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

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

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.
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.

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).

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.

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.

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.

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.

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”)\(^1\) 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 for the purpose of adopting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of Rule 7014(g). 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 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 other action by NASDAQ is necessary for the filing of the rule change. The proposed rule change is effective immediately.

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

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

   a. **Purpose**

   NASDAQ is amending Rule 7014(g), which establishes a pricing incentive program for members designated as Qualified Market Makers ("QMM") under the terms

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of the rule, to adopt a stated policy, practice, or interpretation with respect to the rule’s meaning, administration, or enforcement. Under the QMM program, which was adopted in November 2012 on a six-month pilot basis, a member may be designated as a QMM with respect to one or more of its MPIDs if:

- the member is not assessed any “Excess Order Fee” under Rule 7018 during the month; and
- through such MPID the member quotes at the NBBO at least 25% of the time during regular market hours in an average of at least 1,000 securities during the month.

NASDAQ is adopting a stated policy, practice, or interpretation with respect to the rule to address a circumstance in which a member seeking to be designated as a QMM

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4 Rule 7018(m). NASDAQ recently introduced an Excess Order Fee, aimed at reducing inefficient order entry practices of certain market participants that place excessive burdens on the systems of NASDAQ and its members and that may negatively impact the usefulness and life cycle cost of market data. In general, the determination of whether to impose the fee on a particular MPID is made by calculating the ratio between (i) entered orders, weighted by the distance of the order from the NBBO, and (ii) orders that execute in whole or in part. The fee is imposed on MPIDs that have an “Order Entry Ratio” of more than 100.

5 Defined as 9:30 a.m. through 4:00 p.m., or such shorter period as may be designated by NASDAQ on a day when the securities markets close early (such as the day after Thanksgiving).

6 A member MPID is considered to be quoting at the NBBO if it has a displayed order at either the national best bid or the national best offer or both the national best bid and offer. On a daily basis, NASDAQ will determine the number of securities in which the member satisfied the 25% NBBO requirement. To qualify for QMM designation, the MPID must meet the requirement for an average of 1,000 securities per day over the course of the month. Thus, if a member MPID satisfied the 25% NBBO requirement in 900 securities for half the days in the month, and satisfied the requirement for 1,100 securities for the other days in the month, it would meet the requirement for an average of 1,000 securities.
terminates the use of one MPID and simultaneously commences use of another MPID during the course of a month. In that circumstance, NASDAQ believes that it is reasonable to allow the member to aggregate activity on the two MPIDs, essentially treating them like a single MPID, for the purpose of determining eligibility. By codifying this interpretation, the proposed rule change will enhance the transparency of the rule.

b. **Statutory Basis**

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^7\) in general, and with Section 6(b)(5) of the Act\(^8\) 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 that the adoption of a clear policy with respect to the meaning, administration, and enforcement of Rule 7014(g) will promote members’ understanding of the parameters of the rule and the efficiency of its administration.

NASDAQ further believes that the proposed rule change is consistent with Sections 6(b)(4) and (b)(5) of the Act,\(^9\) in that it is consistent with an equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which NASDAQ operates or controls and is not

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unreasonably discriminatory. The addition of rule language stipulating the permissibility of aggregating two MPIDs when use of one is terminated during the course of the month establishes a standard that is clear and easy to administer. The provision is equitable and not unreasonably discriminatory because all members seeking to terminate the use of an MPID during the course of a month are subject to the same commonsense parameters, which do not unfairly penalize a member for transitioning order entry activity from one MPID to another, and because the standard is consistent with the overall goal of the QMM program to encourage members to improve market quality by quoting extensively at or near the inside.

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. The change will adopt a clear and commonsense standard for members that wish to qualify for the QMM program but that terminate the use of one MPID and commence the use of another MPID during the course of the month. NASDAQ believes that in fact this change will promote competition and further the pro-competitive goals of encouraging members to improve market quality by quoting extensively at or near the inside, as it insures that a member that transitions MPIDs is not barred from participating in the program during the month of transition. Moreover, NASDAQ notes that because the market for order execution and routing is extremely competitive, members may readily opt to disfavor NASDAQ’s execution services if they believe that alternatives offer them better value. Accordingly, NASDAQ does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.
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)**

Pursuant to Section 19(b)(3)(A)(i) of the Act,\(^{10}\) NASDAQ has designated this proposal as a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule, which renders the proposed rule change effective upon filing.

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

Not applicable.

9. **Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

11. **Exhibits**

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

5. Text of the proposed rule change.

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-   ; File No. SR-NASDAQ-2013-016)

January __, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change for the Purpose of Adopting a Stated Policy, Practice, or Interpretation with Respect to the Meaning, Administration, or Enforcement of Rule 7014(g)

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 24, 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 a rule for the purpose of adopting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of Rule 7014(g). The text of the proposed rule change is available at http://nasdaq.cchwallstreet.com, at the Exchange’s principal office, and at the Commission’s Public Reference Room.

