

Required fields are shown with yellow backgrounds and asterisks.

Filing by NASDAQ Stock Market  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<b>Initial *</b>	<b>Amendment *</b>	<b>Withdrawal</b>	<b>Section 19(b)(2) *</b>	<b>Section 19(b)(3)(A) *</b>	<b>Section 19(b)(3)(B) *</b>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
<b>Pilot</b>	<b>Extension of Time Period for Commission Action *</b>	<b>Date Expires *</b>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<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)	

<b>Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010</b>	<b>Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934</b>
<b>Section 806(e)(1) *</b>	<b>Section 806(e)(2) *</b>
<input type="checkbox"/>	<input type="checkbox"/>
	<b>Section 3C(b)(2) *</b>
	<input type="checkbox"/>

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input type="checkbox"/>	<input type="checkbox"/>

**Description**

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

Enhance the Reopening Auction Process Following a Trading Halt Declared Pursuant to the Plan to Address Extraordinary Market Volatility.

**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 \* Sean Last Name \* Bennett

Title \* Principal Associate General Counsel

E-mail \* sean.bennett@nasdaq.com

Telephone \* (301) 978-8499 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.

(Title \*)

Date 10/12/2016 Executive Vice President and General Counsel

By Edward S. Knight

(Name \*)

edward.knight@nasdaq.com

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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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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 \***

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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 \***

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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**

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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**

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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**

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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**

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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**

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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) The NASDAQ Stock Market LLC (“Nasdaq” or “Exchange”), 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> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Rule 4120 to enhance the reopening auction process following a trading halt declared pursuant to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan” or “Plan”).<sup>3</sup> The Exchange also proposes to amend Rule 4753 (“Nasdaq Halt Cross”) to include the proposed new terms Auction Reference Prices and Auction Collars in the definition of Order Imbalance Indicator for purposes of the reopening process after Trading Pauses initiated under Rule 4120(a)(12), and to amend Rule 11890 (“Clearly Erroneous Transactions”) to provide that a member cannot request a review of an execution arising from a Halt Auction as a clearly erroneous execution.

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 attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

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

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

<sup>3</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012).

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on September 16, 2016. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

T. Sean Bennett  
Principal Associate General Counsel  
Nasdaq, Inc.  
(301) 978-8499

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

a. Purpose

Background

The Exchange, together with the Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., Chicago Stock Exchange, Inc., the Financial Industry Regulatory Authority, Inc. ("FINRA"), Investors Exchange LLC, National Stock Exchange, Inc., NASDAQ BX, Inc., NASDAQ PHLX LLC, New York Stock Exchange LLC ("NYSE"), NYSE Arca, Inc. ("NYSE Arca"), and NYSE MKT LLC ("NYSE MKT") (collectively with the Exchange, the "Participants") are parties to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934. The Participants initially filed the Plan with the Commission on April 5, 2011, which was published for notice and comment.<sup>4</sup> On May 24, 2012, the Participants filed an amendment to the Plan and the

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<sup>4</sup> See Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011) (File No. 4-631).

Plan, as amended, was approved by the Commission on May 31, 2012.<sup>5</sup> The Participants filed a second amendment to the Plan, which was immediately effective on January 23, 2013.<sup>6</sup> On February 19, 2013, the Participants filed a third amendment to the Plan, which the Commission approved on April 3, 2013.<sup>7</sup> The Participants filed a fourth amendment to the Plan, which was immediately effective on July 18, 2013.<sup>8</sup> On July 18, 2013, the Participants filed a fifth amendment to the Plan, which the Commission approved on September 26, 2013.<sup>9</sup> The Participants filed a sixth amendment to the Plan, which was immediately effective on December 3, 2013.<sup>10</sup> On February 24, 2014, the Participants filed a seventh amendment to the Plan, which the Commission approved on April 3, 2014.<sup>11</sup> On December 24, 2014, the Participants filed an eighth amendment to the Plan, which the Commission approved on February 19, 2015.<sup>12</sup> On July 31, 2015, the Participants filed a ninth amendment to the Plan to extend the pilot through April 22,

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<sup>5</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (“Approval Order”).

<sup>6</sup> See Securities Exchange Act Release No. 68953 (February 20, 2013), 78 FR 13113 (February 26, 2013) (File No. 4-631).

<sup>7</sup> See Securities Exchange Act Release No. 69287 (April 3, 2013), 78 FR 21483 (April 10, 2013) (File No. 4-631).

<sup>8</sup> See Securities Exchange Act Release No. 70273 (August 27, 2013), 78 FR 54321 (September 3, 2013) (File No. 4-631).

<sup>9</sup> See Securities Exchange Act Release No. 70530 (September 26, 2013), 78 FR 60937 (October 2, 2013) (File No. 4-631).

