or new incoming orders entered during the cross) for participation in LULD Closing Cross.

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<sup>19</sup> Rule 4754(b)(2)(B) currently provides that if more than one price exists under subparagraph (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.

The third tiebreaker in new paragraph (D)(iii) will be substantially similar to the existing tiebreaker in Rule 4754(b)(2)(C),<sup>20</sup> except that the proposed language will specify the LULD cross price must also fall within the proposed Benchmark Prices.

The fourth and final tiebreaker in new paragraph (D)(iv) will be used if there is no price within the proposed Benchmark Prices that satisfies the conditions described above in (D)(i) – (iii), and speaks to two possible outcomes. The first outcome is reached when an Imbalance exists, in which case the LULD cross price would be the upper (lower) Benchmark Price for a buy (sell) Imbalance. The Exchange believes that this outcome is the appropriate result in the presence of an Imbalance as it best reflects current market forces while also making it clear to market participants that the imbalance exists. The second outcome is reached when there is no Imbalance, in which case the LULD Closing Cross would occur at a price that minimizes the distance from the last published Upper Band (Lower Band) for a Limit Up (Limit Down) Trading Pause. This tiebreaker is similar to the existing tiebreaker in Rule 4754(b)(2)(D)<sup>21</sup> in that the price that minimizes the distance from the last published Upper or Lower Band is effectively considered the midpoint price for the LULD Closing Cross. Unlike the existing tiebreaker, which uses the price that minimizes the distance from the System bid-ask midpoint, the proposed tiebreaker will use the relevant LULD Band. The Exchange believes this is the more appropriate result because unlike a standard Closing Cross, there is no continuous market

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<sup>20</sup> Rule 4754(b)(2)(C) currently provides that if more than one price exists under subparagraph (B), the Nasdaq Closing Cross shall occur at the entered price at which shares will remain unexecuted in the cross.

<sup>21</sup> Rule 4754(b)(2)(D) currently provides that if more than one price exists under subparagraph (C), the Nasdaq Closing Cross shall occur at: a price that minimizes the distance from the System bid-ask midpoint at the time of the Nasdaq Closing Cross.

just prior to the execution of the LULD Closing Cross, so using the relevant LULD Band more accurately reflects current market conditions as opposed to the System bid-ask midpoint.

#### Timing of LULD Closing Cross

The Exchange also proposes to amend the LULD Closing Cross Rule to remove all provisions relating to extending the cross past 4:00 p.m. ET as this language will no longer be necessary with the changes proposed herein. In particular, the Exchange proposes to delete Rule 4754(b)(6)(A)(iii) as this provision relates to how the Exchange would extend the time of the LULD Closing Cross. Further, the Exchange proposes to amend current Rule 4754(b)(6)(C)(iii) (renumbered to Rule 4754(b)(6)(D)(iii) under this proposal) to delete the last two sentences, which provide how certain new orders may be entered or modified after 4:00 p.m. ET.

#### MOC/LOC/IO Order Handling

The Exchange also proposes other aligning changes to the LULD Closing Cross that would more closely harmonize this process with the current standard Closing Cross. In Rule 4754(b)(6)(C)(iii) (renumbered to Rule 4754(b)(6)(D)(iii)), the Exchange proposes to remove the parenthetical that excludes MOC and LOC orders from being entered, modified, and cancelled in the LULD Closing Cross. The Exchange proposes to allow MOC and LOC orders to participate in the LULD Closing Cross in order to align with the regular Closing Cross where such orders may participate pursuant to Rules 4702(b)(11) and 4702(b)(12). The Exchange similarly proposes to allow IO orders to participate in the LULD Closing Cross in the same manner as in the regular Closing Cross (i.e., pursuant to Rule 4702(b)(13)). Accordingly, the Exchange will add that



MOC, LOC and IO orders may be entered, modified, and cancelled pursuant to Rules 4702(b)(11), 4702(b)(12) and 4702(b)(13). The Exchange will also delete current Rule 4754(b)(6)(C)(i), which sets forth special handling instructions for MOC, LOC, and IO orders in an LULD Closing Cross. In particular, this Rule stipulates that in the event of an LULD Closing Cross, MOC, LOC and IO orders intended for the closing cross entered into the system and placed on the book prior to the Trading Pause will remain on the book to participate in the LULD Closing Cross, and that such orders may not be modified or cancelled. With the proposed changes to allow MOC, LOC, and IO orders to participate in the LULD Closing Cross in the same way as a standard Closing Cross, this provision is no longer necessary.

