

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 26	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2014 - * 081	Amendment No. (req. for Amendments *)
Filing by NASDAQ Stock Market Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule	
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>		Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b>				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
A proposed rule change to amend NASDAQ Rule 4120(c) to modify the parameters for releasing securities for trading upon the termination of a trading halt in a security that is the subject of an initial public offering (an "IPO").				
<b>Contact Information</b>				
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 *	Sean	Last Name *	Bennett	
Title *	Associate General Counsel			
E-mail *	Sean.Bennett@nasdaqomx.com			
Telephone *	(301) 978-8499	Fax	(301) 978-8472	
<b>Signature</b>				
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.				
(Title *)				
Date	08/20/2014	Executive Vice President and General Counsel		
By	Edward S. Knight			
(Name *)				
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.				
Persona Not Validated - 1383935917270,				

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

Add Remove View

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.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

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)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

Add Remove View

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, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

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.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

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.

**Exhibit 4 - Marked Copies**

Add Remove View

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.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

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.

**Partial Amendment**

Add Remove View

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”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> The NASDAQ Stock Market LLC (“NASDAQ” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend NASDAQ Rule 4120(c) to modify the parameters for releasing securities for trading upon the termination of a trading halt in a security that is the subject of an initial public offering (an “IPO”). NASDAQ will implement the proposed change as soon as practicable following Commission approval.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth in Exhibit 5 attached hereto.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on August 9, 2014. 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, Office of the General Counsel, The NASDAQ OMX Group, Inc., at (301) 978-8497.

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

a. Purpose

The Exchange proposes to amend Rule 4120(c) to strengthen safeguards against unexpected volatility with respect to the price established by the NASDAQ Halt Cross for a security that is the subject of an IPO (the "IPO Halt Cross" or the "Cross"). In 2013, NASDAQ adopted a new process for releasing IPO securities.<sup>3</sup> The changes were adopted to improve the IPO release process by increasing NASDAQ's flexibility to commence trading when appropriate. To this end, NASDAQ eliminated the former rule requirement that limited the number of extensions of the period prior to launch – the Display Only Period – to six five-minute periods. NASDAQ instead adopted a two-phase process under which the initial 15-minute Display Only Period is followed by a "Pre-Launch Period" that is not of a fixed duration. Under the current rule, the Pre-Launch Period will continue until (1) NASDAQ receives notice from the underwriter of the IPO that the security is ready to trade and there is no "order imbalance" in the security, in which case the security is released for trading; or (2) the underwriter, with concurrence of NASDAQ, determines to postpone and reschedule the IPO. Every five seconds during the Display Only Period and the Pre-Launch Period, NASDAQ disseminates the Current Reference Price, an indication of the price at which the IPO Halt Cross would execute if it occurred at that time.

---

<sup>3</sup> Securities Exchange Act Release No. 69897 (July 1, 2013), 78 FR 40782 (July 8, 2013) (SR-NASDAQ-2013-092). See also Securities Exchange Act Release No. 70911 (November 21, 2013), 78 FR 71011 (November 27, 2013) (SR-NASDAQ-2013-143) (adopting additional refinements to process for IPO securities).

The requirement regarding the absence of an order imbalance was designed to ensure that the expected price of the security is reasonably stable and that trading interest is balanced at the time trading commences. There are currently several conditions under which an order imbalance in an IPO security will be considered to exist:

- the Current Reference Price disseminated immediately prior to commencing the release of the IPO for trading during the Pre-Launch Period and any of the three preceding Current Reference Prices differ by more than the greater of 5 percent or 50 cents;
- upon completion of the Cross calculation, the calculated price at which the security would be released for trading and any of the three preceding Current Reference Prices disseminated immediately prior to the initiation of the Cross calculation differ by more than the greater of 5 percent or 50 cents; or
- all market orders will not be executed in the Cross.

These restrictions are designed to prevent circumstances where a misunderstanding by the underwriter as to the state of the order book risks launching trading at a time of material volatility in the book for the security. Order imbalances are calculated by the IPO Halt Cross system, which automatically prevents launch of a halted security when an order imbalance exists.