<sup>10</sup> See Securities Exchange Act Release No. 71247 (January 7, 2014), 79 FR 2204 (January 13, 2014) (File No. 4-631).

<sup>11</sup> See Securities Exchange Act Release No. 71851 (April 3, 2014), 79 FR 19687 (April 9, 2014) (File No. 4-631).

<sup>12</sup> See Securities Exchange Act Release No. 74323 (February 19, 2015), 80 FR 10169 (February 25, 2015) (File No. 4-631).

2016, and remove Chicago Board Options Exchange as a Plan Participant, which the Commission approved on October 22, 2015.<sup>13</sup> On February 19, 2016, the Participants filed a tenth amendment to the Plan to extend the pilot through April 21, 2017 and make one modification to the Plan, which the Commission approved on April 21, 2016.<sup>14</sup> On August 1, 2016, the Investors Exchange LLC filed an amendment to the Plan to be added to the roster of Participants.<sup>15</sup>

By letter dated September 16, 2016, the Participants filed a twelfth amendment to the Plan (“Amendment 12”) to provide that a Trading Pause<sup>16</sup> will continue until the Primary Listing Exchange has reopened trading using its established reopening procedures, even if such reopening is more than 10 minutes after the beginning of a Trading Pause, and to require that trading centers may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock.<sup>17</sup> Specifically, the Participants propose to amend the Plan to provide that a Trading Pause will continue until the Primary Listing Exchange has reopened trading using its established reopening procedures and reports a Reopening Price. The Participants further propose in Amendment 12 to the Plan to eliminate the current allowance for a trading

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<sup>13</sup> See Securities Exchange Act Release No. 76244 (October 22, 2015), 80 FR 66099 (October 28, 2015) (File No. 4-631).

<sup>14</sup> See Securities Exchange Act Release No. 77679 (April 21, 2016), 81 FR 24908 (April 27, 2016) (File No. 4-631).

<sup>15</sup> See Securities Exchange Act Release No. 78703 (August 26, 2016), 81 FR 60397 (September 1, 2016) (File No. 4-631).

<sup>16</sup> Unless otherwise specified, the terms used herein have the same meaning as set forth in the Plan.

<sup>17</sup> See letter from Elizabeth K. King, General Counsel, NYSE, to Brent J. Fields, Secretary, Commission, dated September 16, 2016.

center to resume trading in an NMS Stock following a Trading Pause if the Primary Listing Exchange has not reported a Reopening Price within ten minutes after the declaration of a Trading Pause. In addition, to preclude potential scenarios when trading may resume without Price Bands, the Participants propose to amend the Plan to provide that a trading center may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. To address potential scenarios in which there is no Reopening Price from the Primary Listing Exchange to use to calculate Price Bands, the Participants propose to make related amendments to the Plan to address when trading may resume if the Primary Listing Exchange is unable to reopen due to a systems or technology issue and how the Reference Price would be determined in such a scenario or if the Primary Listing Exchange reopens trading on a zero bid or zero quote, or both.

In conjunction with filing Amendment 12 to the Plan, each Primary Listing Exchange committed to file rule changes with the Commission under Section 19(b) of the Exchange Act to amend its respective trading practice for automated reopenings following a Trading Pause consistent with a standardized approach agreed to by Participants that would allow for extensions of a Trading Pause if equilibrium cannot be met for a Reopening Price within specified parameters. Accordingly, the Exchange is proposing to adopt changes to its rules, as described below, to implement the reopening procedures agreed upon by the Participants.

#### Proposal

As a Primary Listing Exchange, Nasdaq is proposing to amend Rule 4120 to make the following changes: (i) clarify that the Exchange has an obligation to notify the Processor immediately upon becoming aware that it is unable to reopen trading due to a

systems or technology issue; (ii) delete rule text concerning phased implementation of the Plan, which has since been fully implemented; (iii) only resume trading after a Trading Pause initiated by another exchange upon receiving Price Bands from the Processor but in no event earlier than ten minutes after initiation of the Trading Pause; (iv) adopt new procedures for reopening securities following a Trading Pause; and (v) amend Rule 11890, Clearly Erroneous Executions, to not allow a member to request a review of an execution arising from a Halt Auction as a clearly erroneous execution.

First, the Operating Committee has proposed in Amendment 12 to the Plan to require the Primary Listing Exchange to notify the Processor immediately upon becoming aware that it is unable to reopen trading due to a systems or technology issue. Pursuant to the proposal, trading centers may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. Thus, under the proposed Amendment 12, a trading center may resume trading only if there are Price Bands. Moreover, the Participants proposed in Amendment 12 to require that a Trading Pause will not end until the Primary Listing Exchange reports a Reopening Price. The Participants propose in Amendment 12 to allow trading centers to resume trading an NMS Stock in the absence of a Reopening Price only if: (i) the Primary Listing Exchange notifies the Processor that it is unable to reopen trading due to a systems or technology issue and (ii) the Processor has disseminated Price Bands based on a Reference Price. The Exchange is proposing to adopt this requirement to make it clear that the Exchange, acting as a Primary Listing Exchange for an NMS Stock, will notify the Processor immediately upon becoming aware that it is unable to reopen trading due to a systems or technology issue.