#### Net Order Imbalance Indicator

The Exchange proposes to amend Rule 4754(b)(6)(B), which governs the Net Order Imbalance Indicator (“NOII”) message for the LULD Closing Cross and disseminates information about MOC, LOC, IO, and Close Eligible Interest and the price at which those orders would execute at the time of dissemination. The Rule currently provides that Nasdaq shall continue disseminating the NOII every second until After Hours Trading begins. The Exchange notes, however, that it recently updated its Closing Cross to allow for the dissemination of abbreviated NOII data (i.e., Early Order Imbalance Indicator)<sup>22</sup> every 10 seconds between 3:50 p.m. ET and 3:55 p.m. ET, which would be followed by the dissemination of regular NOII data between 3:55 and market

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<sup>22</sup> "Early Order Imbalance Indicator" shall mean a message disseminated by electronic means containing the same information as the Order Imbalance Indicator, except that it will exclude information about indicative prices, as set forth in subparagraph (a)(7)(E) of Rule 4754. See Rule 4754(a)(10).

close.<sup>23</sup> This change should have been reflected in the LULD Closing Cross rule in Rule 4754(b)(6)(B) as well. Accordingly, the Exchange proposes to amend the Rule to more accurately reflect current System behavior, and provide that Nasdaq shall continue disseminating the NOII pursuant to Rule 4754(b)(1) until After Hours Trading begins.

The Rule also indicates that the NOII message displays the Near Price, Far Price, and Reference Prices, which all currently represent the price at which the LULD Closing Cross would execute should the cross conclude at that time. With the proposed changes to implement the new Benchmark Prices, the Near Price and Reference Price will both represent the price at which the LULD Closing Cross would execute, bounded by the Benchmark Prices, at the time of dissemination. The Far Price will represent the price at which the LULD Closing Cross would execute if the cross were not bounded by the Benchmark Prices. The Far Price will be different from the Near Price and Reference Price to indicate that not all marketable orders can be filled within the Benchmark Prices. To effect this change, Rule 4754(b)(6)(B) will be amended to provide that the Near Price and Reference Prices contained in the NOII will represent the price at which the LULD Closing Cross would execute should the cross conclude at that time, and the Far Price will represent the price at which Eligible Interest would execute.

#### Corrective Changes

The Exchange proposes a corrective change in Rule 4754(b)(6)(A)(i), which currently contains language relating to Trading Pauses “triggered” at or after 3:50 and before 4:00 p.m. The Exchange previously amended paragraph (b)(6) of Rule 4754 in 2017 to provide that the cross is employed when a Trading Pause exists at or after 3:50

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<sup>23</sup> See Securities Exchange Act Release No. 85292 (March 12, 2019), 84 FR 9848 (March 18, 2019) (SR-NASDAQ-2019-010).

and before 4:00 p.m., but inadvertently did not make a similar change in paragraph (b)(6)(A)(i) of this Rule.<sup>24</sup> The Exchange now proposes to amend this provision accordingly.

Lastly, the Exchange proposes to update obsolete cross-cites to Rule 4751 within Rules 4756(c)(3)(B) and 4763(b). Rule 4751 was previously relocated as part of a prior rule filing, so the proposed changes will update the obsolete references to their current locations in the Rulebook.<sup>25</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>26</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>27</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.

