Description

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

A proposal to amend Chapter VII, Section 6 of the rules of the NASDAQ Options Market to permit the Exchange to establish wider bid/ask differentials for certain options with high premiums or other special characteristics.

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 action.

First Name * Thomas  Last Name * Moran
Title * Vice President
E-mail * thomas.moran@nasdaqomx.com
Telephone * (301) 978-8483  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.

(Date *)

By Edward S. Knight  

(Title *)

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 the 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” or “Exchange”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Chapter VII, Section 6 (Market Maker Quotations) of the rules of the NASDAQ Options Market (“NOM”) to permit the Exchange to establish wider bid/ask differentials for certain options with high premiums or other special characteristics.

   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 the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on July 17, 2013. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the rule change.

   Questions and comments on the proposed rule change may be directed to Thomas Moran, Associate General Counsel, The NASDAQ OMX Group, Inc., at (301) 978-8483.

---


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

   a. **Purpose**

   The purpose of this proposed rule change is to amend Chapter VII, Section 6 of the rules of NOM to permit the Exchange to establish wider bid/ask differentials for certain options with high premiums or other special characteristics.

   Currently, the spread on options on equities and index options must not exceed $5. For in-the-money series where the market for the underlying security is wider than $5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market.³

   In this filing, the Exchange seeks the capability to establish wider bid/ask differentials for options that have high premiums or other special characteristics. For high premium options, the current five dollar range can expose market makers to disproportionate risk in dealing with those issues thereby discouraging them from quoting in those instruments. As such, the Exchange proposes to be able to modify the bid/ask differential for one or more series or classes of options, as appropriate, in response to high differential prices, market conditions, or other special factors impacting a particular option, options series, or class of option.

   The Exchange notes that this flexibility is already permitted by the rules of many other options exchanges.⁴

---

³ See NOM Rule Chapter VII Section 6(d)(ii).

⁴ See Phlx Rule 1014(c)(i)(A)(1)(a); CBOE Rule 44.4(e); ISE Rule 803(b)(4); NYSE MKT Rule 925NY(b)(4)(E).
b. Statutory Basis

The proposed rule change is consistent with the Act and the rules and regulations thereunder, including the requirements of Section 6(b) of the Act. In particular, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. Here, the proposal will allow the Exchange to adjust price differentials in a manner that encourages quoting and trading activity.

The Exchange believes that the proposed rule change will enhance competition because the Exchange will be able adjust bid/ask differentials in a manner similar to Phlx, CBOE, ISE, and NYSE.

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

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as indicated above, the Exchange notes that the rule proposed here is already in use by other options exchanges.

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

No written comments were either solicited or 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 filed for immediate effectiveness pursuant to Section 19(b)(3)(A)\(^7\) of the Act and Rule 19b-4(f)(6) thereunder.\(^8\)

The Exchange asserts that the 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 after its filing date, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The proposed rule change is substantially similar in all material respects to existing rules of Phlx, CBOE, ISE, and NYSE.\(^9\)

The Exchange also provided the Commission with written notice of its intent to file the proposal, along with a brief description and text of the proposal, prior to the date of the filing of the proposed rule change as required by Rule 19b-4(f)(6). The Exchange requests that the Commission waive the 30-day operative delay period. Waiver of the operative delay is consistent with the protection of investors and the public interest because it will ensure fair competition among exchanges by allowing the Exchange to have the same flexibility to adjust bid/ask differentials as Phlx, CBOE, ISE, and NYSE.

---


\(^9\) See supra note 4.
For the foregoing reasons, the Exchange believes the rule filing qualifies for expedited effectiveness as a “non-controversial” rule change under Rule 19b-4(f)(6) of the Act.

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

   The proposed rule changes are based on and similar in all material respects to rule text proposals of Phlx, CBOE, ISE, and NYSE.10

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.

---

10 See Phlx Rule 1014(c)(i)(A)(1)(a); CBOE Rule 44.4(e); ISE Rule 803(b)(4); NYSE MKT Rule 925NY(b)(4)(E).
EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-NASDAQ-2013-110)

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to amend Chapter VII, Section 6 of the Rules of the NASDAQ Options Market to Permit the Exchange to Establish Wider Bid/Ask Differentials for Certain Options with High Premiums or Other Special Characteristics

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 19, 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 is proposing to amend Chapter VII, Section 6 (Market Maker Quotations) of the rules of the NASDAQ Options Market (“NOM”) to permit the Exchange to establish wider bid/ask differentials for certain options with high premiums or other special characteristics.

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.

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

   The purpose of this proposed rule change is to amend Chapter VII, Section 6 of
the rules of NOM to permit the Exchange to establish wider bid/ask differentials for
certain options with high premiums or other special characteristics.

   Currently, the spread on options on equities and index options must not exceed
$5. For in-the-money series where the market for the underlying security is wider than
$5, the bid/ask differential may be as wide as the quotation for the underlying security on
the primary market.\(^3\)

   In this filing, the Exchange seeks the capability to establish wider bid/ask
differentials for options that have high premiums or other special characteristics. For high
premium options, the current five dollar range can expose market makers to
disproportionate risk in dealing with those issues thereby discouraging them from quoting
in those instruments. As such, the Exchange proposes to be able to modify the bid/ask
differential for one or more series or classes of options, as appropriate, in response to
high differential prices, market conditions, or other special factors impacting a particular
option, options series, or class of option.

\(^3\) See NOM Rule Chapter VII Section 6(d)(ii).
The Exchange notes that this flexibility is already permitted by the rules of many other options exchanges.4

2. **Statutory Basis**

The proposed rule change is consistent with the Act and the rules and regulations thereunder, including the requirements of Section 6(b) of the Act.5 In particular, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)6 requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and to perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. Here, the proposal will allow the Exchange to adjust price differentials in a manner that encourages quoting and trading activity.

The Exchange believes that the proposed rule change will enhance competition because the Exchange will be able adjust bid/ask differentials in a manner similar to Phlx, CBOE, ISE, and NYSE.

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

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. In this regard and as

---

4 See Phlx Rule 1014(c)(i)(A)(1)(a); CBOE Rule 44.4(e); ISE Rule 803(b)(4); NYSE MKT Rule 925NY(b)(4)(E).


indicated above, the Exchange notes that the rule proposed here is already in use by other options exchanges.

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

Written comments were neither solicited nor received.

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

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

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. 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 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-2013-110 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-2013-110. 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-2013-110, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

Kevin M. O’Neill
Deputy Secretary

Proposed new text is underlined. Deleted text is [bracketed].

NASDAQ Stock Market
Options Rules

* * * * *

Chapter VII Market Participants

Sec. 1 – Sec. 5  No Change.

Sec. 6 Market Maker Quotations

(a) – (c)  No Change.

(d) No Change.

(i) No Change.

(ii) Bid/ask Differentials (Quote Spread Parameters). Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed $5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than $5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market. The Exchange may establish differences other than the above for one or more series or classes of options.

(iii) No Change.

(e) No Change.

* * * * *