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) * [ ]

Rule

19b-4(f)(1) [ ] 19b-4(f)(2) [ ] 19b-4(f)(3) [ ] 19b-4(f)(4) [ ] 19b-4(f)(5) [ ] 19b-4(f)(6) [✓]

Description

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

A proposed rule change to provide for automatic cancellation of Midpoint Peg Post-Only Orders at market close.

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 * John Last Name * Yetter

Title * Vice President

E-mail * john.yetter@nasdaqomx.com

Telephone * (301) 978-8497 Fax (301) 978-8472

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 09/28/2012

By Edward S. Knight Executive Vice President and General Counsel

(Note *)

Edward S Knight,
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) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² The NASDAQ Stock Market LLC (“NASDAQ”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to provide for automatic cancellation of Midpoint Peg Post-Only Orders at market close.

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

### 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) No change.

(f) No change.

(1) – (10) No change.

(11) “Midpoint Peg Post-Only Orders” are orders that are priced in the same manner as Midpoint Peg Orders. Upon entry, a Midpoint Peg Post-Only Order will always post to the book unless it is a buy (sell) order that is priced higher than (lower than) a resting sell (buy) order, in which case it will execute at the price of the resting order. Midpoint Peg Post-Only Orders must always have a price of more than $1 per share. A Midpoint Peg Post-Only Order that would be assigned a price of $1 or less per share will be rejected or cancelled, as applicable. Midpoint Peg Post-Only Orders are eligible for entry and execution during regular market hours only, and any Midpoint Peg Post-Only Orders resting on the book at 4:00 pm will be cancelled.

   While a Midpoint Peg Post-Only Order that posts to the book is locking a preexisting non-displayed order, the Midpoint Peg Post-Only Order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order. For purposes of determining the Nasdaq best bid or offer under Rules 4752, 4753, or 4754, a Midpoint Peg Post-Only Order to buy (sell) that

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is locking another non-displayed order shall be deemed to have a price equal to the price of the highest sell order (lowest buy order) that would be eligible to execute against the Midpoint Peg Post-Only Order in such circumstances.

(12) – (15) No change.

(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 July 10, 2012. NASDAQ staff will advise the Board of Directors of NASDAQ of any action taken pursuant to delegated authority. No further action is required to be taken for this filing to be submitted. NASDAQ has requested that the Commission waive the operative delay provided for in Rule 19b-4(f)(6)(iii). If such waiver is granted, NASDAQ proposes to implement the proposed rule change at the earliest date that is technically practicable.

Questions regarding this rule filing may be directed to John M. Yetter, Vice President and Deputy General Counsel, The NASDAQ OMX Group, Inc., at (301) 978-8497 (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

A Midpoint Peg Post-Only Order is a non-displayed order that is priced at the midpoint between the national best bid and best offer (“NBBO”) (as determined using the

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However, like a Post-Only Order, the Midpoint Peg Post-Only Order does not remove liquidity from the System upon entry if it would lock a non-displayed order on the NASDAQ Market Center system (the “System”). Rather, the Midpoint Peg Post-Only Order will post and lock the pre-existing order, but will remain undisplayed.  

Midpoint Peg Post-Only Orders that post to the book and lock a pre-existing non-displayed order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order. If a Midpoint Peg Order and a Midpoint Peg Post-Only Order are locked, and a Midpoint Peg Order is entered on the same side of the market as the Midpoint Peg Post-Only Order, the new order will execute against the original Midpoint Peg Order. This is the case because the market participant entering the Midpoint Peg Post-Only Order has expressed its intention not to execute against posted liquidity, and therefore cedes execution priority to the new order.

Nasdaq believes that demand for the use of Midpoint Peg Post-Only Orders is limited to regular market hours, since the wider spreads generally prevailing during pre-market and post-market trading sessions would result in execution prices more at variance from the NBBO than would be the case during regular market hours. To this end, Midpoint Peg Post-Only Orders are accepted only during regular market hours. The proposed rule change clarifies this restriction by adding it to the rule text. At present, however, a Midpoint Peg Post-Only Order that is accepted during regular market hours but not executed and/or cancelled during regular market hours will continue to rest on the consolidated tape).  

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4 SEC Rule 610(d) under Regulation NMS, 17 CFR 242.610(d), restricts displayed quotations that lock protected quotations in NMS Stocks, but does not apply to non-displayed trading interest.
book until it is removed by another order, cancelled by the user or its Time-in-Force expires. To assist market participants in managing the use of these orders, NASDAQ is proposing to cancel all Midpoint Peg Post-Only Orders on the NASDAQ book at 4:00 p.m. In addition, the change provides that Midpoint Peg Post-Only Orders may execute during regular market hours only. This change will help ensure that market participants entering these orders are not subject to executions at prices that deviate from the NBBO by a greater extent that would be the case during regular market hours. Moreover, because such orders may execute during regular market hours only, they are not eligible for participation in the NASDAQ Opening Cross or the NASDAQ Closing Cross.

b. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act, in general, and with Section 6(b)(5) of the Act, 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. Specifically, NASDAQ believes that the proposed change will help promote efficient market operations by providing for automatic cancellation of resting Midpoint Peg Post-Only Orders at 4:00 pm. This change will assist market participants in managing the use of these orders and help ensure

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that they are not subject to executions at prices that deviate from the NBBO by a greater extent that would be the case during regular market hours.