Second, the Exchange is proposing to delete rule text concerning phased implementation of the Plan, which has since been fully implemented. Currently, Rule 4120(a)(12)(G) describes how different Tier NMS Stocks are handled during Phase 1 of the Plan. Given that the Plan is fully implemented, the Exchange is proposing to delete the text under Rule 4120(a)(12)(G) that concerns phases the Plan's implementation that have concluded.

Third, the Exchange is proposing to adopt the requirement of Amendment 12 of the Plan, as discussed above, to only resume trading after a Trading Pause initiated by another exchange upon receiving Price Bands from the Processor. As noted above, Amendment 12 proposes to prohibit trading centers from resuming trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. The Participants believe that if a Primary Listing Exchange is unable to reopen trading due to a systems or technology issue, trading should be permitted to resume in that NMS Stock.

Fourth, the Exchange is proposing to adopt new procedures for reopening securities following a Trading Pause. Each of the Participants that are Primary Listing Exchanges are adopting uniform processes for reopening NMS Stocks for which they are the Primary Listing Exchange following a Trading Pause. Currently, Rule 4120(a)(12)(H) provides the process by which the Exchange will resume trading after a Trading Pause. Specifically, the rule provides that at the end of a Trading Pause the Exchange shall reopen the security in a manner similar to the procedures set forth in Rule 4753. Rule 4753 provides the Nasdaq Halt Cross process by which a security that is subject to a trading halt is released from the halt to resume trading. Rule 4120(a)(12)(H) further provides that, following a Trading Pause that is triggered at or after 3:50 p.m. a

stock shall reopen via a LULD Closing Cross pursuant to Rule 4754(b)(6),<sup>18</sup> which provides LULD-specific Closing Cross procedures following a Trading Pause.<sup>19</sup>

The Exchange is proposing a new process for resuming trading after a Trading Pause under proposed Rule 4120(c)(10) that will provide for an initial auction period and two additional auction periods with widening collars should the security fail to conclude each auction period. For any such security listed on Nasdaq, prior to terminating the pause, there will be a 5-minute “Initial Display Only Period” during which market participants may enter quotations and orders in that security in Nasdaq systems, and during which Nasdaq will establish the “Auction Reference Price.” The Auction Reference Price is determined by, for a Limit Down triggered pause, the Lower Band price of the LULD Band in place at the time the trading pause was triggered; or for a Limit Up triggered pause, the Upper Band price of the LULD Band in place at the time the trading pause was triggered. During the Initial Display Only Period, Nasdaq will also determine the upper and lower “Auction Collar” prices, which are calculated in the following manner:

- For a Limit Down triggered pause, the lower Auction Collar price is derived by subtracting 5% of the Auction Reference Price, rounded to the nearest minimum price increment,<sup>20</sup> or in the case of securities priced \$3<sup>21</sup> or less, \$0.15, from the

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<sup>18</sup> Rule 4754(b)(6) provides the closing process to be followed when a Trading Pause is triggered at or after 3:50 p.m. and before 4 p.m.

<sup>19</sup> Rule 4120(c)(7)(A) describes the 5-minute Display Only Period, which must occur prior to the release of a security from a halt arising under Rule 4120(a)(1), (4), (5), (6), (9), (10), or (11), or (12)(F). In light of the proposed new process, the Exchange is eliminating reference to Rule 4120(a)(12)(F) from the rule.

<sup>20</sup> The term “minimum price increment” means \$0.01 in the case of a System Security priced at \$1 or more per share, and \$0.0001 in the case of a System

Auction Reference Price, and the upper Auction Collar price is the Upper Band price on the LULD Band in place at the time the trading pause was triggered.

- For a Limit Up triggered pause, the upper Auction Collar price is derived by adding 5% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, from the Auction Reference Price, and the lower Auction Collar price is the Lower Band price of the LULD Band in place at the time the trading pause was triggered.

At the conclusion of the Initial Display Only Period, the security will be released for trading unless, at the end of an Initial Display Only Period, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will extend the Display Only Period for an additional 5-minute period (“Extended Display Only Period”), and the Auction Collar prices will be adjusted as follows:

- If the Display Only Period is extended because the calculated price at which the security would be released for trading is below the lower Auction Collar price or all sell market orders would not be executed in the cross, then the new lower Auction Collar price is derived by subtracting 5% of the initial Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case

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Security priced at less than \$1 per share. See Rule 4701(k). Thus, if adding 5% of the initial Auction Reference Price to the Auction Collar would result in a tenth of a penny, the Exchange would round down to the nearest penny when the calculation results in one to four tenths of a penny and the Exchange would round up to the nearest penny when the calculation results in five to nine tenths of a penny.