NASDAQ is proposing to enable the underwriter to provide even greater protection against volatility in an IPO security by replacing the current system for comparing against prior Current Reference Prices with a system under which the expected price of the IPO Halt Cross will be displayed to the underwriter, who will then select price bands to ensure that the actual calculated price at which the IPO Halt Cross

would occur does not deviate from the expected price by more than the selected amounts. Such price deviations are possible because market participants may continue to enter and cancel orders during the period between the display of the expected price to the underwriter and the commencement of the Cross calculation, a period of up to five seconds in duration.<sup>4</sup> Although the current system has generally done a good job of protecting against unexpected changes in the pricing of an IPO Halt Cross by ensuring that the Current Reference Price has been stable and the final calculated price is not significantly different from preceding Current Reference Prices, the proposed change would introduce the opportunity for underwriters to set tighter limits at their discretion based on the characteristics of and expectations for each IPO.

Under the proposed modified system, the Pre-Launch Period will end and the security will be released for trading when the following conditions are all met:

- NASDAQ receives notice from the underwriter of the IPO that the security is ready to trade. The NASDAQ system will calculate the Current Reference Price at that time (the “Expected Price”) and display it to the underwriter. If the underwriter then approves proceeding, the NASDAQ system will conduct the following validation checks:
  - The NASDAQ system must determine that all market orders will be executed in the cross;<sup>5</sup>

---

<sup>4</sup> Cancellations received following the commencement of the Cross calculation are blocked, and orders received thereafter are not Cross-eligible. See In the Matter of The NASDAQ Stock Market LLC and NASDAQ Execution Services, LLC, Securities Exchange Act Release No. 69655 (May 29, 2013), at ¶65.

<sup>5</sup> This requirement is not being modified from the requirement of the current rule with respect to market orders, but the wording is being modified to make it clearer. The intent of the restriction is to ensure that if a market participant enters

- the security passes a new price validation test, which will replace the current system for comparison against recent Current Reference Prices.

For purposes of applying the price validation test, the underwriter must select price bands prior to the conclusion of the Pre-Launch Period.<sup>6</sup> The System will then compare the Expected Price with the actual price calculated by the Cross. If the actual price calculated by the Cross differs from the Expected Price by an amount in excess of the price band selected by the underwriter, the security will not be released for trading and the Pre-Launch Period will continue. The underwriter must select an upper price band (i.e., an amount by which the actual price may not exceed the Expected Price) and a lower price band (i.e., an amount by which the actual price may not be lower than the Expected Price). If a security does not pass the price validation test, the underwriter may, but is not required to, select different price bands before recommencing the process to release the security for trading.

For example, assume that the Expected Price for the IPO Halt Cross shown to the underwriter was \$32 per share, and the underwriter selected an upper price band of \$0.10 and a lower price band of \$0.05. In that case, the actual price calculated by the system for the Cross could not be higher than \$32.10 nor lower than \$31.95.

As is currently the case, the failure to satisfy any of the conditions for completion of the IPO Cross results in a delay of the release for trading of the IPO, and a continuation of the Pre-Launch Period, until all conditions have been satisfied. Thus, if

---

an order offering to buy or sell in the IPO Halt Cross at any price, the Cross should not occur unless all such orders can be executed.

<sup>6</sup> The underwriter can select the price bands at any time during the Display Only Period or Pre-Launch Period, and can modify them at any time prior to the conclusion of the Pre-Launch Period.

the price validation is not satisfied, the Pre-Launch Period would continue seamlessly, with members able to continue to enter or cancel orders. The security would then repeat the process for release until such time as the conditions required for launch were satisfied. Thus, the underwriter would again have to determine that it believes the security is ready to trade, the underwriter would be shown the applicable Expected Price, and the security would launch if all market orders would be executed and the price validation was satisfied. As noted above, the underwriter would be able to select different price bands for each attempt to launch the security. Thus, an underwriter might select an upper and a lower band of \$0 initially, such that the security would not launch unless the calculated price equaled the Expected Price. If the security did not pass the validation check, however, the underwriter could subsequently choose to widen the price bands to allow the IPO to proceed at a price that might vary from the Expected Price. As is also currently the case, the underwriter, with concurrence of NASDAQ, may determine at any point during the IPO Halt Cross process up through the conclusion of the Pre-Launch Period to postpone and reschedule the IPO.<sup>7</sup>

