Proposed Rule Change by NASDAQ Stock Market

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

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<th>Initial</th>
<th>Amendment</th>
<th>Withdrawal</th>
<th>Section 19(b)(2)</th>
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Pilot  Extension of Time Period for Commission Action  Date Expires

A proposed rule change to amend Rules 4613a2F and G to reflect changes to the Automated Quote Management service provided by those rules.

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 proposed rule change.

<table>
<thead>
<tr>
<th>First Name</th>
<th>Last Name</th>
<th>Title</th>
<th>E-mail</th>
<th>Telephone</th>
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<tbody>
<tr>
<td>Sean</td>
<td>Bennett</td>
<td>Assistant General Counsel</td>
<td><a href="mailto:sean.bennett@nasdaqomx.com">sean.bennett@nasdaqomx.com</a></td>
<td>(301) 978-8499</td>
<td></td>
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</table>

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 officer.

Date: 01/11/2012

By: Edward S. Knight, Executive Vice President and General Counsel

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.
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 Proposed Rule Change**

   (a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 ("Act"), and Rule 19b-4 thereunder, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend Rules 4613(a)(2)(F) and (G) to reflect changes to the Automated Quote Management service provided by those rules.

   The text of the proposed rule change is below. Proposed new language is underlined.

   **4613. Market Maker Obligations**

   A member registered as a Market Maker shall engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Rule.

   (a) **Quotation Requirements and Obligations**

      (1) No change.

      (2) Pricing Obligations. For NMS stocks (as defined in Rule 600 under Regulation NMS) a Market Maker shall adhere to the pricing obligations established by this Rule during Regular Trading Hours; provided, however, that such pricing obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor

         (A) – (E) No change.

         (F) Quotation Creation and Adjustment. For each Issue in which a Market Maker is registered, the System shall, in the absence of a quotation that complies with this Rule entered by that Market Maker, automatically create a quotation for display to comply with this Rule. System-created compliant displayed quotations will thereafter be allowed to rest and not be further adjusted by the System unless the relationship between the quotation and its related National Best Bid or

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National Best Offer, as appropriate, shrinks to the greater of: (a) 4 percentage points, or, (b) one-quarter the applicable percentage necessary to trigger an individual stock trading pause as described in NASDAQ Rule 4120(a)(11), or expands to within that same percentage less 0.5%, whereupon the System will immediately re-adjust and display the Market Maker's quote to the appropriate Designated Percentage set forth in section (D) above. Quotations originally entered by Market Makers which have not been modified by the System upon entry or after resting on the book shall be allowed to move freely towards the National Best Bid or National Best Offer, as appropriate, for potential execution. A Market Maker may opt out of this service at any time by informing Nasdaq of its desire to cease the service. Nasdaq will reinitiate service upon a Market Maker’s request.

(G) Quotation Refresh After Execution. In the event of an execution against a System created compliant quotation, the Market Maker shall have its quote refreshed by the System on the executed side of the market at the applicable Designated Percentage away from the then National Best Bid (Offer) (or if no National Best Bid (Offer), the last reported sale). A Market Maker may opt out of this service at any time by informing Nasdaq of its desire to cease the service. Nasdaq will reinitiate service upon a Market Maker’s request.

(H) – (K) No change.

(b) – (e) No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of NASDAQ pursuant to authority delegated by the Board of Directors of NASDAQ on July 18, 2007. No other action by NASDAQ is necessary for the filing of the rule change.

Questions regarding this rule filing may be directed to T. Sean Bennett, Assistant General Counsel, The NASDAQ OMX Group, Inc. at (301) 978-8499 (telephone) or (301) 978-8472 (fax).
3. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

   a. **Purpose**

   NASDAQ proposes to amend Rules 4613(a)(2)(F) and (G) to allow Exchange market makers to opt out of the Automated Quote Management service.