<sup>21</sup> The Exchange determines the price of a security based on the security’s prior day closing price. The security retains its classification as either greater or less than \$3 for the remainder of the trading day, and it is not adjusted intra-day.

of securities priced \$3 or less, \$0.15, from the previous lower Auction Collar price, and the upper Auction Collar price will not be changed.

- If the Display Only Period is extended because the calculated price at which the security would be released for trading is above the upper Auction Collar price or all buy market orders would not be executed in the cross, then the new upper Auction Collar price is derived by adding 5% of the initial Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, to the previous upper Auction Collar price, and the lower Auction Collar price will not be changed.

At the conclusion of the Extended Display Only Period, the security will be released for trading unless, at the end of the Extended Display Only Period, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will further extend the Display Only Period, continuing to adjust the Auction Collar prices every five minutes in the manner described in the bullet above until the security is released for trading. Nasdaq shall release the security for trading at the first point there is no order imbalance.

For purposes of the process under Rule 4120(c)(10), upon completion of the cross calculation an order imbalance shall be established as follows:

- the calculated price at which the security would be released for trading is above (below) the upper (lower) Auction Collar price calculated under paragraphs (A), (B), or (C) of Rule 4120(c)(10); or
- all market orders would not be executed in the cross.

Thus, if there is an imbalance of market orders, or if the Reopening Price would be outside of specified Auction Collar thresholds, as described above, the Trading Pause

would be extended an additional five minutes in order to provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within Auction Collar thresholds or if the reopening auction would be priced outside of the applicable Auction Collar thresholds, Nasdaq would extend the Trading Pause an additional five minutes. With each such extension, the Participants have agreed that it would be appropriate to widen the price collar threshold on the side of the market on which there is buying or selling pressure by the same amount as the Initial Display Only Period.

The Exchange is also amending Rule 4120(a)(12)(H) to harmonize rule text concerning Trading Pauses in the last ten minutes of regular trading hours. As noted above, following a Trading Pause that is triggered at or after 3:50 p.m. a stock shall reopen via a LULD Closing Cross pursuant to Rule 4754(b)(6). In Amendment 12, the Participants are adding clarifying text to Section VII(C) stating that the requirement to attempt to execute a closing transaction instead of reopening trading applies to Trading Pauses in existence at 3:50 p.m. Accordingly, the Exchange is proposing to amend Rule 4120(a)(12)(H) to reflect the Plan amendment. The Exchange is also proposing new Rule 4120(a)(10)(D) to also reflect that a Trading Pause in existence at 3:50 p.m. will reopen via a LULD Closing Cross pursuant to Rule 4754(b)(6) instead of the proposed reopening procedures.

The Exchange is proposing to add new Rule 4753(a)(3)(F) to make it clear that, for purposes of the reopening process after a Trading Pause pursuant to Rule 4120(a)(12), the Exchange will disseminate the Auction Reference Price and Auction Collar prices during the reopening process as part of the Order Imbalance Indicator described under

Rule 4753(a)(3), which is a message disseminated by electronic means containing information about Eligible Interest<sup>22</sup> and the price at which such interest would execute at the time of dissemination.

Last, the Participants have agreed that the proposed new procedures for reopening trading following a Trading Pause would eliminate the need to evaluate whether a transaction in such reopening auction would be clearly erroneous. Specifically, the Participants believe that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous. Accordingly, the Exchange proposes to amend Rule 11890 to preclude members from requesting a review of a Halt Auction conducted pursuant to Rule 4120(c)(10) as a clearly erroneous execution.

#### Implementation Date

The Exchange proposes to implement the proposed rule change following the Commission's approval of Amendment 12. The Exchange will announce the implementation date via a notice to be issued after the Commission's approval of this proposed rule change.

#### b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>23</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>24</sup> in particular,

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<sup>22</sup> "Eligible Interest" is defined as any quotation or any order that has been entered into the system and designated with a time-in-force that would allow the order to be in force at the time of the Halt Cross. See Rule 4753(a)(5).

in that it is designed to promote just and equitable principles of trade, 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 Exchange believes that the proposed rule change, together with the proposed amendments to the Plan, are necessary or appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to and perfect the mechanisms of, a national market system, or otherwise in furtherance of the purposes of the Act.

The Exchange believes the proposed changes would 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, because they are designed, together with the proposed amendments to the Plan, to address the issues experienced on August 24, 2015 by reducing the number of repeat Trading Pauses in a single NMS Stock. The proposed Plan amendments are an essential component to Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium Reopening Price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The proposed Plan amendments support this initiative by requiring trading centers to wait to resume trading following Trading Pause until there is a Reopening Price.

