Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 29

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

File No. * SR 2024 - * 064
Amendment No. (req. for Amendments *)

Filing by The Nasdaq Stock Market LLC

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

Initial * ☑ Amendment * ☐ Withdrawal ☐

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

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

A proposal to amend the Exchanges anti internalization functionality in Equity 4 Rule 4757

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 * Olumuyiwa Last Name * Odeniyide

Title * Associate General Counsel

E-mail * olumuyiwa.odeniyide@nasdaq.com

Telephone * (202) 817-7995 Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934, The Nasdaq Stock Market LLC has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 10/25/2024

By John Zecca
(Name *)

(Title *) EVP and Chief Legal Officer

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

John A. Zecca Date: 2024.10.25 13:07:53 -04'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add | Remove | View

SR-NASDAQ-2024-064 19b-4.docx

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

Exhibit 1 - Notice of Proposed Rule Change *

Add | Remove | View

SR-NASDAQ-2024-064 Exhibit 1.docx

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 Advanced Notice by Clearing Agencies *

Add | Remove | View

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

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

Add | Remove | View

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 Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

Add | Remove | View

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 Sent As Paper Document

Exhibit 4 - Marked Copies

Add | Remove | View

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

Exhibit 5 - Proposed Rule Text

Add | Remove | View

SR-NASDAQ-2024-064 Exhibit 5.docx

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

Partial Amendment

Add | Remove | View

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

1. Text of the Proposed Rule Change

(a) The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to amend the Exchange's anti-internalization functionality in Equity 4, Rule 4757, as described further below.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors (the "Board"). Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Olumuyiwa Odeniyide
Associate General Counsel
Nasdaq, Inc.
202-817-7995

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

[2] 17 CFR 240.19b-4.

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

a. Purpose

The Exchange proposes to amend Equity 4, Rule 4757(a)(4) to offer increased functionality as it relates to anti-internalization. Specifically, the Exchange proposes to (i) allow participants that directly submit orders to the System as Members on the Exchange and submit orders to the System through Sponsored Access[3] as a Sponsored Participant, to direct that quotes/orders entered into the System directly as a Member not execute against quotes/orders submitted as a Sponsored Participant; (ii) specify when anti-internalization will activate; (iii) introduce an anti-internalization strategy that uses the strategy of the removing order; and (v) make other clarifying changes.

Affiliate Anti-Internalization

Currently, Equity 4, Rule 4757(a)(4) provides that market participants may direct that quotes/orders entered into the System not execute against either quotes/orders entered under the same MPID ("MPID Level AIQ") or quotes/orders entered across MPIDs under Common Ownership ("Organization Level AIQ").[4] In addition, market participants using the OUCH order entry protocol may assign to orders entered through a specific order entry port a unique group identification modifier that will prevent quotes/orders with such modifier from executing against each other. Anti-internalization or self-match prevention functionality assists participants in reducing trading costs from

---

3 See General 2, Section 22(a). Sponsored Access shall mean an arrangement whereby a member permits its customers to enter orders into the System that bypass the member's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider.

4 For purposes of Equity 4, Rule 4757, the term "Common Ownership" shall mean participants under 75% common ownership or control.

unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm.

The Exchange proposes to enhance its current self-match prevention functionality to allow participants that demonstrate (i) membership on the Exchange through which they directly submit orders to the System and (ii) participation as a Sponsored Participant whereby they submit orders to the System through Sponsored Access, to direct that quotes/orders entered into the System directly as a Member not execute against quotes/orders submitted as a Sponsored Participant ("Affiliate Level AIQ").[5] The proposed enhancement would be in addition to the other levels of self-match prevention offered today. Under the proposed rule change, the anti-internalization functionality would continue to be an optional feature. If a firm chooses to take advantage of self-match prevention, the firm would need to opt-in to the self-match prevention functionality, as is the case today.

