Proposed Rule Change by NASDAQ Stock Market

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 *

Description

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

A proposed rule change to clarify how the processing of a Price to Comply Order under Rule 4751(f)(7) operates based on the method of entry.

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.

First Name * Sean Last Name * Bennett

Title * Assistant General Counsel

E-mail * sean.bennett@nasdaqomx.com

Telephone * (301) 978-8499 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 officer.

Date 05/08/2012

By Edward S. Knight Executive Vice President & General Counsel

(Note *)

(Note *)

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

Edward S Knight,
<table>
<thead>
<tr>
<th>Form 19b-4 Information (required)</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit 1 - Notice of Proposed Rule Change (required)</td>
<td>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).</td>
</tr>
<tr>
<td>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</td>
<td>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.</td>
</tr>
<tr>
<td>Exhibit 3 - Form, Report, or Questionnaire</td>
<td>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.</td>
</tr>
<tr>
<td>Exhibit 4 - Marked Copies</td>
<td>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.</td>
</tr>
<tr>
<td>Exhibit 5 - Proposed Rule Text</td>
<td>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.</td>
</tr>
<tr>
<td>Partial Amendment</td>
<td>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.</td>
</tr>
</tbody>
</table>
1. **Text of Proposed Rule Change**

   (a) Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”) \(^1\) and Rule 19b-4 thereunder,\(^2\) The NASDAQ Stock Market LLC (“NASDAQ” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to clarify how the processing of a Price to Comply Order under Rule 4751(f)(7) operates based on the method of entry.

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

   * * * * *

4751. Definitions
The following definitions apply to the Rule 4600 and 4750 Series for the trading of securities listed on Nasdaq or a national securities exchange other than Nasdaq.

(a) - (e)

(f) The term “Order Type” shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) – (6) No change.

(7) “Price to Comply Order” are orders that, if, at the time of entry, a Price to Comply Order would lock or cross the quotation of an external market, the order will be priced to the current low offer (for bids) or to the current best bid (for offers) and displayed at a price one minimum price increment lower than the offer (for bids) or higher than the bid (for offers). The displayed and undisplayed prices of a Price to Comply order entered through an OUCH port may be adjusted once or multiple times depending upon [the method of order entry and]the election of the member firm and changes to the prevailing NBBO. The displayed and undisplayed prices of a Price to Comply order entered through a RASH port may be adjusted multiple times, depending upon changes to the prevailing NBBO.

(8) – (14) No change.

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(g) – (i) 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 August 19, 2011. NASDAQ staff will advise the Board of Directors of NASDAQ of any action taken pursuant to delegated authority. No other action by NASDAQ is necessary for the filing of the rule change.

NASDAQ will implement the proposed change on May 14, 2012. Questions regarding this rule filing may be directed to T. Sean Bennett, Assistant General Counsel, The NASDAQ OMX Group, Inc. at (301) 978-8499.

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

a. Purpose

NASDAQ is proposing to clarify the effect that the methods of order entry have on the processing of a Price to Comply Order, as described in Rule 4751(f)(7).\(^3\) A Price to Comply Order allows a member firm to quote aggressively and still comply with the locked and crossed markets provisions of Regulation NMS.\(^4\) Prior to June 2008, if at the

\(^3\) “Price to Comply Order” is an order such that, if, at the time of entry, it would lock or cross the quotation of an external market, the order will be priced to the current low offer (for bids) or to the current best bid (for offers) and displayed at a price one minimum price increment lower than the offer (for bids) or higher than the bid (for offers).

\(^4\) 17 CFR 242.610.
time of entry a Price to Comply Order would create a violation of SEC Rule 610(d) by locking or crossing the protected quote of an external market or would cause a violation of SEC Rule 611 by trading through such a protected quote, the order was converted by the NASDAQ system to a Non-Displayed Order, as defined in Rule 4751(e)(3), and repriced to the current low offer (for bids) or to the current best bid (for offers). Thereafter, such a Non-Displayed Order would be cancelled by the NASDAQ system if the market moved through the price of the order after the order was accepted.

In June 2008, NASDAQ amended Rule 4751(f)(7). The amendment changed how the Price to Comply Order operates so that a locking or crossing order is no longer converted to a Non-Displayed Order, but rather is displayed at the most aggressive price possible, one minimum price increment worse than the locking price. NASDAQ also added language to the rule, which noted that the Exchange may adjust the displayed and undisplayed prices of a Price to Comply Order once or multiple times, depending on the method of order entry and changes to the National Best Bid and Offer ("NBBO"). In the discussion of the rule change, NASDAQ explained that the displayed and undisplayed price of an individual order may be modified one or more times depending upon the manner of order entry into the system. In particular, if a member chooses to enter a Price to Comply Order via NASDAQ’s RASH protocol, the order is priced upon entry and may be adjusted multiple times in response to changes in the prevailing NBBO to move the displayed price closer to the original entered price and display the best possible price.