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<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

This proposed rule change further supports this initiative by proposing uniform trading practices for reopening trading following a Trading Pause. The Exchange believes that the proposed standardized approach for how the Primary Listing Exchanges would conduct certain aspects of an automated reopening following a Trading Pause would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide certainty for market participants regarding how a security would reopen following a Trading Pause, regardless of the listing exchange. The Exchange further believes that the proposed changes would remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest because the goal of the proposed changes is to ensure that all market order interest could be satisfied in an automated reopening auction while at the same time reducing the potential for multiple Trading Pauses in a single security due to a large order imbalance.

The Exchange also believes that the standardized proposal to extend a Trading Pause an additional five minutes would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within price collar thresholds or if the reopening auction would be priced outside of the applicable price collar thresholds, the Primary Listing Exchange would extend the Trading Pause an additional five minutes, which the Exchange believes would further protect investors and the public interest by reducing the potential for significant price disparity in post-auction trading, which could otherwise trigger another Trading Pause. With each such extension, the Exchange believes that

widening the price collar threshold on the side of the market on which there is buying or selling pressure would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting interest while at the same time addressing that an imbalance may not be resolved within the prior auction collars.

With respect to price collar thresholds, the Exchange believes that using the price of the limit state that preceded the Trading Pause, i.e., either the Lower or Upper Price Band price, would better reflect the most recent price of the security and therefore should be used as the reference price for determining the auction collars for such Halt Auction. The Exchange believes that widening auction collars only in the direction of the imbalance would address issues relating to the concept of mean reversion, which would protect investors and the public interest by reducing the potential for wide price swings following a Halt Auction.

Finally, the Exchange believes that precluding a member from requesting a review of an execution arising from a Halt Auction as clearly erroneous execution would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed new procedures for reopening trading following a Trading Pause would obviate the need to evaluate whether a transaction in such reopening auction would be clearly erroneous. Specifically, the Exchange believes that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a

result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any competitive issues, but rather, to achieve the Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium reopening price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The Exchange believes that the proposed rule change reduces the burden on competition for market participants because it promotes a transparent and consistent process for reopening trading following a Trading Pause regardless of where a security may be listed. The Exchange further believes that the proposed rule change would not impose any burden on competition because it is designed to increase transparency surrounding the Exchange's Trading Halt Auction process while also increasing the ability for offsetting interest to participate in an auction, which would assist in achieving pricing equilibrium in such an auction.

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

The Exchange does not consent to an extension of the time period for Commission action.

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 proposal is similar to filings of other Participants that are Primary Listing Exchanges, which are being filed concurrently with this proposal.

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. 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. \_\_\_\_\_ ; File No. SR-NASDAQ-2016-131)

October \_\_, 2016

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Enhance the Reopening Auction Process Following a Trading Halt Declared Pursuant to the Plan to Address Extraordinary Market Volatility

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 October 12, 2016, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rule 4120 to enhance the reopening auction process following a trading halt declared pursuant to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the “Limit Up-Limit Down Plan” or “Plan”).<sup>3</sup> The Exchange also proposes to amend Rule 4753 (“Nasdaq Halt Cross”) to include the proposed new terms Auction Reference Prices and Auction Collars in the definition of Order Imbalance Indicator for purposes of the

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

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

<sup>3</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (the “Limit Up-Limit Down Release”).

reopening process after Trading Pauses initiated under Rule 4120(a)(12), and to amend Rule 11890 (“Clearly Erroneous Transactions”) to provide that a member cannot request a review of an execution arising from a Halt Auction as a clearly erroneous execution.

The text of the proposed rule change is available on the Exchange’s Website at <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, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

Background

The Exchange, together with the Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., Chicago Stock Exchange, Inc., the Financial Industry Regulatory Authority, Inc. (“FINRA”), Investors Exchange LLC, National Stock Exchange, Inc., NASDAQ BX, Inc., NASDAQ PHLX LLC, New York Stock Exchange LLC (“NYSE”), NYSE Arca, Inc. (“NYSE Arca”), and NYSE MKT LLC (“NYSE MKT”) (collectively with the Exchange, the “Participants”) are parties to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934. The Participants initially

filed the Plan with the Commission on April 5, 2011, which was published for notice and comment.<sup>4</sup> On May 24, 2012, the Participants filed an amendment to the Plan and the Plan, as amended, was approved by the Commission on May 31, 2012.<sup>5</sup> The Participants filed a second amendment to the Plan, which was immediately effective on January 23, 2013.<sup>6</sup> On February 19, 2013, the Participants filed a third amendment to the Plan, which the Commission approved on April 3, 2013.<sup>7</sup> The Participants filed a fourth amendment to the Plan, which was immediately effective on July 18, 2013.<sup>8</sup> On July 18, 2013, the Participants filed a fifth amendment to the Plan, which the Commission approved on September 26, 2013.<sup>9</sup> The Participants filed a sixth amendment to the Plan, which was immediately effective on December 3, 2013.<sup>10</sup> On February 24, 2014, the Participants filed a seventh amendment to the Plan, which the Commission approved on April 3,

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<sup>4</sup> See Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011) (File No. 4-631).