The price bands available for selection shall be in such increments, and at such price points, as may be established from time to time by NASDAQ. The initial available price bands will range from \$0 to \$0.50, with increments of \$0.01. Thus, the underwriter may select a price band of \$0 (i.e., no change from the Expected Price is permitted), \$0.01, \$0.02, or any other \$0.01 increment up to \$0.50. The underwriter may select different price bands above and below the Expected Price. NASDAQ reserves the right

---

<sup>7</sup> NASDAQ is modifying the applicable language slightly to make it clear that the authority to cancel and reschedule extends to the conclusion of the Pre-Launch Period.



to stipulate wider increments (such as \$0.05) or price bands that include certain price points but exclude others (for example, increments of \$0.01 up to \$0.10, and increments of \$0.05 thereafter). In selecting available price bands and increments, NASDAQ will consider input from underwriters and other market participants and the results of past usage of price bands to adopt price bands and increments that promote efficiency in the initiation of trading and protect investors and the public interest. NASDAQ will notify member organizations and the public of changes in available price band or increments through a notice that is widely disseminated at least one week in advance of the change. However, NASDAQ will not (in the absence of the submission of a proposed rule change) allow bands wider than \$0.50. Thus, bands will not be wider than the bands that currently govern the comparison between the Cross price and previous Current Reference Prices.

In addition to the foregoing changes, NASDAQ is also proposing to reorganize provisions of Rule 4120 relating to the process for ending a trading halt of securities other than IPO securities. NASDAQ is not making substantive modifications to these rules, however.

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>8</sup> in general, and with Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling,

---

<sup>8</sup> 15 U.S.C. 78f.

<sup>9</sup> 15 U.S.C. 78f(b)(5).

processing information with respect to, and facilitating transaction 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. The proposed rule change promotes these goals by strengthening protection against unexpected volatility in the pricing of an IPO security. While the current rule provides protection against volatility by providing that the final price of an IPO security calculated by the IPO Halt Cross may not deviate from the most recent three indicative prices by more than five percent or \$0.50, there nevertheless exists the possibility that deviations within these bands will occur. The proposed change is designed to protect the underwriter and other market participants from the IPO Halt Cross occurring at a price that deviates unexpectedly from the prices previously disclosed through the Current Reference Price by providing the underwriter the authority to set tighter limits based on the characteristics of and expectations for each IPO. NASDAQ believes that enhancing and strengthening the process in this manner will protect investors as it will serve to minimize unexpected price deviations and avoid confusion among market participants.

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

The Exchange 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, the change will not affect the ability of market participants to participate fully in the IPO Halt Crosses. Rather, the change is designed to promote stability and reduce volatility in the pricing of the IPO Halt Cross, and therefore does not impose any restriction on competition.

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)

Not applicable.

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

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

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

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register.

Exhibit 5 – Text of the proposed rule change.

**EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-NASDAQ-2014-081)

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change Relating to Proposed Changes to NASDAQ Rule 4120(c) to Modify the Parameters for Releasing Securities for Trading Upon the Termination of a Trading Halt in a Security that is the Subject of an Initial Public Offering

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 20, 2014, The NASDAQ Stock Market LLC (“NASDAQ” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in 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 Substance of the Proposed Rule Change

NASDAQ proposes to amend NASDAQ Rule 4120(c) to modify the parameters for releasing securities for trading upon the termination of a trading halt in a security that is the subject of an initial public offering.

The text of the proposed rule change is available at <http://nasdaq.cchwallstreet.com/>, at NASDAQ’s principal office, and at the Commission’s Public Reference Room.

