SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations: The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt the NASDAQ Opening Cross Contingency

May 22, 2014.

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 May 13, 2014, 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 the Substance of the Proposed Rule Change

NASDAQ proposes a rule change to adopt an alternative market opening process, the Opening Cross Contingency, used only when the normal opening process fails to calculate an opening price.

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 those statements may be examined at the places specified in Item IV below.

III. Date of commencement of proposed rule change

The Proposed Opening Cross Contingency will commence immediately after the Commission approves the proposed rule change.

IV. Notice of Filing and Immediate Effectiveness of Proposed Rule Change

NASDAQ proposes to adopt an alternative market opening process to be used only in instances where the primary opening process has failed to calculate an opening price. The proposed process will help ensure that the NASDAQ market opens in an orderly manner.

Current Opening Process

The Nasdaq Opening Cross3 (the "Opening Cross") is NASDAQ’s process for matching orders at the launch of the regular trading hours, and is open to all securities listed on the NASDAQ, NYSE, NYSE Arca and NYSE Arca Exchanges (collectively, "System Securities"). Beginning at 4:00 a.m. Eastern Time (all times noted hereafter are Eastern Time), NASDAQ accepts orders executable during the Opening Cross. At 9:28 a.m., NASDAQ begins to disseminate information about order Imbalances4 in the opening book along with indicative opening prices every five seconds until the initiation of the Opening Cross.5

NASDAQ initiates an Opening Cross in all System Securities for which there are orders that will execute against contra-side orders at 9:30 a.m., at which time the opening book and the NASDAQ continuous book are brought together to create single NASDAQ opening prices for System Securities.

The proposed Opening Cross price is the Nasdaq Official Opening Price ("NOOP") for these securities.6 The NOOP is distributed to the consolidated tape immediately after completion of the Opening Cross and conclusion of the Opening Cross signals the System to open a System Security for regular market hours trading.

In certain cases, a System Security will not have any contra-side interest for execution in the Opening Cross, or any orders whatsoever, when the Opening Cross process is initiated. When this occurs, NASDAQ executes a "null cross" instead, whereby no securities are matched yet the System receives the necessary precondition to regular hours trading that a "cross" in the security has occurred. After completion of the null cross, regular hours trading begins by integrating Market Hours Orders into the book in time priority and executing in accordance with market hours rules.8

In such cases, the NOOP is determined by the first last-sale eligible trade9 reported at or after 9:30 a.m., when regular trading hours begin.

Proposed Opening Cross Contingency

NASDAQ is retaining its current opening process, but is proposing to adopt an alternative opening process to be used only in cases in which the Opening Cross fails to calculate an opening price.10 The proposed Opening Cross Contingency will provide NASDAQ with a rules-based process to address Opening Cross failures.

Specifically, upon being informed that an Opening Cross has failed to calculate an opening price in one or more System Securities, a senior official will initiate an Opening Cross Contingency for each of the affected System Securities.11 Like the opening process followed when there are no orders to cross in a System Security, the Opening Cross Contingency will initiate a null cross in each affected System Security to allow the System to release such securities for trading.

See Rule 4752.

An Imbalance is defined as the number of shares of buy or sell MIOC, MDAY, MGTC. Market Hours Orders shall be designated as “Late Market Hours Orders” and shall be treated as imbalance-only orders for the purposes of the cross. Beginning at 9:28 a.m., requests to cancel or modify Market Hours Orders shall be suspended until after completion of the Opening Cross. If the market system at 9:28 a.m. requests to be processed, to the extent that such orders remain available within the System. See Rule 4752(a)(7).

Rule 4752(c).

The first last-sale eligible trade is the first trade transaction that occurs during the regular market session (9:30 a.m. to 4:00 p.m.). An Opening Cross occurs, the NOOP is determined by the bulk print. If there is no Opening Cross, the NOOP is determined by the first regular market.

There are two general types of failure of the Opening Cross, hardware-based and software-based. Hardware-based failures are the result of problems with the physical infrastructure supporting the Opening Cross process. This includes, but is not limited to, switch failures, cabling failures, server failures, and power failures. Hardware-based failures are mitigated via network and server infrastructure redundancy designed into the system. Software-based failures are the result of bugs. These include, but are not limited to, coding errors and configuration errors. Software-based failures are mitigated via application redundancy, core system code diversity, the proposed Opening Cross Contingency, and configuration management policies and procedures.

11 System Securities that have successful Opening Crosses will open normally under that process at the NOOP based on the Opening Cross price.
regular market hours trading. Unlike the null cross in the normal opening process in which Market Hours Orders are integrated into the book in time priority, orders entered for execution where an Opening Cross that fails to calculate an opening price and where the Opening Cross Contingency is initiated are cancelled out of the book instead of executing against regular Market Hours Orders. NASDAQ notes that this is a consequence of the orders eligible for execution in the Opening Cross being locked in the failed cross. Each System Security in which an Opening Cross Contingency is applied will open at the first last sale eligible trade when regular market hours begin, which is the NOOP for such securities.

2. 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, because it 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 functioning of a national market system, and, in general, to protect investors and the public interest. The Exchange believes that the proposal is irrelevant to competition because it is not driven by, and will have no impact on, competition.

C. 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.

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 effective for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act and subparagraph (f)(6) of Rule 19b–4 thereunder.

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 email to rule-comments@sec.gov. Please include File Number SR-NASDAQ–2014–054 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090. All submissions should refer to File Number SR-NASDAQ–2014–054 on the subject line. No written comments were either solicited or received.

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