The purpose of this proposed change is to extend self-match prevention functionality to prevent transactions between a firm's orders submitted directly to the System and through Sponsored Access. There are situations where an individual firm would choose to submit orders to the Exchange through different mechanisms. For instance, a firm may employ different trading strategies across different trading desks and choose to send orders for one strategy to the Exchange through a direct connection while the other strategy is sent through Sponsored Access. The proposed functionality would serve as an additional tool that participants may enable in order to assist with compliance with the various securities laws relating to potentially manipulative trading activity such

[5] The Exchange will require firms requesting to use Affiliate Level AIQ to complete an affidavit stating: (i) it is currently a Member of the Exchange that submits orders directly to the System, and (ii) it also submits orders to the System through a Sponsored Access arrangement.

as wash sales[6] and self-trades.[7] Additionally, the proposed functionality would provide firms an additional solution to manage order flow by preventing undesirable executions where the firm submits orders in multiple formats (i.e., direct connection or Sponsored Access). As is the case with the existing risk tools, participants, and not the Exchange, have full responsibility for ensuring that their orders comply with applicable securities rules, laws, and regulations. Furthermore, as is the case with the existing risk settings, the Exchange does not believe that the use of the proposed self-match prevention functionality can replace participant-managed risk management solutions.

Anti-Internalization Activation

The Exchange also proposes to provide that, unless participants designate otherwise, for anti-internalization to activate across orders, the orders must reflect the same anti-internalization level. For example, if an order has designated anti-internalization at an MPID level (i.e., quotes/orders entered into the System shall not execute against quotes/orders entered under the same MPID), anti-internalization will only activate against another order designated with anti-internalization at an MPID level.

This is a departure from how anti-internalization activates today. Currently, anti-internalization activates across orders with different anti-internalization levels. For example, a resting order with MPID Level AIQ can have anti-internalization activated

---

6 A "wash sale" is generally defined as a trade involving no change in beneficial ownership that is intended to produce the false appearance of trading and is strictly prohibited under both the federal securities laws and FINRA rules. See, e.g., 15 U.S.C 78i(a)(1); FINRA Rule 6140(b) ("Other Trading Practices").

7 Self-trades are "transactions in a security resulting from the unintentional interaction of orders originating from the same firm that involve no change in beneficial ownership of the security." FINRA requires members to have policies and procedures in place that are reasonably designed to review trading activity for, and prevent, a pattern or practice of self-trades resulting from orders originating from a single algorithm or trading desk, or related algorithms or trading desks. See FINRA Rule 5210, Supplementary Material .02.

against it if an incoming order with Organization Level AIQ has the same Organization ID as the resting order. With the introduction of Affiliate Level AIQ, the anti-internalization levels must match across both orders for anti-internalization to be activated, in order to prevent erroneous activation of anti-internalization.[8] However, the Exchange proposes to preserve current functionality by providing participants with the option to elect to have anti-internalization activated against any anti-internalization level.

"Use Remover" Strategy

The Exchange currently provides three versions of self-match prevention functionality to allow participants to choose how orders are handled in the event of a self-match situation: (1) decrement, (2) cancel oldest, and (3) cancel newest. Under the first version ("decrement"), if the self-match orders have the same share size, both orders will cancel back to the customer. If the orders are not equivalent in size, the smaller order will cancel back to the originating customer and the larger order will decrement by the size of the smaller order. The remaining shares of the larger order will remain on the book. Under the second version ("cancel oldest"), the full size of the order residing on the book will cancel back to the customer if the incoming order would execute against it. The incoming order will remain intact with no changes. Under the third version ("cancel newest"), the full size of the order coming into the book will cancel back to the customer. The resting order will remain intact with no changes.

The Exchange proposes to add a new strategy ("use remover"), which would allow for a resting order to use the strategy of the removing order. If the use remover

[8] For example, assume Firm 1 accesses the Exchange directly and as a Sponsored Participant via Firm 2. Assume Firm 1 sends an order as a Sponsored Participant through Firm 2 with Affiliate Level AIQ enabled. Assume Firm 2 then sends an order unrelated to Firm 1 with Organization Level AIQ. If the current behavior prevailed, anti-internalization would activate and the orders would not execute, resulting in an undesirable outcome.

strategy is on an order, it will only have anti-internalization activated against it when it is the resting order and will never trigger anti-internalization against another order when it is the incoming order. The Exchange proposes to introduce the "use remover" strategy in order to maintain existing anti-internalization functionality that would otherwise become obsolete with the introduction of the default requirement for anti-internalization activation (i.e., the orders must reflect the same anti-internalization level). As described above, currently, anti-internalization activates across orders with different anti-internalization levels. Currently, resting orders that have anti-internalization disabled are still subject to anti-internalization functionality, based on the anti-internalization selection of the incoming orders. For example, currently, if Firm 1 sends an order with anti-internalization disabled and then Firm 2 sends an order with Organization Level AIQ with a decrement strategy, anti-internalization would activate between the two orders based on the incoming order's strategy because of the Organization Level AIQ. Assuming the Firm does not designate that anti-internalization activate across quotes/orders, the aforementioned example would no longer occur because Affiliate Level AIQ necessitates matching anti-internalization levels. The Exchange wishes to maintain such functionality as an option for participants and introduction of the use remover strategy would allow participants to choose to have a resting order use the anti-internalization strategy of the removing order.