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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. 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

The Exchange proposes to amend Rule 4120(c) to strengthen safeguards against unexpected volatility with respect to the price established by the NASDAQ Halt Cross for a security that is the subject of an IPO (the "IPO Halt Cross" or the "Cross"). In 2013, NASDAQ adopted a new process for releasing IPO securities.<sup>3</sup> The changes were adopted to improve the IPO release process by increasing NASDAQ's flexibility to commence trading when appropriate. To this end, NASDAQ eliminated the former rule requirement that limited the number of extensions of the period prior to launch – the Display Only Period – to six five-minute periods. NASDAQ instead adopted a two-phase process under which the initial 15-minute Display Only Period is followed by a "Pre-Launch Period" that is not of a fixed duration. Under the current rule, the Pre-Launch Period will continue until (1) NASDAQ receives notice from the underwriter of the IPO

---

<sup>3</sup> Securities Exchange Act Release No. 69897 (July 1, 2013), 78 FR 40782 (July 8, 2013) (SR-NASDAQ-2013-092). See also Securities Exchange Act Release No. 70911 (November 21, 2013), 78 FR 71011 (November 27, 2013) (SR-NASDAQ-2013-143) (adopting additional refinements to process for IPO securities).

that the security is ready to trade and there is no “order imbalance” in the security, in which case the security is released for trading; or (2) the underwriter, with concurrence of NASDAQ, determines to postpone and reschedule the IPO. Every five seconds during the Display Only Period and the Pre-Launch Period, NASDAQ disseminates the Current Reference Price, an indication of the price at which the IPO Halt Cross would execute if it occurred at that time.

The requirement regarding the absence of an order imbalance was designed to ensure that the expected price of the security is reasonably stable and that trading interest is balanced at the time trading commences. There are currently several conditions under which an order imbalance in an IPO security will be considered to exist:

- the Current Reference Price disseminated immediately prior to commencing the release of the IPO for trading during the Pre-Launch Period and any of the three preceding Current Reference Prices differ by more than the greater of 5 percent or 50 cents;
- upon completion of the Cross calculation, the calculated price at which the security would be released for trading and any of the three preceding Current Reference Prices disseminated immediately prior to the initiation of the Cross calculation differ by more than the greater of 5 percent or 50 cents; or
- all market orders will not be executed in the Cross.

These restrictions are designed to prevent circumstances where a misunderstanding by the underwriter as to the state of the order book risks launching trading at a time of material volatility in the book for the security. Order imbalances are calculated by the

IPO Halt Cross system, which automatically prevents launch of a halted security when an order imbalance exists.

NASDAQ is proposing to enable the underwriter to provide even greater protection against volatility in an IPO security by replacing the current system for comparing against prior Current Reference Prices with a system under which the expected price of the IPO Halt Cross will be displayed to the underwriter, who will then select price bands to ensure that the actual calculated price at which the IPO Halt Cross would occur does not deviate from the expected price by more than the selected amounts. Such price deviations are possible because market participants may continue to enter and cancel orders during the period between the display of the expected price to the underwriter and the commencement of the Cross calculation, a period of up to five seconds in duration.<sup>4</sup> Although the current system has generally done a good job of protecting against unexpected changes in the pricing of an IPO Halt Cross by ensuring that the Current Reference Price has been stable and the final calculated price is not significantly different from preceding Current Reference Prices, the proposed change would introduce the opportunity for underwriters to set tighter limits at their discretion based on the characteristics of and expectations for each IPO.

Under the proposed modified system, the Pre-Launch Period will end and the security will be released for trading when the following conditions are all met:

---

<sup>4</sup> Cancellations received following the commencement of the Cross calculation are blocked, and orders received thereafter are not Cross-eligible. See In the Matter of The NASDAQ Stock Market LLC and NASDAQ Execution Services, LLC, Securities Exchange Act Release No. 69655 (May 29, 2013), at ¶65.

- NASDAQ receives notice from the underwriter of the IPO that the security is ready to trade. The NASDAQ system will calculate the Current Reference Price at that time (the “Expected Price”) and display it to the underwriter. If the underwriter then approves proceeding, the NASDAQ system will conduct the following validation checks:
  - The NASDAQ system must determine that all market orders will be executed in the cross;<sup>5</sup>
  - the security passes a new price validation test, which will replace the current system for comparison against recent Current Reference Prices.