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5 “Non-Displayed Order” is a limit order that is not displayed in the NASDAQ system, but nevertheless remains available for potential execution against all incoming orders until executed in full or cancelled.

consistent with the provisions of Regulation NMS. In addition, each time the displayed price is adjusted, the order will receive a new timestamp for purposes of determining its price/time priority according to NASDAQ’s existing processing rules. If a Price to Comply Order is entered via NASDAQ’s OUCH protocol, however, the order will be repriced only upon entry and the order is not repriced in the event the prevailing NBBO changes.

NASDAQ is proposing to amend Rule 4751(f)(7) to clarify the effect that the method of order entry has on the processing of the Price to Comply Order. As noted above, the method of entry of a Price to Comply Order determines whether the order is repriced once or multiple times. This will continue to be the case under the amended rule; however, an OUCH subscriber will be afforded the choice to have its Price to Comply Order be subject to repricing *either* only once *or* multiple times. Member firms will designate each OUCH protocol order port to use either the single or multiple repricing functionality for any Price to Comply Order entered via that port. A RASH subscriber will continue to have the Price to Comply Order repriced multiple times, when appropriate. The methodology for repricing the Price to Comply Order will not vary based on how the order is entered. Like a RASH-entered Price to Comply Order, each time the OUCH-entered order is repriced it will receive a new timestamp for purposes of determining its price/time priority. As such, a repriced Price to Comply Order is treated as a new order in terms of priority and, as such, there is no guarantee that the OUCH-entered Price to Comply Order will receive priority when it becomes actionable after repricing.

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7 In the absence of designation from a member firm, NASDAQ will default the member’s OUCH port(s) to single repricing.
NASDAQ believes that the new functionality and related rule change will serve to reduce the order traffic received using the OUCH protocol. NASDAQ notes that, in certain cases, a member will submit a Price to Comply Order at an aggressive price that it anticipates will be at the NBBO. Often such an order is not submitted at the NBBO and is not executed after repricing because the market does not move to the adjusted order price. In such cases, the member firm will typically submit additional aggressive orders, which likewise are not executed. Because the OUCH protocol is used by member firms that are able to submit a large volume of orders, NASDAQ believes that offering such firms the ability to have NASDAQ reprice a Price to Comply Order multiple times will serve to reduce the excessive volume of orders entered into the System and ultimately canceled.

As noted, NASDAQ will continue to offer OUCH subscribers an alternative to the multiple repricing functionality so that such member firms may elect to have a locked or crossed Price to Comply Order repriced only once, consistent with the current process. NASDAQ believes that this will accommodate member firms that seek the certainty of repricing at most once or whose trading systems depend on the existing repricing mechanism.

b. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^8\) in general, and with Section 6(b)(5) of the Act\(^9\) in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to

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promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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. NASDAQ believes this proposal is consistent with the Exchange Act and, specifically, Rules 610 and 611 of Regulation NMS in that it is designed to prevent orders from locking and crossing market or trading through protected quotes, while also promoting a more efficient market. In this regard, NASDAQ believes that the proposed rule change will promote the efficient use of the Exchange by reducing the number of orders entered into the market and ultimately canceled. The proposed rule change will accomplish this by providing the member firms that tend to enter the greatest number of such orders an option to have the Exchange reprice a single order multiple times. NASDAQ also believes that permitting a high volume user the option to continue to have the Exchange reprice its Price to Comply Order only upon order entry, when appropriate, will ensure member firms with internal systems that act in reliance of this function will continue to operate without disruption.

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

NASDAQ 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.

5. **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.
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) of the Act\(^\text{10}\) and Rule 19b-4(f)(6)\(^\text{11}\) 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.

NASDAQ notes that the proposed rule change extends the functionality currently provided to RASH users to OUCH users. Like RASH users under Rule 4751(f)(7), OUCH users will not receive any preference in terms of execution when repriced by NASDAQ, but rather will receive a new time stamp with the order and a lower relative preference than orders previously entered at the same price. The proposed rule change will improve efficiency in the market by reducing unnecessary messaging traffic and cancellations, while not negatively affecting price discovery or liquidity. To the contrary, the proposed rule change will encourage liquidity by providing an orderly repricing mechanism, which is currently provided to other market participants using the RASH protocol.