<sup>5</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (“Approval Order”).

<sup>6</sup> See Securities Exchange Act Release No. 68953 (February 20, 2013), 78 FR 13113 (February 26, 2013) (File No. 4-631).

<sup>7</sup> See Securities Exchange Act Release No. 69287 (April 3, 2013), 78 FR 21483 (April 10, 2013) (File No. 4-631).

<sup>8</sup> See Securities Exchange Act Release No. 70273 (August 27, 2013), 78 FR 54321 (September 3, 2013) (File No. 4-631).

<sup>9</sup> See Securities Exchange Act Release No. 70530 (September 26, 2013), 78 FR 60937 (October 2, 2013) (File No. 4-631).

<sup>10</sup> See Securities Exchange Act Release No. 71247 (January 7, 2014), 79 FR 2204 (January 13, 2014) (File No. 4-631).

2014.<sup>11</sup> On December 24, 2014, the Participants filed an eighth amendment to the Plan, which the Commission approved on February 19, 2015.<sup>12</sup> On July 31, 2015, the Participants filed a ninth amendment to the Plan to extend the pilot through April 22, 2016, and remove Chicago Board Options Exchange as a Plan Participant, which the Commission approved on October 22, 2015.<sup>13</sup> On February 19, 2016, the Participants filed a tenth amendment to the Plan to extend the pilot through April 21, 2017 and make one modification to the Plan, which the Commission approved on April 21, 2016.<sup>14</sup> On August 1, 2016, the Investors Exchange LLC filed an amendment to the Plan to be added to the roster of Participants.<sup>15</sup>

By letter dated September 16, 2016, the Participants filed a twelfth amendment to the Plan (“Amendment 12”) to provide that a Trading Pause<sup>16</sup> will continue until the Primary Listing Exchange has reopened trading using its established reopening procedures, even if such reopening is more than 10 minutes after the beginning of a Trading Pause, and to require that trading centers may not resume trading in an NMS

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<sup>11</sup> See Securities Exchange Act Release No. 71851 (April 3, 2014), 79 FR 19687 (April 9, 2014) (File No. 4-631).

<sup>12</sup> See Securities Exchange Act Release No. 74323 (February 19, 2015), 80 FR 10169 (February 25, 2015) (File No. 4-631).

<sup>13</sup> See Securities Exchange Act Release No. 76244 (October 22, 2015), 80 FR 66099 (October 28, 2015) (File No. 4-631).

<sup>14</sup> See Securities Exchange Act Release No. 77679 (April 21, 2016), 81 FR 24908 (April 27, 2016) (File No. 4-631).

<sup>15</sup> See Securities Exchange Act Release No. 78703 (August 26, 2016), 81 FR 60397 (September 1, 2016) (File No. 4-631).

<sup>16</sup> Unless otherwise specified, the terms used herein have the same meaning as set forth in the Plan.

Stock following a Trading Pause without Price Bands in such NMS Stock.<sup>17</sup>

Specifically, the Participants propose to amend the Plan to provide that a Trading Pause will continue until the Primary Listing Exchange has reopened trading using its established reopening procedures and reports a Reopening Price. The Participants further propose in Amendment 12 to the Plan to eliminate the current allowance for a trading center to resume trading in an NMS Stock following a Trading Pause if the Primary Listing Exchange has not reported a Reopening Price within ten minutes after the declaration of a Trading Pause. In addition, to preclude potential scenarios when trading may resume without Price Bands, the Participants propose to amend the Plan to provide that a trading center may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. To address potential scenarios in which there is no Reopening Price from the Primary Listing Exchange to use to calculate Price Bands, the Participants propose to make related amendments to the Plan to address when trading may resume if the Primary Listing Exchange is unable to reopen due to a systems or technology issue and how the Reference Price would be determined in such a scenario or if the Primary Listing Exchange reopens trading on a zero bid or zero quote, or both.

In conjunction with filing Amendment 12 to the Plan, each Primary Listing Exchange committed to file rule changes with the Commission under Section 19(b) of the Exchange Act to amend its respective trading practice for automated reopenings following a Trading Pause consistent with a standardized approach agreed to by Participants that would allow for extensions of a Trading Pause if equilibrium cannot be met for a Reopening Price within specified parameters. Accordingly, the Exchange is

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<sup>17</sup> See letter from Elizabeth K. King, General Counsel, NYSE, to Brent J. Fields, Secretary, Commission, dated September 16, 2016.

proposing to adopt changes to its rules, as described below, to implement the reopening procedures agreed upon by the Participants.