For purposes of applying the price validation test, the underwriter must select price bands prior to the conclusion of the Pre-Launch Period.<sup>6</sup> The System will then compare the Expected Price with the actual price calculated by the Cross. If the actual price calculated by the Cross differs from the Expected Price by an amount in excess of the price band selected by the underwriter, the security will not be released for trading and the Pre-Launch Period will continue. The underwriter must select an upper price band (i.e., an amount by which the actual price may not exceed the Expected Price) and a lower price band (i.e., an amount by which the actual price may not be lower than the Expected Price). If a security does not pass the price validation test, the underwriter may,

---

<sup>5</sup> This requirement is not being modified from the requirement of the current rule with respect to market orders, but the wording is being modified to make it clearer. The intent of the restriction is to ensure that if a market participant enters an order offering to buy or sell in the IPO Halt Cross at any price, the Cross should not occur unless all such orders can be executed.

<sup>6</sup> The underwriter can select the price bands at any time during the Display Only Period or Pre-Launch Period, and can modify them at any time prior to the conclusion of the Pre-Launch Period.



but is not required to, select different price bands before recommencing the process to release the security for trading.

For example, assume that the Expected Price for the IPO Halt Cross shown to the underwriter was \$32 per share, and the underwriter selected an upper price band of \$0.10 and a lower price band of \$0.05. In that case, the actual price calculated by the system for the Cross could not be higher than \$32.10 nor lower than \$31.95.

As is currently the case, the failure to satisfy any of the conditions for completion of the IPO Cross results in a delay of the release for trading of the IPO, and a continuation of the Pre-Launch Period, until all conditions have been satisfied. Thus, if the price validation is not satisfied, the Pre-Launch Period would continue seamlessly, with members able to continue to enter or cancel orders. The security would then repeat the process for release until such time as the conditions required for launch were satisfied. Thus, the underwriter would again have to determine that it believes the security is ready to trade, the underwriter would be shown the applicable Expected Price, and the security would launch if all market orders would be executed and the price validation was satisfied. As noted above, the underwriter would be able to select different price bands for each attempt to launch the security. Thus, an underwriter might select an upper and a lower band of \$0 initially, such that the security would not launch unless the calculated price equaled the Expected Price. If the security did not pass the validation check, however, the underwriter could subsequently choose to widen the price bands to allow the IPO to proceed at a price that might vary from the Expected Price. As is also currently the case, the underwriter, with concurrence of NASDAQ, may determine

at any point during the IPO Halt Cross process up through the conclusion of the Pre-Launch Period to postpone and reschedule the IPO.<sup>7</sup>

The price bands available for selection shall be in such increments, and at such price points, as may be established from time to time by NASDAQ. The initial available price bands will range from \$0 to \$0.50, with increments of \$0.01. Thus, the underwriter may select a price band of \$0 (i.e., no change from the Expected Price is permitted), \$0.01, \$0.02, or any other \$0.01 increment up to \$0.50. The underwriter may select different price bands above and below the Expected Price. NASDAQ reserves the right to stipulate wider increments (such as \$0.05) or price bands that include certain price points but exclude others (for example, increments of \$0.01 up to \$0.10, and increments of \$0.05 thereafter). In selecting available price bands and increments, NASDAQ will consider input from underwriters and other market participants and the results of past usage of price bands to adopt price bands and increments that promote efficiency in the initiation of trading and protect investors and the public interest. NASDAQ will notify member organizations and the public of changes in available price band or increments through a notice that is widely disseminated at least one week in advance of the change. However, NASDAQ will not (in the absence of the submission of a proposed rule change) allow bands wider than \$0.50. Thus, bands will not be wider than the bands that currently govern the comparison between the Cross price and previous Current Reference Prices.

---

<sup>7</sup> NASDAQ is modifying the applicable language slightly to make it clear that the authority to cancel and reschedule extends to the conclusion of the Pre-Launch Period.

In addition to the foregoing changes, NASDAQ is also proposing to reorganize provisions of Rule 4120 relating to the process for ending a trading halt of securities other than IPO securities. NASDAQ is not making substantive modifications to these rules, however.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>8</sup> in general, and with Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that it is designed 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 transaction 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. The proposed rule change promotes these goals by strengthening protection against unexpected volatility in the pricing of an IPO security. While the current rule provides protection against volatility by providing that the final price of an IPO security calculated by the IPO Halt Cross may not deviate from the most recent three indicative prices by more than five percent or \$0.50, there nevertheless exists the possibility that deviations within these bands will occur. The proposed change is designed to protect the underwriter and other market participants from the IPO Halt Cross occurring at a price that deviates unexpectedly from the prices previously disclosed through the Current Reference Price by providing the underwriter the authority to set tighter limits based on

---

<sup>8</sup> 15 U.S.C. 78f.