Taken together, the Exchange believes that the proposed anti-internalization enhancements would provide participants with more tailored self-trade functionality that allows them to manage their trading as appropriate based on the participant's business needs.

Clarifying Changes

Lastly, the Exchange proposes to make several clarifying changes to Equity 4, Rule 4757(a)(4) to promote clarity.

First, the Exchange proposes to codify which strategy prevails when anti-internalization strategies differ between two orders. Specifically, the Exchange proposes to provide that, when anti-internalization strategies differ between two orders, the strategy of the order removing liquidity will apply and the strategy of the resting order will be ignored. This is consistent with current Exchange and industry practice.

In addition, the Exchange proposes to modify the text introducing the various anti-internalization strategies to state that, "In each anti-internalization case, as described in this paragraph (4), a market participant may elect from the following strategies", to make it clear that any strategy may be selected for each anti-internalization level. Relatedly, the Exchange proposes to delete language stating that, "The foregoing options may be applied to all orders entered under the same MPID, across MPIDs under Common Ownership, or, in the case of market participants using the OUCH order entry protocol, may be applied to all orders entered through a specific order entry port." The Exchange believes that such language is redundant, as the modified introductory language makes it clear that the anti-internalization strategies may be applied to each anti-internalization level. Finally, the Exchange also proposes to add the names of the existing anti-internalization strategies (i.e., Decrement, Cancel Oldest, and Cancel Newest) before the description of such strategies for clarity.

Implementation

The Exchange intends to introduce this new functionality by the first quarter of 2025. The Exchange will issue an Equities Trader Alert to provide notification of the change and relevant date prior to introducing the new functionality.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[9] in general, and furthers the objectives of Section 6(b)(5) of the Act,[10] 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 the proposed Affiliate Level AIQ functionality promotes just and equitable principles of trade by allowing individual firms to better manage order flow and prevent undesirable trading activity such as wash sales[11] or self-trades[12] that may occur as a result of the velocity of trading in today's high-speed marketplace. The proposed Affiliate Level AIQ functionality does not introduce novel functionality, as the proposed amendment extends the current anti-internalization functionality to another trading relationship. For instance, a participant may operate trading desk 1 that accesses the Exchange via the Member's direct connection, as well as trading desk 2 that accesses the Exchange as a Sponsored Participant. While these desks may operate different trading strategies, a participant may desire to prevent these desks

---

9 15 U.S.C. 78f(b).

10 15 U.S.C. 78f(b)(5).

11 Supra note 6.

12 Supra note 7.

from trading versus each other in the marketplace because the orders are originating from the same entity. Here, participants may desire anti-internalization functionality on an Affiliate Level AIQ that will help them achieve compliance[13] with regulatory rules regarding wash sales and self-trades in a very similar manner to the way that the current anti-internalization functionality applies to existing anti-internalization levels. The proposed Affiliate Level AIQ functionality will also assist participants in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm.

The Exchange believes that the other proposed changes, including modifying the default procedure for activating anti-internalization while preserving the current functionality as an option for participants, adding the use remover strategy, and making clarifying changes, also promote just and equitable principles of trade by providing participants with more tailored self-trade functionality that allows them to manage their trading as appropriate based on the participant's business needs and providing clarity and transparency to the rules.

The Exchange also believes that the proposed rule change is fair and equitable and is not designed to permit unfair discrimination, in accordance with Section 6(b)(5) of the Act,[14] as use of the proposed Affiliate Level AIQ functionality and related features of the proposal are optional, and use is not a prerequisite for trading on the Exchange.

---

13 The Exchange reminds participants that while they may utilize anti-internalization to help prevent potential transactions such as wash sales or self-trades, participants, not the Exchange, are ultimately responsible for ensuring that their orders comply with applicable rules, laws, and regulations.