Proposal

As a Primary Listing Exchange, Nasdaq is proposing to amend Rule 4120 to make the following changes: (i) clarify that the Exchange has an obligation to notify the Processor immediately upon becoming aware that it is unable to reopen trading due to a systems or technology issue; (ii) delete rule text concerning phased implementation of the Plan, which has since been fully implemented; (iii) only resume trading after a Trading Pause initiated by another exchange upon receiving Price Bands from the Processor but in no event earlier than ten minutes after initiation of the Trading Pause; (iv) adopt new procedures for reopening securities following a Trading Pause; and (v) amend Rule 11890, Clearly Erroneous Executions, to not allow a member to request a review of an execution arising from a Halt Auction as a clearly erroneous execution.

First, the Operating Committee has proposed in Amendment 12 to the Plan to require the Primary Listing Exchange to notify the Processor immediately upon becoming aware that it is unable to reopen trading due to a systems or technology issue. Pursuant to the proposal, trading centers may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. Thus, under the proposed Amendment 12, a trading center may resume trading only if there are Price Bands. Moreover, the Participants proposed in Amendment 12 to require that a Trading Pause will not end until the Primary Listing Exchange reports a Reopening Price. The Participants propose in Amendment 12 to allow trading centers to resume trading an NMS Stock in the absence of a Reopening Price only if: (i) the Primary Listing Exchange

notifies the Processor that it is unable to reopen trading due to a systems or technology issue and (ii) the Processor has disseminated Price Bands based on a Reference Price. The Exchange is proposing to adopt this requirement to make it clear that the Exchange, acting as a Primary Listing Exchange for an NMS Stock, will notify the Processor immediately upon becoming aware that it is unable to reopen trading due to a systems or technology issue.

Second, the Exchange is proposing to delete rule text concerning phased implementation of the Plan, which has since been fully implemented. Currently, Rule 4120(a)(12)(G) describes how different Tier NMS Stocks are handled during Phase 1 of the Plan. Given that the Plan is fully implemented, the Exchange is proposing to delete the text under Rule 4120(a)(12)(G) that concerns phases the Plan's implementation that have concluded.

Third, the Exchange is proposing to adopt the requirement of Amendment 12 of the Plan, as discussed above, to only resume trading after a Trading Pause initiated by another exchange upon receiving Price Bands from the Processor. As noted above, Amendment 12 proposes to prohibit trading centers from resuming trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. The Participants believe that if a Primary Listing Exchange is unable to reopen trading due to a systems or technology issue, trading should be permitted to resume in that NMS Stock.

Fourth, the Exchange is proposing to adopt new procedures for reopening securities following a Trading Pause. Each of the Participants that are Primary Listing Exchanges are adopting uniform processes for reopening NMS Stocks for which they are the Primary Listing Exchange following a Trading Pause. Currently, Rule

4120(a)(12)(H) provides the process by which the Exchange will resume trading after a Trading Pause. Specifically, the rule provides that at the end of a Trading Pause the Exchange shall reopen the security in a manner similar to the procedures set forth in Rule 4753. Rule 4753 provides the Nasdaq Halt Cross process by which a security that is subject to a trading halt is released from the halt to resume trading. Rule 4120(a)(12)(H) further provides that, following a Trading Pause that is triggered at or after 3:50 p.m. a stock shall reopen via a LULD Closing Cross pursuant to Rule 4754(b)(6),<sup>18</sup> which provides LULD-specific Closing Cross procedures following a Trading Pause.<sup>19</sup>

The Exchange is proposing a new process for resuming trading after a Trading Pause under proposed Rule 4120(c)(10) that will provide for an initial auction period and two additional auction periods with widening collars should the security fail to conclude each auction period. For any such security listed on Nasdaq, prior to terminating the pause, there will be a 5-minute “Initial Display Only Period” during which market participants may enter quotations and orders in that security in Nasdaq systems, and during which Nasdaq will establish the “Auction Reference Price.” The Auction Reference Price is determined by, for a Limit Down triggered pause, the Lower Band price of the LULD Band in place at the time the trading pause was triggered; or for a Limit Up triggered pause, the Upper Band price of the LULD Band in place at the time the trading pause was triggered. During the Initial Display Only Period, Nasdaq will also

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<sup>18</sup> Rule 4754(b)(6) provides the closing process to be followed when a Trading Pause is triggered at or after 3:50 p.m. and before 4 p.m.