<sup>9</sup> 15 U.S.C. 78f(b)(5).

the characteristics of and expectations for each IPO. NASDAQ believes that enhancing and strengthening the process in this manner will protect investors as it will serve to minimize unexpected price deviations and avoid confusion among market participants.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange 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, the change will not affect the ability of market participants to participate fully in the IPO Halt Crosses. Rather, the change is designed to promote stability and reduce volatility in the pricing of the IPO Halt Cross, and therefore does not impose any restriction on competition.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2014-081 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-NASDAQ-2014-081. 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 website <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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office 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-2014-081 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.<sup>10</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>10</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

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

**4120. Limit Up-Limit Down Plan and Trading Halts**

(a) – (b) No change.

(c) Procedure for Initiating and Terminating a Trading Halt

(1) – (6) No change.

(7)

(A) A trading halt or pause initiated under Rule 4120(a)(1), (4), (5), (6), (9), (10), (11), or (12)(F) shall be terminated when Nasdaq releases the security for trading. For any such security listed on Nasdaq, prior to terminating the halt or pause, there will be a 5-minute Display Only Period during which market participants may enter quotations and orders in that security in Nasdaq systems. In addition, in instances where a trading halt is in effect prior to the commencement of the Display Only Period, market participants may enter orders in a security that is the subject of the trading halt on Nasdaq and designate such orders to be held until the beginning of the Display Only Period. Such orders will be held in a suspended state until the beginning of the Display Only Period, at which time they will be entered into the system. [At the conclusion of the 5-minute Display Only Period, the security shall be released for trading unless Nasdaq extends the Display Only Period for an additional 1-minute period pursuant to subparagraph (C) below. At the conclusion of the Display Only Period, trading shall immediately resume pursuant to Rule 4753.]

(B) At the conclusion of the 5-minute Display Only Period, the security will be released for trading unless, at the end of a Display Only Period or during the subsequent process to release the security for trading, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will extend the Display Only Period for an additional 1-minute period. At the conclusion of the Display Only Period, trading shall immediately resume pursuant to Rule 4753.

(C) For purposes of Rule 4120(c)(7), an order imbalance shall be established as follows:

(1) When (i) the last available Current Reference Price, as defined in Rule 4753(a)(2)(A), disseminated immediately prior to the end of the Display Only Period and any of the three preceding Current Reference Prices differ by more than the greater of 5 percent or 50 cents, or (ii) all market orders will not be executed in the cross; or

(2) If, upon completion of the cross calculation, (i) the calculated price at which the security would be released for trading and any of the three preceding Current Reference Prices disseminated immediately prior to the initiation of the cross calculation differ by more than the greater of 5 percent or 50 cents, or (ii) all market orders would not be executed in the cross.

(8)

~~[(B)]~~ (A) A trading halt initiated under Rule 4120(a)(7) shall be terminated when Nasdaq releases the security for trading and the conditions described in this rule are satisfied. Prior to terminating the halt, there will be a 15-minute Display Only Period during which market participants may enter quotes and orders in that security in Nasdaq systems. In addition, beginning at 4:00 a.m., market participants may enter orders in a security that is the subject of an Initial Public Offering (“IPO”) on Nasdaq and designate such orders to be held until the beginning of the Display Only Period, at which time they will be entered into the system.

After the conclusion of the 15-minute Display Only Period [(the time after conclusion of the Display Only Period is hereafter referred to as the “Pre-Launch Period”)], the security will enter a “Pre-Launch Period” of indeterminate duration. The Pre-Launch Period shall end and the security shall be released for trading by Nasdaq [at such time as both of the following conditions are simultaneously met] when the conditions described in paragraphs (c)(8)(A)(i), (ii), and (iii) are all met.