14 15 U.S.C. 78f(b)(5).

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to enhance self-match prevention functionality provided to the Exchange's participants and will benefit participants that wish to protect their quotes and orders entered into the System directly as a Member against trading with quotes/orders submitted as a Sponsored Participant. The new functionality is also completely voluntary, and members that wish to use the current functionality (or opt out altogether) can also continue to do so. The Exchange does not believe that providing more flexibility to participants will have any significant impact on competition. In fact, the Exchange believes that the proposed rule change is evidence of the competitive environment where exchanges must continually improve their offerings to maintain competitive standing.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)[15] of the Act and Rule 19b-4(f)(6) thereunder[16] in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii)

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

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

does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that the proposed rule change does not significantly affect the protection of investors or the public interest as it is designed to provide additional anti-internalization functionality for participants that would like their quotes and orders protected regardless of whether they are submitted directly to the Exchange or through a Sponsored Access arrangement. The other proposed revisions preserve existing features of the Exchange's anti-internalization functionality and provide additional clarity in the Rules. Participants that do not wish to utilize the new functionality will be able to continue to use anti-internalization functionality as implemented today, opting out altogether or choosing to be protected from trading with quotes and orders under the existing anti-internalization levels. In addition, similar functionality is offered by Cboe-affiliated exchanges.[17] The Exchange therefore believes that the proposed rule change qualifies for immediate effectiveness as a "non-controversial" rule change.

Furthermore, Rule 19b-4(f)(6)(iii)[18] requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

---

17 See, e.g., Securities Exchange Act Release No. 34-98022 (July 28, 2023), 88 FR 51383 (August 3, 2023).

18 17 CFR 240.19b-4(f)(6)(iii).

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The proposal is similar to SR-CboeBZX-2023-054.

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-2024-064)

October __, 2024

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Exchange's Anti-internalization Functionality in Equity 4, Rule 4757.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on [DATE], 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 the Exchange's anti-internalization functionality in Equity 4, Rule 4757.

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.

---

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

2 17 CFR 240.19b-4.

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

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

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

1. Purpose

The Exchange proposes to amend Equity 4, Rule 4757(a)(4) to offer increased functionality as it relates to anti-internalization. Specifically, the Exchange proposes to (i) allow participants that directly submit orders to the System as Members on the Exchange and submit orders to the System through Sponsored Access[3] as a Sponsored Participant, to direct that quotes/orders entered into the System directly as a Member not execute against quotes/orders submitted as a Sponsored Participant; (ii) specify when anti-internalization will activate; (iii) introduce an anti-internalization strategy that uses the strategy of the removing order; and (v) make other clarifying changes.

Affiliate Anti-Internalization

Currently, Equity 4, Rule 4757(a)(4) provides that market participants may direct that quotes/orders entered into the System not execute against either quotes/orders entered under the same MPID ("MPID Level AIQ") or quotes/orders entered across

[3] See General 2, Section 22(a). Sponsored Access shall mean an arrangement whereby a member permits its customers to enter orders into the System that bypass the member's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider.

MPIDs under Common Ownership ("Organization Level AIQ").[4] In addition, market participants using the OUCH order entry protocol may assign to orders entered through a specific order entry port a unique group identification modifier that will prevent quotes/orders with such modifier from executing against each other. Anti-internalization or self-match prevention functionality assists participants in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm.

The Exchange proposes to enhance its current self-match prevention functionality to allow participants that demonstrate (i) membership on the Exchange through which they directly submit orders to the System and (ii) participation as a Sponsored Participant whereby they submit orders to the System through Sponsored Access, to direct that quotes/orders entered into the System directly as a Member not execute against quotes/orders submitted as a Sponsored Participant ("Affiliate Level AIQ").[5] The proposed enhancement would be in addition to the other levels of self-match prevention offered today. Under the proposed rule change, the anti-internalization functionality would continue to be an optional feature. If a firm chooses to take advantage of self-match prevention, the firm would need to opt-in to the self-match prevention functionality, as is the case today.

The purpose of this proposed change is to extend self-match prevention functionality to prevent transactions between a firm's orders submitted directly to the

---

4 For purposes of Equity 4, Rule 4757, the term "Common Ownership" shall mean participants under 75% common ownership or control.