The Exchange believes that its proposal will promote just and equitable principles of trade because it will implement price protections for the LULD Closing Cross that are similar to the protections used today for the standard Closing Cross. As explained above, the Exchange currently calculates and applies a price threshold range within which the standard Closing Cross must execute. The Exchange believes that this mechanism has

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<sup>24</sup> See Securities Exchange Act Release No. 79876 (January 25, 2017), 82 FR 8888 (January 31, 2017) (SR-NASDAQ-2016-131).

<sup>25</sup> See Securities Exchange Act Release No. 75252 (June 22, 2015), 80 FR 36865 (June 26, 2015) (SR-NASDAQ-2015-024).

<sup>26</sup> 15 U.S.C. 78f(b).

<sup>27</sup> 15 U.S.C. 78f(b)(5).

been effective in facilitating a fair and orderly price discovery process at the close, and ensuring that the cross price derived does not exceed a price reasonably tied to the prevailing market at the time. The Exchange has therefore determined to apply similar protections for the LULD Closing Cross. The Exchange believes that its proposal will benefit members and investors by facilitating price discovery. Additionally, introducing price protections to the LULD Closing Cross in the manner discussed above will further harmonize the Exchange's LULD and standard Closing Cross processes, thereby promoting a more consistent experience for members and investors, and reducing any potential confusion regarding Nasdaq's closing processes. The Exchange believes that calculating price thresholds associated with the LULD band that triggered the Trading Pause as discussed above will ensure that the LULD Closing Cross executes at a reasonable level relative to the last disseminated LULD Auction Collar, or the LULD band itself, thereby mitigating price dislocations in the cross. The Exchange also believes that allowing members to enter, modify and cancel new MOC, LOC and IO orders pursuant to Rules 4702(b)(11), 4702(b)(12), and 4702(b)(13) in the LULD Closing Cross will keep these close order type functionality consistent with the standard close behavior, and will facilitate a more efficient closing auction by allowing additional interest to participate in the close.

The Exchange believes that the amended execution algorithm for the LULD Closing Cross is consistent with the Act because it is substantially similar to the execution logic that is used for the cross today, with certain intended differences. The proposed tiebreakers in new paragraphs (D)(i) – (iii) of Rule 4754(b)(6) are designed to preserve to the extent possible the current tiebreakers in paragraphs (B)(2)(A) – (C) of

Rule 4754(b)(2) while accommodating the proposed Benchmark Prices. The proposed changes to add the definitions of Eligible Interest and Imbalance as used in the proposed first and second tiebreakers are consistent with the protection of investors and the public interest because these changes will more accurately describe how the LULD Closing Cross price will be determined pursuant to the tiebreakers in proposed Rule 4754(b)(6)(A) and (B). As it relates to the fourth tiebreaker proposed in new paragraph (D)(iv) of Rule 4754(b)(6), the Exchange believes that using the Benchmark Price in the presence of an Imbalance is appropriate and best reflects current market forces while also making it clear to market participants that the Imbalance exists. The Exchange also believes that using the price that minimizes the distance from the last published LULD Band more accurately reflects current market conditions as opposed to using the existing tiebreaker based on the System bid-ask midpoint as there is no continuous market just prior to the execution of the LULD Closing Cross.

With respect to not extending a LULD Closing Cross past 4:00 p.m. ET, the Exchange believes that the clarity that comes from requiring that the LULD Closing Cross occur at 4:00 p.m. ET will help reduce uncertainty for members participating in the cross. While the Exchange recognizes the reasons for extending the LULD Closing Cross may exist where there are unmatched market orders or dramatic price movements during the cross, the Exchange believes based on its experience with the cross that these concerns are outweighed by the importance of providing members and the investing public with a definitive market close and a NOCP at 4:00 p.m. ET. Taken together with the proposed price thresholds, the Exchange believes that the LULD Closing Cross process, as amended, will reduce unnecessary confusion by providing certainty that the

LULD Closing Cross will occur at a specified time, and will occur at a price that is reasonably based on current market conditions.