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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 amending Rule 7014(g), which establishes a pricing incentive program for members designated as Qualified Market Makers (“QMM”) under the terms of the rule, to adopt a stated policy, practice, or interpretation with respect to the rule’s meaning, administration, or enforcement. Under the QMM program, which was adopted in November 2012 on a six-month pilot basis, a member may be designated as a QMM with respect to one or more of its MPIDs if:

- the member is not assessed any “Excess Order Fee” under Rule 7018 during the month; and

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4 Rule 7018(m). NASDAQ recently introduced an Excess Order Fee, aimed at reducing inefficient order entry practices of certain market participants that place excessive burdens on the systems of NASDAQ and its members and that may negatively impact the usefulness and life cycle cost of market data. In general, the determination of whether to impose the fee on a particular MPID is made by calculating the ratio between (i) entered orders, weighted by the distance of the order from the NBBO, and (ii) orders that execute in whole or in part. The fee is imposed on MPIDs that have an “Order Entry Ratio” of more than 100.
through such MPID the member quotes at the NBBO at least 25% of the time during regular market hours\(^5\) in an average of at least 1,000 securities during the month.\(^6\)

NASDAQ is adopting a stated policy, practice, or interpretation with respect to the rule to address a circumstance in which a member seeking to be designated as a QMM terminates the use of one MPID and simultaneously commences use of another MPID during the course of a month. In that circumstance, NASDAQ believes that it is reasonable to allow the member to aggregate activity on the two MPIDs, essentially treating them like a single MPID, for the purpose of determining eligibility. By codifying this interpretation, the proposed rule change will enhance the transparency of the rule.

2. **Statutory Basis**

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^7\) in general, and with Section 6(b)(5) of the Act\(^8\) in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to

\(^5\) Defined as 9:30 a.m. through 4:00 p.m., or such shorter period as may be designated by NASDAQ on a day when the securities markets close early (such as the day after Thanksgiving).

\(^6\) A member MPID is considered to be quoting at the NBBO if it has a displayed order at either the national best bid or the national best offer or both the national best bid and offer. On a daily basis, NASDAQ will determine the number of securities in which the member satisfied the 25% NBBO requirement. To qualify for QMM designation, the MPID must meet the requirement for an average of 1,000 securities per day over the course of the month. Thus, if a member MPID satisfied the 25% NBBO requirement in 900 securities for half the days in the month, and satisfied the requirement for 1,100 securities for the other days in the month, it would meet the requirement for an average of 1,000 securities.


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 that the adoption of a clear policy with respect to the meaning, administration, and enforcement of Rule 7014(g) will promote members’ understanding of the parameters of the rule and the efficiency of its administration.

NASDAQ further believes that the proposed rule change is consistent with Sections 6(b)(4) and (b)(5) of the Act, in that it is consistent with an equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which NASDAQ operates or controls and is not unreasonably discriminatory. The addition of rule language stipulating the permissibility of aggregating two MPIDs when use of one is terminated during the course of the month establishes a standard that is clear and easy to administer. The provision is equitable and not unreasonably discriminatory because all members seeking to terminate the use of an MPID during the course of a month are subject to the same commonsense parameters, which do not unfairly penalize a member for transitioning order entry activity from one MPID to another, and because the standard is consistent with the overall goal of the QMM program to encourage members to improve market quality by quoting extensively at or near the inside.

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. The change will adopt a clear and commonsense standard for members that wish to qualify for the QMM program but that terminate the use of one MPID and commence the use of another MPID during the course of the month. NASDAQ believes that in fact this change will promote competition and further the pro-competitive goals of encouraging members to improve market quality by quoting extensively at or near the inside, as it insures that a member that transitions MPIDs is not barred from participating in the program during the month of transition. Moreover, NASDAQ notes that because the market for order execution and routing is extremely competitive, members may readily opt to disfavor NASDAQ’s execution services if they believe that alternatives offer them better value. Accordingly, NASDAQ does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\textsuperscript{10} and paragraph (f) of Rule 19b-4 thereunder\textsuperscript{11} At any time within 60 days of


\textsuperscript{11} 17 CFR 240.19b-4(f).
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, 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-2013-016 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-2013-016. 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-2013-016, 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

EXHIBIT 5

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

7014. Market Quality Incentive Programs

Investor Support Program

(a) - (c) No change.

Extended Hours Investor Program

(d) – (f) No change.

Qualified Market Maker ("QMM") Program

(g) A member may be designated as a QMM with respect to one or more of its MPIDs if:

(1) the member is not assessed any "Excess Order Fee" under Rule 7018 during the month; and

(2) through such MPID the member quotes at the NBBO at least 25% of the time during regular market hours in an average of at least 1,000 securities per day during the month. For purposes of this rule, a member MPID is considered to be quoting at the NBBO if it has a displayed order at either the national best bid or the national best offer or both the national best bid and offer. On a daily basis, NASDAQ will determine the number of securities in which the member satisfied the 25% NBBO requirement. To qualify for QMM designation, the MPID must meet the requirement for an average of 1,000 securities per day over the course of the month. If a member seeking to be designated as a QMM terminates the use of one MPID and simultaneously commences use of another MPID during the course of a month, it may aggregate activity on the two MPIDs for purposes of determining its eligibility as a QMM.

(h) During a pilot period expiring on April 30, 2013, a member that is a QMM with respect to a particular MPID will receive:

(1) an NBBO Setter Incentive credit of $0.0005 with respect to orders that qualify for the NBBO Setter Incentive program under Rule 7014(j) and that are entered through that MPID; and

(2) a 25% discount on fees for ports used for entering orders for that MPID (as designated eligible for such discount in Rule 7015), up to a total discount of $10,000 per MPID per month.

NBBO Setter Incentive Program

(i) – (j) No change.
Definitions and Certifications

(k) – (l) No change.