5 The Exchange will require firms requesting to use Affiliate Level AIQ to complete an affidavit stating: (i) it is currently a Member of the Exchange that submits orders directly to the System, and (ii) it also submits orders to the System through a Sponsored Access arrangement.

System and through Sponsored Access. There are situations where an individual firm would choose to submit orders to the Exchange through different mechanisms. For instance, a firm may employ different trading strategies across different trading desks and choose to send orders for one strategy to the Exchange through a direct connection while the other strategy is sent through Sponsored Access. The proposed functionality would serve as an additional tool that participants may enable in order to assist with compliance with the various securities laws relating to potentially manipulative trading activity such as wash sales[6] and self-trades.[7] Additionally, the proposed functionality would provide firms an additional solution to manage order flow by preventing undesirable executions where the firm submits orders in multiple formats (i.e., direct connection or Sponsored Access). As is the case with the existing risk tools, participants, and not the Exchange, have full responsibility for ensuring that their orders comply with applicable securities rules, laws, and regulations. Furthermore, as is the case with the existing risk settings, the Exchange does not believe that the use of the proposed self-match prevention functionality can replace participant-managed risk management solutions.

Anti-Internalization Activation

The Exchange also proposes to provide that, unless participants designate otherwise, for anti-internalization to activate across orders, the orders must reflect the

---

6 A "wash sale" is generally defined as a trade involving no change in beneficial ownership that is intended to produce the false appearance of trading and is strictly prohibited under both the federal securities laws and FINRA rules. See, e.g., 15 U.S.C 78i(a)(1); FINRA Rule 6140(b) ("Other Trading Practices").

7 Self-trades are "transactions in a security resulting from the unintentional interaction of orders originating from the same firm that involve no change in beneficial ownership of the security." FINRA requires members to have policies and procedures in place that are reasonably designed to review trading activity for, and prevent, a pattern or practice of self-trades resulting from orders originating from a single algorithm or trading desk, or related algorithms or trading desks. See FINRA Rule 5210, Supplementary Material .02.

same anti-internalization level. For example, if an order has designated anti-internalization at an MPID level (i.e., quotes/orders entered into the System shall not execute against quotes/orders entered under the same MPID), anti-internalization will only activate against another order designated with anti-internalization at an MPID level.

This is a departure from how anti-internalization activates today. Currently, anti-internalization activates across orders with different anti-internalization levels. For example, a resting order with MPID Level AIQ can have anti-internalization activated against it if an incoming order with Organization Level AIQ has the same Organization ID as the resting order. With the introduction of Affiliate Level AIQ, the anti-internalization levels must match across both orders for anti-internalization to be activated, in order to prevent erroneous activation of anti-internalization.[8] However, the Exchange proposes to preserve current functionality by providing participants with the option to elect to have anti-internalization activated against any anti-internalization level.

"Use Remover" Strategy

The Exchange currently provides three versions of self-match prevention functionality to allow participants to choose how orders are handled in the event of a self-match situation: (1) decrement, (2) cancel oldest, and (3) cancel newest. Under the first version ("decrement"), if the self-match orders have the same share size, both orders will cancel back to the customer. If the orders are not equivalent in size, the smaller order will cancel back to the originating customer and the larger order will decrement by the

[8] For example, assume Firm 1 accesses the Exchange directly and as a Sponsored Participant via Firm 2. Assume Firm 1 sends an order as a Sponsored Participant through Firm 2 with Affiliate Level AIQ enabled. Assume Firm 2 then sends an order unrelated to Firm 1 with Organization Level AIQ. If the current behavior prevailed, anti-internalization would activate and the orders would not execute, resulting in an undesirable outcome.

size of the smaller order. The remaining shares of the larger order will remain on the book. Under the second version ("cancel oldest"), the full size of the order residing on the book will cancel back to the customer if the incoming order would execute against it. The incoming order will remain intact with no changes. Under the third version ("cancel newest"), the full size of the order coming into the book will cancel back to the customer. The resting order will remain intact with no changes.