The Exchange also believes that it is appropriate to amend Rule 4754(b)(6)(B) to specify the contents of the NOII message for LULD Closing Cross. The proposed changes will bring greater transparency around what information is disseminated for the LULD Closing Cross, and is therefore consistent with the public interest and the protection of investors.

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. Today, the standard Nasdaq Closing Cross provides a transparent auction process for executing member interest at the close. The proposed rule change is designed to further align the Exchange's LULD Closing Cross with the standard Closing Cross to promote a more consistent experience for members and investors, and reducing any potential confusion regarding Nasdaq's closing processes. Further, the proposed changes will allow additional interest (i.e. new MOC, LOC, and IO orders) to participate in the LULD Closing Cross, and thereby provide a more efficient process for executing closing interest, and enhancing price discovery during the close.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date

if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2021-009 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-2021-009. 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-2021-009 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>28</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).



**EXHIBIT 5**

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

**The Nasdaq Stock Market LLC Rules**

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**Equity Rules**

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**Equity 4 Equity Trading Rules**

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**4754. Nasdaq Closing Cross**

(a) No change.

(b) No change.

(1) – (5) No change.

(6) **LULD Closing Cross Following Limit-Up-Limit-Down Trading Pause.** When a Trading Pause pursuant to Rule 4120(a)(12) exists at or after 3:50 p.m. and before 4:00 p.m., the [stock]Nasdaq-listed security shall resume trading via a modified Nasdaq Closing Cross ("LULD Closing Cross"). The LULD Closing Cross shall operate as defined in this rule with the following exceptions:

(A) **Definitions.** For purposes of this Rule 4754(b)(6), the term:

(i) “**Eligible Interest**” shall have the same meaning as “Close Eligible Interest” in Rule 4754(a), with the addition of any new orders, with an eligible underlying Order Type and Attribute, entered during the Trading Pause.

(ii) “**Imbalance**” shall mean the number of shares of buy or sell MOC or LOC orders or Eligible Interest that cannot be matched with other MOC, LOC, or IO order shares or Eligible Interest at a particular price at any given time.

([A]B)(i) For Trading Pauses [triggered]existing at or after 3:50 and before 4:00 p.m., the LULD Closing Cross shall occur at 4:00 p.m. After Hours Trading shall commence after the LULD Closing Cross executes.

(ii) If there is insufficient trading interest in the Nasdaq system to execute a LULD Closing Cross, Nasdaq will not conduct a Cross in that security and shall instead use the last sale on Nasdaq as the Nasdaq Official Closing Price in

that security for that trading day. After Hours Trading shall commence after Nasdaq publishes the Nasdaq Official Closing Price.

[(iii) If an order imbalance as defined in Rule 4120(c)(7)(C) (1) and (3) exists at the time designated for the LULD Closing Cross to occur, Nasdaq shall extend the time of the LULD Closing Cross by one minute until the order imbalance no longer exists. If this condition persists until 5:00 p.m., Nasdaq will not conduct a Cross in that security and shall instead use the last-sale on Nasdaq as the Nasdaq Official Closing Price in that security for that trading day. After Hours Trading shall commence after the LULD Closing Cross executes, unless the volatility condition persists until 5:00 p.m. In that case, Nasdaq will commence a process of cancelling all orders (other than orders with a time-in-force of good-till-cancelled), and After Hours Trading will commence upon the completion of that process.]

[(B)C] Nasdaq shall continue disseminating the NOII [every second] pursuant to Rule 4754(b)(1) until After Hours Trading begins. The Near Price[, Far Price,] and Reference Prices contained in the NOII will [all] represent the price at which the LULD Closing Cross would execute should the cross conclude at that time[.], and the Far Price will represent the price at which Eligible Interest would execute. If marketable buy (sell) shares would remain unexecuted above (below) the Near Clearing Price or Far Clearing Price, Nasdaq shall disseminate an indicator for "market buy" or "market sell".

