Required fields are shown with yellow backgrounds and asterisks.

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

A proposed rule change to modify NASDAQ’s optional anti-internalization functionality.
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” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to modify NASDAQ’s optional anti-internalization functionality.

   A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and 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 17, 2013. 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.

   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, or T. Sean Bennett, The NASDAQ OMX Group, at (301) 978-8499.

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

   a. **Purpose**

   NASDAQ is proposing to modify its voluntary anti-internalization functionality to provide an additional option under that functionality. In addition, the proposed rule change contains certain clarifications to the text of the rule. Anti-internalization functionality is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit broker-dealers managing accounts governed by ERISA from trading as principal with orders generated for those accounts. The functionality can also assist market participants in avoiding execution fees that may result from the interaction of executable buy and sell trading interest from the same firm. NASDAQ notes that use of the functionality does not relieve or otherwise modify the duty of best execution owed to orders received from public customers. As such, market participants using anti-internalization functionality will need to take appropriate steps to ensure that public customer orders that do not execute because of the use of anti-internalization functionality ultimately receive the same execution price (or better) they would have originally obtained if execution of the order was not inhibited by the functionality.

   Currently, market participants may apply anti-internalization logic to all quotes/orders entered through a particular MPID, or to all orders entered through a particular order entry port, to which a unique group identification modifier is then appended. In other words, the logic may be applied on an MPID-by-MPID, or on a port-
Currently, two forms of anti-internalization logic may be applied: (i) if quotes/orders are equivalent in size, both quotes/orders will be cancelled, or if they are not equivalent in size, the smaller will be cancelled and the size of the larger will be reduced by the size of the smaller; or (ii) regardless of the size of the quotes/orders, the oldest quote/order will be cancelled in full. The applicable logic may be applied to an entire MPID, or alternatively, different logic may be applied to different order entry ports under a particular MPID.

In response to member input, the proposed rule change will add an additional form of anti-internalization logic that a market participant could choose to apply, under which the most recent quote/order would be cancelled. As with the two existing forms of anti-internalization logic, the logic could be applied to an entire MPID, or to selected order entry ports under a particular MPID. NASDAQ believes that the change will provide members with an additional tool for managing the book of orders that they submit to NASDAQ and the associated execution costs.

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3 In the proposed rule change that introduced the ability to assign a group identification modifier with respect to anti-internalization processing, NASDAQ stated that the modifier may be assigned “at the port level.” Securities Exchange Act Release No. 65868 (December 2, 2011), 76 FR 76795 (December 8, 2011) (SR-NASDAQ-2011-158). However, this level of specificity was not included in the text of Rule 4757. In addition, although the rule indicates that designation of functionality at the port level is an option available to the market participant, the rule does not make it clear that in order to make use of these options, market participants must use NASDAQ’s OUCH order entry protocol. Thus, the proposed rule change also adds additional specificity to the rule text with respect to these aspects of the anti-internalization functionality.

4 With respect to this functionality also, participants wishing to make designations on the order port level must use the OUCH order entry protocol.

5 Id.
b. **Statutory Basis**

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^6\) in general, and with Section 6(b)(5) of the Act\(^7\) 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 change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing members with additional optional functionality that may assist them with managing the book of orders that they submit to NASDAQ and the associated execution costs.

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, by offering market participants additional options with regard to preventing inadvertent internalization of orders submitted to NASDAQ, the change has the potential to enhance NASDAQ’s competitiveness with respect to other trading venues, thereby promoting greater competition. Moreover, the change does not burden competition in that its use is optional and provided at no additional cost to members.


\(^7\) 15 U.S.C. 78f(b)(5).
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 and paragraph (f)(6) of Rule 19b-4 thereunder, 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 written notice of the proposed rule change on August 09, 2013.

NASDAQ believes that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. Specifically, by offering market participants additional options with regard to prevention of inadvertent internalization, the change has the potential to enhance NASDAQ’s competitiveness with respect to other trading venues, thereby

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promoting greater competition. In addition, the change does not affect the protection of investors or the public interest because it serves only to provide market participants with additional optional functionality at no additional cost.

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.
EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-     ; File No. SR-NASDAQ-2013-109

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify NASDAQ’s Optional Anti-Internalization Functionality

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 16, 2013, The NASDAQ Stock Market LLC (“NASDAQ” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I.  **Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

NASDAQ proposes to modify NASDAQ’s optional anti-internalization functionality.