The Exchange proposes to add a new strategy ("use remover"), which would allow for a resting order to use the strategy of the removing order. If the use remover strategy is on an order, it will only have anti-internalization activated against it when it is the resting order and will never trigger anti-internalization against another order when it is the incoming order. The Exchange proposes to introduce the "use remover" strategy in order to maintain existing anti-internalization functionality that would otherwise become obsolete with the introduction of the default requirement for anti-internalization activation (i.e., the orders must reflect the same anti-internalization level). As described above, currently, anti-internalization activates across orders with different anti-internalization levels. Currently, resting orders that have anti-internalization disabled are still subject to anti-internalization functionality, based on the anti-internalization selection of the incoming orders. For example, currently, if Firm 1 sends an order with anti-internalization disabled and then Firm 2 sends an order with Organization Level AIQ with a decrement strategy, anti-internalization would activate between the two orders based on the incoming order's strategy because of the Organization Level AIQ. Assuming the Firm does not designate that anti-internalization activate across quotes/orders, the aforementioned example would no longer occur because Affiliate

Level AIQ necessitates matching anti-internalization levels. The Exchange wishes to maintain such functionality as an option for participants and introduction of the use remover strategy would allow participants to choose to have a resting order use the anti-internalization strategy of the removing order.

Taken together, the Exchange believes that the proposed anti-internalization enhancements would provide participants with more tailored self-trade functionality that allows them to manage their trading as appropriate based on the participant's business needs.

Clarifying Changes

Lastly, the Exchange proposes to make several clarifying changes to Equity 4, Rule 4757(a)(4) to promote clarity.

First, the Exchange proposes to codify which strategy prevails when anti-internalization strategies differ between two orders. Specifically, the Exchange proposes to provide that, when anti-internalization strategies differ between two orders, the strategy of the order removing liquidity will apply and the strategy of the resting order will be ignored. This is consistent with current Exchange and industry practice.

In addition, the Exchange proposes to modify the text introducing the various anti-internalization strategies to state that, "In each anti-internalization case, as described in this paragraph (4), a market participant may elect from the following strategies", to make it clear that any strategy may be selected for each anti-internalization level. Relatedly, the Exchange proposes to delete language stating that, "The foregoing options may be applied to all orders entered under the same MPID, across MPIDs under Common Ownership, or, in the case of market participants using the OUCH order entry

protocol, may be applied to all orders entered through a specific order entry port." The Exchange believes that such language is redundant, as the modified introductory language makes it clear that the anti-internalization strategies may be applied to each anti-internalization level. Finally, the Exchange also proposes to add the names of the existing anti-internalization strategies (i.e., Decrement, Cancel Oldest, and Cancel Newest) before the description of such strategies for clarity.

Implementation

The Exchange intends to introduce this new functionality by the first quarter of 2025. The Exchange will issue an Equities Trader Alert to provide notification of the change and relevant date prior to introducing the new functionality.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[9] in general, and furthers the objectives of Section 6(b)(5) of the Act,[10] 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 the proposed Affiliate Level AIQ functionality promotes just and equitable principles of trade by allowing individual firms to better manage order flow and prevent undesirable trading activity such as wash sales[11] or self-trades[12] that may occur as a result of the velocity of trading in today's high-speed

---

9 15 U.S.C. 78f(b).

10 15 U.S.C. 78f(b)(5).

11 Supra note 6.

12 Supra note 7.

marketplace. The proposed Affiliate Level AIQ functionality does not introduce novel functionality, as the proposed amendment extends the current anti-internalization functionality to another trading relationship. For instance, a participant may operate trading desk 1 that accesses the Exchange via the Member's direct connection, as well as trading desk 2 that accesses the Exchange as a Sponsored Participant. While these desks may operate different trading strategies, a participant may desire to prevent these desks from trading versus each other in the marketplace because the orders are originating from the same entity. Here, participants may desire anti-internalization functionality on an Affiliate Level AIQ that will help them achieve compliance[13] with regulatory rules regarding wash sales and self-trades in a very similar manner to the way that the current anti-internalization functionality applies to existing anti-internalization levels. The proposed Affiliate Level AIQ functionality will also assist participants in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm.

The Exchange believes that the other proposed changes, including modifying the default procedure for activating anti-internalization while preserving the current functionality as an option for participants, adding the use remover strategy, and making clarifying changes, also promote just and equitable principles of trade by providing participants with more tailored self-trade functionality that allows them to manage their trading as appropriate based on the participant's business needs and providing clarity and transparency to the rules.