   **Automated Quote Management**

   On November 5, 2010, the Commission approved all new Rule 4613, which included the Exchange’s Automated Quote Management service provided under Rules 4613(a)(2)(F) and (G).³ The Automated Quote Management service assists market makers in meeting their enhanced quotation obligations. For each issue in which a market maker is registered, the Exchange automatically creates a quotation for display to comply with the quoting requirements of Rule 4613(a). Compliant displayed quotations are thereafter allowed to rest and not be further adjusted by the Exchange unless the relationship between the quotation and its related national best bid or national best offer, as appropriate, shrinks to the greater of: (a) 4 percentage points, or, (b) one-quarter the applicable percentage necessary to trigger an individual stock trading pause as described in Rule 4120(a)(11), or expands to within that same percentage less 0.5%, whereupon the Exchange will immediately re-adjust and display the market maker’s quote to the appropriate designated percentage. Quotations originally entered by market makers are allowed to move freely towards the national best bid or national best offer, as appropriate, for potential execution.

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In the event of an execution against an Exchange-created compliant quotation, the market maker has its quote refreshed by the Exchange on the executed side of the market at the applicable designated percentage away from the then national best bid (offer), or if no national best bid (offer), the last reported sale.

**New Functionality**

As initially adopted, the Automated Quote Management service is currently applied to all Exchange market makers, with no provision for such member firms to opt out of the service. The Exchange is proposing to make the Automated Quote Management service voluntary and is adding functionality to allow Exchange market makers to opt out of the service. An Exchange market maker must inform the Exchange of its desire to opt out of the Automated Quote Management service, otherwise the service will continue to apply to the market maker’s quotes. An Exchange market maker that has opted out of the Automated Quote Management service may opt back into the service by likewise informing the Exchange. To provide notice to the Exchange, a market maker must inform the NASDAQ Trade Desk in writing via tradedesk@nasdaqomx.com of its desire to opt in or out of the service. The NASDAQ Trade Desk will process the request once received and confirm the market maker’s change in Automated Quote Management service status. An Exchange market maker may request that the Exchange change its status intraday. The Exchange will process such requests as they are received and the processing time may vary based on factors such as the number requests received.
b. **Statutory Basis**

The proposed rule change is consistent with Section 6(b) of the Act,\(^4\) in general, and furthers the objectives of Section 6(b)(5),\(^5\) in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. Allowing Exchange market makers to opt out of AQR will provide such firms the option to control their quote in all instances. A market maker that opts out of Automated Quote Management service may develop its own system to manage its quote, individually tailored to the firm’s operations and which may be superior to the Automated Quote Management service. Accordingly, the Exchange believes that the proposed changes to Rule 4613(a)(2) meet the requirements of Section 6(b)(5) of the Act\(^6\) in that they will allow Exchange market makers to develop individual solutions to their market making quoting obligations, potentially superior to that of the Automated Quote Management service.

4. **Self-Regulatory Organization’s Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

\(^6\) Id.
Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

The Exchange does not consent at this time 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)**

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^7\) and Rule 19b-4(f)(6)\(^8\) thereunder in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The Exchange believes that the proposed rule change does not significantly affect the protection of investors or the public interest because it merely allows Exchange market makers to opt out of the Automated Quote Management service if they so choose. Such market makers may develop their own systems with which they may meet their quoting obligations.

The Exchange requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.\(^9\) The Exchange believes that waiver of the pre-operative period is warranted because allowing Exchange market makers the ability to opt out of the Automated Quote Management service may allow

market makers who elect to opt out to provide superior management of their quotes than is currently available through the service. In this regard, an Exchange market maker is in the best position to determine whether it complies with both Exchange rules and the requirements of the Act, and therefore may find it better to opt out of the system to ensure it meets its regulatory obligations. Accordingly, the Exchange requests this waiver so that the change may be operative on January 17, 2012, which is the earliest date on which the Exchange may implement this important functionality.

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

   Not applicable.

9. Exhibits

   1. Completed notice of proposed rule change for publication in the Federal Register.
EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASDAQ-2012-009)

January __, 2012

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rules 4613(a)(2)(F) and (G) to Allow Exchange Market Makers to opt out of the Automated Quote Management Service

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 January 11, 2012, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange"), filed with the Securities and Exchange Commission ("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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rules 4613(a)(2)(F) and (G) to reflect changes to the Automated Quote Management service that will allow market makers to opt out of the service.