(i) Nasdaq receives notice from the underwriter of the IPO that the security is ready to trade. The Nasdaq system will calculate the Current Reference Price at that time (the “Expected Price”) and display it to the underwriter. If the underwriter then approves proceeding, the Nasdaq system will conduct the following validation checks: [and]

(ii) The Nasdaq system must determine that all market orders will be executed in the cross [there is no order imbalance in the security as defined in subparagraph (C) below]; and

(iii) the security must pass the price validation test described below in subparagraph (B).

The failure to satisfy these conditions during the process to release the security for trading will result in a delay of the release for trading of the IPO, and a continuation of the Pre-Launch Period, until all conditions have been satisfied. The underwriter, with concurrence of Nasdaq, may determine at any point during the IPO Halt Cross process up through the conclusion of the Pre-Launch Period to postpone and reschedule the IPO. Market participants may continue to enter orders and order cancellations for participation in the cross auction during the Pre-Launch Period up to the point that the cross auction process commences.

~~[(C)~~ If at the end of a Display Only Period or during the subsequent process to release the security for trading, Nasdaq detects an order imbalance in the security, Nasdaq will extend the Display Only Period as permitted under subparagraph (A). In the case of subparagraph (B), any order imbalance during the Pre-Launch Period or during the subsequent process to release the security for trading will result in a delay of the release for trading of the IPO until the end of the order imbalance and satisfaction of the other requirements for release of the IPO contained in subparagraph (B). Order imbalances are established as follows:]



[(1) Order imbalances under subparagraph (A) shall be established when (i) the last available Current Reference Price, as defined in Rule 4753(a)(2)(A), disseminated immediately prior to the end of the Display Only Period and any of the three preceding Current Reference Prices differ by more than the greater of 5 percent or 50 cents, or (ii) all buy or sell market orders will not be executed in the cross.]

[(2) Order imbalances under subparagraph (B) shall be established when (i) the Current Reference Price, as defined in Rule 4753(a)(2)(A), disseminated immediately prior to commencing the release of the IPO for trading during the Pre-Launch Period and any of the three preceding Current Reference Prices differ by more than the greater of 5 percent or 50 cents, or (ii) all buy or sell market orders will not be executed in the cross.]

[(3) Order imbalances under both subparagraphs (A) and (B) shall be established during the subsequent process to release a security for trading, which occurs at the termination of either a Display Only Period under subparagraph (A) or a Pre-Launch Period under subparagraph (B), if, upon completion of the cross calculation, (i) the calculated price at which the security would be released for trading and any of the three preceding Current Reference Prices disseminated immediately prior to the initiation of the cross calculation differ by more than the greater of 5 percent or 50 cents, or (ii) all buy or sell market orders would not be executed in the cross.]

(B) Prior to the conclusion of the Pre-Launch Period, the underwriter shall select price bands for purposes of applying the price validation test. Under the price validation test, the System compares the Expected Price with the actual price calculated by the Cross. If the actual price calculated by the Cross differs from the Expected Price by an amount in excess of the price band selected by the underwriter, the security will not be released for trading and the Pre-Launch Period will continue. The underwriter shall select an upper price band (i.e., an amount by which the actual price may not exceed the Expected Price) and a lower price band (i.e., an amount by which the actual price may not be lower than the Expected Price). If a security does not pass the price validation test, the underwriter may, but is not required to, select different price bands before recommencing the process to release the security for trading. The price bands available for selection shall be in such increments, and at such price points, as may be established from time to time by Nasdaq; the available price bands shall include \$0 but shall not be in excess of \$0.50. Nasdaq will notify member organizations and the public of changes in available price band or increments through a notice that is widely disseminated at least one week in advance of the change. In selecting available price bands and increments, Nasdaq will consider input from underwriters and other market participants and the results of past usage of price bands to adopt price bands and increments that promote efficiency in the initiation of trading and protect investors and the public interest.

[(8)] (9) For purposes of this Rule and Rule 4753, the process for halting and initial pricing of a security that is the subject of an initial public offering shall also be available for the initial pricing of any other security that has not been listed on a national securities exchange or traded in the over-the-counter market pursuant to FINRA Form 211 immediately prior to the initial pricing, provided that a broker-dealer serving in the role

of financial advisor to the issuer of the securities being listed is willing to perform the functions under Rule 4120(c)(7)(B) that are performed by an underwriter with respect to an initial public offering.