[(C)D](i) The LULD Closing Cross will occur at the price within the benchmark prices established pursuant to paragraph (E) below ("Benchmark Prices") that maximizes the number of shares of Eligible Interest in the Nasdaq Market Center to be executed.

(ii) If more than one price exists under subparagraph (i), the LULD Closing Cross shall occur at the price within the Benchmark Prices that minimizes any Imbalance.

(iii) If more than one price exists under subparagraph (ii), the LULD Closing Cross shall occur at the entered price within the Benchmark Prices at which shares will remain unexecuted in the cross.

(iv) If there is no price within the Benchmark Prices that satisfies the above conditions, then the LULD Closing Cross shall occur at:

(a) if an Imbalance exists, a price equal to the upper (lower) Benchmark Price for a buy (sell) Imbalance; or

(b) if no Imbalance exists, a price that minimizes the distance from the last published Upper Band (Lower Band) for a Limit Up (Limit Down) Trading Pause.

(E) The Benchmark Prices within which the LULD Closing Cross price must fall is established by adding (or subtracting) a threshold amount from the:

(i) Upper (or lower) Auction Collar that was last updated for any security that entered a Trading Pause that was extended prior to 3:50 p.m. ET, rounded to the nearest minimum price increment;

(ii) Upper Auction Collar for a Limit Up triggered pause (or lower Auction Collar for a Limit Down triggered pause) for any security that entered a Trading Pause that was not extended prior to 3:50 p.m. ET, rounded to the nearest minimum price increment; or

(iii) Upper Band for a Limit Up triggered pause (or Lower Band for a Limit Down triggered pause) for any security that entered a Trading Pause at or after 3:50 p.m. ET, rounded to the nearest minimum price increment.

Nasdaq management shall set and modify such thresholds from time to time upon prior notice to market participants.

(F) Orders eligible to participate:

(i) [In the event of an LULD Closing Cross, MOC, LOC and IO orders intended for the closing cross entered into the system and placed on the book prior to the Trading Pause will remain on the book to participate in the LULD Closing Cross. Such orders may not be modified or cancelled.

(ii) ]All orders entered into the system and placed on the continuous book prior to the LULD pause will remain on the book to participate in the LULD Closing Cross. Such orders may be modified or cancelled up until the time of the LULD Closing Cross.

(ii[i]) During the pause and prior to 4:00pm, new orders [(other than MOC or LOC orders) ]may be entered, modified, and cancelled and may participate in the LULD Closing Cross. MOC, LOC and IO orders may be entered, modified, and cancelled pursuant to Rules 4702(b)(11), 4702(b)(12), and 4702(b)(13)[After 4:00pm, entry of market pegged orders is prohibited. New Imbalance Only Orders may also be entered and modified to increase shares represented, but can't be cancelled during the pause].

([D]G) Orders participating in the LULD Closing Cross shall be executed in price/time priority order rather than the priority set forth in subsection (b)(3) above. For purposes of determining priority, eligible IO orders will be priced to the closing price and executed in time priority with other orders at that price. Any order not executed in the LULD Closing Cross will be processed according to the entering firm's instructions.

(7) No change.

**4756. Entry and Display of Quotes and Orders**

(a) – (c) No change.

(1) – (3) No change.

(A) No change.

(B) **Discretionary Orders**—The discretionary portion of Discretionary Orders shall not be displayed but shall be made available for execution only upon the appearance of contra-side marketable trading interest, and shall be executed pursuant to Rule 4703(g)[4751(f)] and Rule 4757.

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**4763. Short Sale Price Test Pursuant to Rule 201 of Regulation SHO**

(a) No change.

(b) **Short Sale Price Test.** The System (as defined in Equity 1, Section 3[Nasdaq Rule 4751(a)]) shall not execute or display a short sale order with respect to a covered security at a price that is less than or equal to the current national best bid if the price of that security decreases by 10% or more, as determined by the listing market for the security, from the security's closing price on the listing market as of the end of regular trading hours on the prior day ("Trigger Price").

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