---

[13] The Exchange reminds participants that while they may utilize anti-internalization to help prevent potential transactions such as wash sales or self-trades, participants, not the Exchange, are ultimately responsible for ensuring that their orders comply with applicable rules, laws, and regulations.

The Exchange also believes that the proposed rule change is fair and equitable and is not designed to permit unfair discrimination, in accordance with Section 6(b)(5) of the Act,[14] as use of the proposed Affiliate Level AIQ functionality and related features of the proposal are optional, and use is not a prerequisite for trading on the Exchange.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to enhance self-match prevention functionality provided to the Exchange's participants and will benefit participants that wish to protect their quotes and orders entered into the System directly as a Member against trading with quotes/orders submitted as a Sponsored Participant. The new functionality is also completely voluntary, and members that wish to use the current functionality (or opt out altogether) can also continue to do so. The Exchange does not believe that providing more flexibility to participants will have any significant impact on competition. In fact, the Exchange believes that the proposed rule change is evidence of the competitive environment where exchanges must continually improve their offerings to maintain competitive standing.

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.

14 15 U.S.C. 78f(b)(5).

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[15] and subparagraph (f)(6) of Rule 19b-4 thereunder.[16]

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

---

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

16 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Electronic Comments:

- Use the Commission's internet comment form (https://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include file number SR-NASDAQ-2024-064 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-2024-064. This file number should be included on the subject line if email 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 website (https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or

subject to copyright protection. All submissions should refer to file number SR-NASDAQ-2024-064 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[17]

Sherry R. Haywood,

Assistant Secretary.

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

EXHIBIT 5

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

THE NASDAQ STOCK MARKET LLC RULES

* * * * *

Equity Rules

* * * * *

Equity 4: Equity Trading Rules

* * * * *

4757. Book Processing

(a) Orders on the Nasdaq Book shall be presented for execution against incoming Orders in the order set forth below:

(1) – (3) No change.

(4) Exception: Anti-Internalization - Market participants may direct that quotes/orders entered into the System not execute against either quotes/orders entered under the same MPID or quotes/orders entered across MPIDs under Common Ownership.* Market participants that demonstrate (i) membership on the Exchange through which they directly submit orders to the System and (ii) participation as a Sponsored Participant whereby they submit orders to the System through Sponsored Access, may also direct that quotes/orders entered into the System directly as a Member not execute against quotes/orders submitted as a Sponsored Participant. In addition, market participants using the OUCH order entry protocol may assign to orders entered through a specific order entry port a unique group identification modifier that will prevent quotes/orders with such modifier from executing against each other.

Unless participants designate otherwise, for anti-internalization to activate across orders, the orders must reflect the same anti-internalization level. For example, if an order has designated anti-internalization at an MPID level (i.e., quotes/orders entered into the System shall not execute against quotes/orders entered under the same MPID), anti-internalization will only activate against another order designated with anti-internalization at an MPID level. However, participants also have the option to have anti-internalization activated against any anti-internalization level.

In each[such a] anti-internalization case, as described in this paragraph (4), a market participant may elect from the following [options]strategies:

(i) **Decrement:** if the interacting quotes/orders are equivalent in size, both quotes/orders will be cancelled back to their entering parties. If the interacting quotes/orders are not equivalent in size, share amounts equal to size of the smaller of the two quotes/orders will be cancelled back to their originating parties with the remainder of the larger quote/order being retained by the System for potential execution;

(ii) **Cancel Oldest**: regardless of the size of the interacting quotes/orders, cancelling the oldest of them in full; [or]

(iii) **Cancel Newest**: regardless of the size of the interacting quotes/orders, cancelling the most recent of them in full[.]; or

(iv) **Use Remover:** uses the strategy (i.e., decrement, cancel oldest, or cancel newest) of the removing order. If the "Use Remover" strategy is on an order, it will only have anti-internalization activated against it when it is the resting order and will never trigger anti-internalization against another order when it is the incoming order.

When anti-internalization strategies differ between two orders, the strategy of the order removing liquidity will apply and the strategy of the resting order will be ignored.

[The foregoing options may be applied to all orders entered under the same MPID, across MPIDs under Common Ownership,* or, in the case of market participants using the OUCH order entry protocol, may be applied to all orders entered through a specific order entry port.]

(b) – (c) No change.

*For purposes of Equity 4, Rule 4757, the term "Common Ownership" shall mean participants under 75% common ownership or control.

* * * * *