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NASDAQ requests that the Commission waive the 30-day pre-operative waiting period contained in Exchange Act Rule 19b-4(f)(6)(iii). As noted above, NASDAQ believes that reducing unnecessary messaging traffic and order cancellations benefits all market participants and creates a more efficient market. NASDAQ believes that these benefits should be offered to members as soon as reasonably possible. Also as noted above, the proposed functionality is currently offered to member firms using the RASH protocol and therefore raises no novel issues. Accordingly, NASDAQ requests waiver of the 30-day pre-operative period because it will allow the proposed change to be operative on May 14, 2012, the earliest time NASDAQ can implement the changes needed to afford OUCH users the option proposed herein.

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.

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May __, 2012

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 4751(f)(7) Concerning the Processing of the Price to Comply Order

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 August 31, 2011, 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 clarify how the processing of a Price to Comply Order under Rule 4751(f)(7) operates based on the method of entry. The Exchange will implement the change effective May 14, 2012.

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

* * * * *

4751. Definitions

The following definitions apply to the Rule 4600 and 4750 Series for the trading of securities listed on Nasdaq or a national securities exchange other than Nasdaq.

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(8) – (14) No change.

(g) – (i) 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.

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

1. Purpose

NASDAQ is proposing to clarify the effect that the methods of order entry have
on the processing of a Price to Comply Order, as described in Rule 4751(f)(7).³ A Price to Comply Order allows a member firm to quote aggressively and still comply with the locked and crossed markets provisions of Regulation NMS.⁴ Prior to June 2008, if at the time of entry a Price to Comply Order would create a violation of SEC Rule 610(d) by locking or crossing the protected quote of an external market or would cause a violation of SEC Rule 611 by trading through such a protected quote, the order was converted by the NASDAQ system to a Non-Displayed Order, as defined in Rule 4751(e)(3),⁵ and re-priced to the current low offer (for bids) or to the current best bid (for offers). Thereafter, such a Non-Displayed Order would be cancelled by the NASDAQ system if the market moved through the price of the order after the order was accepted.

In June 2008, NASDAQ amended Rule 4751(f)(7).⁶ The amendment changed how the Price to Comply Order operates so that a locking or crossing order is no longer converted to a Non-Displayed Order, but rather is displayed at the most aggressive price possible, one minimum price increment worse than the locking price. NASDAQ also added language to the rule, which noted that the Exchange may adjust the displayed and undisplayed prices of a Price to Comply Order once or multiple times, depending on the

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⁴ 17 CFR 242.610.

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method of order entry and changes to the National Best Bid and Offer (“NBBO”). In the
discussion of the rule change, NASDAQ explained that the displayed and undisplayed
price of an individual order may be modified one or more times depending upon the
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NASDAQ believes that the new functionality and related rule change will serve to reduce the order traffic received using the OUCH protocol. NASDAQ notes that, in certain cases, a member will submit a Price to Comply Order at an aggressive price that it anticipates will be at the NBBO. Often such an order is not submitted at the NBBO and is not executed after repricing because the market does not move to the adjusted order price. In such cases, the member firm will typically submit additional aggressive orders, which likewise are not executed. Because the OUCH protocol is used by member firms that are able to submit a large volume of orders, NASDAQ believes that offering such firms the ability to have NASDAQ reprice a Price to Comply Order multiple times will serve to reduce the excessive volume of orders entered into the System and ultimately canceled.

As noted, NASDAQ will continue to offer OUCH subscribers an alternative to the multiple repricing functionality so that such member firms may elect to have a locked or crossed Price to Comply Order repriced only once, consistent with the current process. NASDAQ believes that this will accommodate member firms that seek the certainty of
repricing at most once or whose trading systems depend on the existing repricing mechanism.

2. **Statutory Basis**

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^8\) in general, and with Section 6(b)(5) of the Act\(^9\) in particular, in that the proposal 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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. NASDAQ believes this proposal is consistent with the Exchange Act and, specifically, Rules 610 and 611 of Regulation NMS in that it is designed to prevent orders from locking and crossing market or trading through protected quotes, while also promoting a more efficient market. In this regard, NASDAQ believes that the proposed rule change will promote the efficient use of the Exchange by reducing the number of orders entered into the market and ultimately canceled. The proposed rule change will accomplish this by providing the member firms that tend to enter the greatest number of such orders an option to have the Exchange reprice a single order multiple times. NASDAQ also believes that permitting a high volume user the option to continue to have the Exchange reprice its Price to Comply Order only upon

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order entry, when appropriate, will ensure member firms with internal systems that act in reliance of this function will continue to operate without disruption.

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.

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\(^{10}\) and subparagraph (f)(6) of Rule 19b-4 thereunder.\(^{11}\)

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

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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); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number
  SR-NASDAQ-2012-060 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-2012-060. 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
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-2011-060, 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.12

Kevin M. O’Neill
Deputy Secretary

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