The text of the proposed rule change is available on the Exchange’s Website at [http://nasdaq.cchwallstreet.com](http://nasdaq.cchwallstreet.com), at the principal office of the Exchange, 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

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received on the proposed rule change. The text of those 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 parts 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 modify its voluntary anti-internalization functionality to provide an additional option under that functionality. In addition, the proposed rule change contains certain clarifications to the text of the rule. Anti-internalization functionality is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit broker-dealers managing accounts governed by ERISA from trading as principal with orders generated for those accounts. The functionality can also assist market participants in avoiding execution fees that may result from the interaction of executable buy and sell trading interest from the same firm. NASDAQ notes that use of the functionality does not relieve or otherwise modify the duty of best execution owed to orders received from public customers. As such, market participants using anti-internalization functionality will need to take appropriate steps to ensure that public customer orders that do not execute because of the use of anti-internalization functionality ultimately receive the same execution price (or better) they would have originally obtained if execution of the order was not inhibited by the functionality.

Currently, market participants may apply anti-internalization logic to all quotes/orders entered through a particular MPID, or to all orders entered through a particular order entry port, to which a unique group identification modifier is then
appended. In other words, the logic may be applied on an MPID-by-MPID, or on a port-by-port basis.³ Currently, two forms of anti-internalization logic may be applied: (i) if quotes/orders are equivalent in size, both quotes/orders will be cancelled, or if they are not equivalent in size, the smaller will be cancelled and the size of the larger will be reduced by the size of the smaller; or (ii) regardless of the size of the quotes/orders, the oldest quote/order will be cancelled in full. The applicable logic may be applied to an entire MPID, or alternatively, different logic may be applied to different order entry ports under a particular MPID.⁴

In response to member input, the proposed rule change will add an additional form of anti-internalization logic that a market participant could choose to apply, under which the most recent quote/order would be cancelled. As with the two existing forms of anti-internalization logic, the logic could be applied to an entire MPID, or to selected order entry ports under a particular MPID.⁵ NASDAQ believes that the change will provide members with an additional tool for managing the book of orders that they submit to NASDAQ and the associated execution costs.

³ In the proposed rule change that introduced the ability to assign a group identification modifier with respect to anti-internalization processing, NASDAQ stated that the modifier may be assigned “at the port level.” Securities Exchange Act Release No. 65868 (December 2, 2011), 76 FR 76795 (December 8, 2011) (SR-NASDAQ-2011-158). However, this level of specificity was not included in the text of Rule 4757. In addition, although the rule indicates that designation of functionality at the port level is an option available to the market participant, the rule does not make it clear that in order to make use of these options, market participants must use NASDAQ’s OUCH order entry protocol. Thus, the proposed rule change also adds additional specificity to the rule text with respect to these aspects of the anti-internalization functionality.

⁴ With respect to this functionality also, participants wishing to make designations on the order port level must use the OUCH order entry protocol.

⁵ Id.
2. Statutory Basis

NASDAQ believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,\(^6\) in general, and with Section 6(b)(5) of the Act\(^7\) 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 change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing members with additional optional functionality that may assist them with managing the book of orders that they submit to NASDAQ and the associated execution costs.

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, by offering market participants additional options with regard to preventing inadvertent internalization of orders submitted to NASDAQ, the change has the potential to enhance NASDAQ’s competitiveness with respect to other trading venues, thereby promoting greater competition. Moreover, the change does not burden competition in that its use is optional and provided at no additional cost to

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\(^7\) 15 U.S.C. 78f(b)(5).
members.

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\(^8\) and subparagraph (f)(6) of Rule 19b-4 thereunder.\(^9\)

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 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

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• Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2013-109 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-2013-109. 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). 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-2013-109, 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.\(^{10}\)

Kevin M. O’Neill  
Deputy Secretary

\(^{10}\) 17 CFR 200.30-3(a)(12).
The text of the proposed rule change is below. Proposed new language is underlined; deletions are bracketed.

4757. Book Processing

(a) System orders shall be executed through the Nasdaq Book Process set forth below:

(1) – (3) No change.

(4) Exception: Anti-Internalization - Market participants may direct that quotes/orders entered into the System not execute against quotes/orders entered under the same MPID[, or] In addition, market participants using the OUCH order entry protocol may assign to orders entered through a specific order entry port [under the same MPID and with] a unique group identification modifier [that represents a group of quotes/orders from the same MPID] that will prevent quotes/orders with such modifier from executing against each other. In such a case, a market participant may elect[, at the MPID or order entry port,] from the following options[;]:

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

(ii) regardless of the size of the interacting quotes/orders, cancelling the oldest of them in full; or

(iii) regardless of the size of the interacting quotes/orders, cancelling the most recent of them in full.

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

(b) No change.