The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

4613. Market Maker Obligations

A member registered as a Market Maker shall engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Rule.

(a) Quotation Requirements and Obligations

(1) No change.

(2) Pricing Obligations. For NMS stocks (as defined in Rule 600 under Regulation NMS) a Market Maker shall adhere to the pricing obligations established by this Rule during Regular Trading Hours; provided, however, that such pricing obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor

(A) – (E) No change.

(F) Quotation Creation and Adjustment. For each Issue in which a Market Maker is registered, the System shall, in the absence of a quotation that complies with this Rule entered by that Market Maker, automatically create a quotation for display to comply with this Rule. System-created compliant displayed quotations will thereafter be allowed to rest and not be further adjusted by the System unless the relationship between the quotation and its related National Best Bid or National Best Offer, as appropriate, shrinks to the greater of: (a) 4 percentage points, or, (b) one-quarter the applicable percentage necessary to trigger an individual stock trading pause as described in NASDAQ Rule 4120(a)(11), or expands to within that same percentage less 0.5%, whereupon the System will immediately re-adjust and display the Market Maker's quote to the appropriate Designated Percentage set forth in section (D) above. Quotations originally entered by Market Makers which have not been modified by the System upon entry or after resting on the book shall be allowed to move freely towards the National Best Bid or National Best Offer, as appropriate, for potential execution. A Market Maker may opt out of this service at any time by informing Nasdaq of its desire to cease the service. Nasdaq will reinitiate service upon a Market Maker’s request.

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(H) – (K) No change.

(b) – (e) No change.

* * * *

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.

1. Purpose

NASDAQ proposes to amend Rules 4613(a)(2)(F) and (G) to allow Exchange market makers to opt out of the Automated Quote Management service.

Automated Quote Management

On November 5, 2010, the Commission approved all new Rule 4613, which included the Exchange’s Automated Quote Management service provided under Rules 4613(a)(2)(F) and (G). The Automated Quote Management service assists market makers in meeting their enhanced quotation obligations. For each issue in which a market maker is registered, the Exchange automatically creates a quotation for display to comply with the quoting requirements of Rule 4613(a). Compliant displayed quotations are thereafter allowed to rest and not be further adjusted by the Exchange unless the

relationship between the quotation and its related national best bid or national best offer, as appropriate, shrinks to the greater of: (a) 4 percentage points, or, (b) one-quarter the applicable percentage necessary to trigger an individual stock trading pause as described in Rule 4120(a)(11), or expands to within that same percentage less 0.5%, whereupon the Exchange will immediately re-adjust and display the market maker’s quote to the appropriate designated percentage. Quotations originally entered by market makers are allowed to move freely towards the national best bid or national best offer, as appropriate, for potential execution.

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2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,\(^4\) in general, and furthers the objectives of Section 6(b)(5),\(^5\) in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. Allowing Exchange market makers to opt out of AQR will provide such firms the option to control their quote in all instances. A market maker that opts out of Automated Quote Management service may develop its own system to manage its quote, individually tailored to the firm’s operations and which may be superior to the Automated Quote Management service. Accordingly, the Exchange believes that the proposed changes to Rule 4613(a)(2) meet the requirements of Section 6(b)(5) of the Act\(^6\) in that they will allow Exchange market makers to develop individual solutions to their market making quoting obligations, potentially superior to that of the Automated Quote Management service.

\(^6\) Id.
B. **Self-Regulatory Organization’s Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act\(^7\) and subparagraph (f)(6) of Rule 19b-4 thereunder.\(^8\)

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. The Exchange has provided the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change.

IV. Solicitation of Comments

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

**Electronic comments:**

- Use the Commission’s Internet comment form ([http://www.sec.gov/rules/sro.shtml](http://www.sec.gov/rules/sro.shtml)); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2012-009 on the subject line.

**Paper comments:**

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

All submissions should refer to File Number SR-NASDAQ-2012-009. 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](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 on official business days between the hours of 10:00 a.m. and 3:00 p.m.
Copies of such filing also will be available for inspection and copying at the principal offices 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-2012-009, 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.⁹

Kevin M. O’Neill
Deputy Secretary

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