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. Specifically, NASDAQ does not believe that the proposed change will affect competition in any respect.

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 proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act\(^7\) and paragraph (f)(6) of Rule 19b-4 thereunder,\(^8\) in that the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) 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; provided the self-regulatory organization has given 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, or such shorter time as designated by the Commission. NASDAQ provided the Commission with such written notice on August 16, 2012.

NASDAQ requests that the Commission waive the 30-day operative delay provided for in Rule 19b-4(f)(6)(iii). NASDAQ believes that making the change will advance the protection of investors by ensuring that market participants entering Midpoint Peg Post-Only Orders are not subject to executions at prices that deviate from the NBBO by a greater extent that would be the case during regular market hours. NASDAQ believes that the change will thereby minimize the likelihood of executions during post-market hours that do not reflect the intentions of market participants. NASDAQ further believes that the change will not affect competition in any respect. Accordingly, NASDAQ believes that it would be beneficial to the market to make the change without operative delay.

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

Not applicable.

9. Exhibits

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

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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 September 28, 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 NASDAQ. 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**

NASDAQ proposes a rule change to provide for automatic cancellation of Midpoint Peg Post-Only Orders at market close. The text of the proposed rule change is available at [http://nasdaq.cchwallstreet.com](http://nasdaq.cchwallstreet.com), at NASDAQ’s principal office, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, NASDAQ 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. NASDAQ 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

A Midpoint Peg Post-Only Order is a non-displayed order that is priced at the midpoint between the national best bid and best offer ("NBBO") (as determined using the consolidated tape). However, like a Post-Only Order, the Midpoint Peg Post-Only Order does not remove liquidity from the System upon entry if it would lock a non-displayed order on the NASDAQ Market Center system (the “System”). Rather, the Midpoint Peg Post-Only Order will post and lock the pre-existing order, but will remain undisplayed.3

Midpoint Peg Post-Only Orders that post to the book and lock a pre-existing non-displayed order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order. If a Midpoint Peg Order and a Midpoint Peg Post-Only Order are locked, and a Midpoint Peg Order is entered on the same side of the market as the Midpoint Peg Post-Only Order, the new order will execute against the original Midpoint Peg Order. This is the case because the market participant entering the Midpoint Peg Post-Only Order has expressed its intention not to execute against posted liquidity, and therefore cedes execution priority to the new order.

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3 SEC Rule 610(d) under Regulation NMS, 17 CFR 242.610(d), restricts displayed quotations that lock protected quotations in NMS Stocks, but does not apply to non-displayed trading interest.
Nasdaq believes that demand for the use of Midpoint Peg Post-Only Orders is limited to regular market hours, since the wider spreads generally prevailing during pre-market and post-market trading sessions would result in execution prices more at variance from the NBBO than would be the case during regular market hours. To this end, Midpoint Peg Post-Only Orders are accepted only during regular market hours. The proposed rule change clarifies this restriction by adding it to the rule text. At present, however, a Midpoint Peg Post-Only Order that is accepted during regular market hours but not executed and/or cancelled during regular market hours will continue to rest on the book until it is removed by another order, cancelled by the user or its Time-in-Force expires. To assist market participants in managing the use of these orders, NASDAQ is proposing to cancel all Midpoint Peg Post-Only Orders on the NASDAQ book at 4:00 p.m. In addition, the change provides that Midpoint Peg Post-Only Orders may execute during regular market hours only. This change will help ensure that market participants entering these orders are not subject to executions at prices that deviate from the NBBO by a greater extent that would be the case during regular market hours. Moreover, because such orders may execute during regular market hours only, they are not eligible for participation in the NASDAQ Opening Cross or the NASDAQ Closing Cross.

2. **Statutory Basis**

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^4\) in general, and with Section 6(b)(5) of the Act,\(^5\) 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. Specifically, NASDAQ believes that the proposed change will help promote efficient market operations by providing for automatic cancellation of resting Midpoint Peg Post-Only Orders at 4:00 pm. This change will assist market participants in managing the use of these orders and help ensure that they are not subject to executions at prices that deviate from the NBBO by a greater extent that would be the case during regular market hours.

B. 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. Specifically, NASDAQ does not believe that the proposed change will affect competition in any respect.

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\(^6\) and subparagraph (f)(6) of Rule 19b-4 thereunder.\(^7\)

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.

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-2012-111 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-2012-111. This file number should be included on the subject line if e-mail is used.

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To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission’s Public Reference Room 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 NASDAQ. 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-2012-111, 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.8

Kevin M. O’Neill
Deputy Secretary

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