<sup>19</sup> Rule 4120(c)(7)(A) describes the 5-minute Display Only Period, which must occur prior to the release of a security from a halt arising under Rule 4120(a)(1), (4), (5), (6), (9), (10), or (11), or (12)(F). In light of the proposed new process, the Exchange is eliminating reference to Rule 4120(a)(12)(F) from the rule.

determine the upper and lower “Auction Collar” prices, which are calculated in the following manner:

- For a Limit Down triggered pause, the lower Auction Collar price is derived by subtracting 5% of the Auction Reference Price, rounded to the nearest minimum price increment,<sup>20</sup> or in the case of securities priced \$3<sup>21</sup> or less, \$0.15, from the Auction Reference Price, and the upper Auction Collar price is the Upper Band price on the LULD Band in place at the time the trading pause was triggered.
- For a Limit Up triggered pause, the upper Auction Collar price is derived by adding 5% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, from the Auction Reference Price, and the lower Auction Collar price is the Lower Band price of the LULD Band in place at the time the trading pause was triggered.

At the conclusion of the Initial Display Only Period, the security will be released for trading unless, at the end of an Initial Display Only Period, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will extend the Display Only Period for an additional 5-minute period (“Extended Display Only Period”), and the Auction Collar prices will be adjusted as follows:

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<sup>20</sup> The term “minimum price increment” means \$0.01 in the case of a System Security priced at \$1 or more per share, and \$0.0001 in the case of a System Security priced at less than \$1 per share. See Rule 4701(k). Thus, if adding 5% of the initial Auction Reference Price to the Auction Collar would result in a tenth of a penny, the Exchange would round down to the nearest penny when the calculation results in one to four tenths of a penny and the Exchange would round up to the nearest penny when the calculation results in five to nine tenths of a penny.

<sup>21</sup> The Exchange determines the price of a security based on the security’s prior day closing price. The security retains its classification as either greater or less than \$3 for the remainder of the trading day, and it is not adjusted intra-day.

- If the Display Only Period is extended because the calculated price at which the security would be released for trading is below the lower Auction Collar price or all sell market orders would not be executed in the cross, then the new lower Auction Collar price is derived by subtracting 5% of the initial Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, from the previous lower Auction Collar price, and the upper Auction Collar price will not be changed.
- If the Display Only Period is extended because the calculated price at which the security would be released for trading is above the upper Auction Collar price or all buy market orders would not be executed in the cross, then the new upper Auction Collar price is derived by adding 5% of the initial Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, to the previous upper Auction Collar price, and the lower Auction Collar price will not be changed.

At the conclusion of the Extended Display Only Period, the security will be released for trading unless, at the end of the Extended Display Only Period, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will further extend the Display Only Period, continuing to adjust the Auction Collar prices every five minutes in the manner described in the bullet above until the security is released for trading. Nasdaq shall release the security for trading at the first point there is no order imbalance.

For purposes of the process under Rule 4120(c)(10), upon completion of the cross calculation an order imbalance shall be established as follows:

- the calculated price at which the security would be released for trading is above (below) the upper (lower) Auction Collar price calculated under paragraphs (A), (B), or (C) of Rule 4120(c)(10); or
- all market orders would not be executed in the cross.

Thus, if there is an imbalance of market orders, or if the Reopening Price would be outside of specified Auction Collar thresholds, as described above, the Trading Pause would be extended an additional five minutes in order to provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within Auction Collar thresholds or if the reopening auction would be priced outside of the applicable Auction Collar thresholds, Nasdaq would extend the Trading Pause an additional five minutes. With each such extension, the Participants have agreed that it would be appropriate to widen the price collar threshold on the side of the market on which there is buying or selling pressure by the same amount as the Initial Display Only Period.

The Exchange is also amending Rule 4120(a)(12)(H) to harmonize rule text concerning Trading Pauses in the last ten minutes of regular trading hours. As noted above, following a Trading Pause that is triggered at or after 3:50 p.m. a stock shall reopen via a LULD Closing Cross pursuant to Rule 4754(b)(6). In Amendment 12, the Participants are adding clarifying text to Section VII(C) stating that the requirement to attempt to execute a closing transaction instead of reopening trading applies to Trading Pauses in existence at 3:50 p.m. Accordingly, the Exchange is proposing to amend Rule 4120(a)(12)(H) to reflect the Plan amendment. The Exchange is also proposing new Rule 4120(a)(10)(D) to also reflect that a Trading Pause in existence at 3:50 p.m. will reopen

via a LULD Closing Cross pursuant to Rule 4754(b)(6) instead of the proposed reopening procedures.

The Exchange is proposing to add new Rule 4753(a)(3)(F) to make it clear that, for purposes of the reopening process after a Trading Pause pursuant to Rule 4120(a)(12), the Exchange will disseminate the Auction Reference Price and Auction Collar prices during the reopening process as part of the Order Imbalance Indicator described under Rule 4753(a)(3), which is a message disseminated by electronic means containing information about Eligible Interest<sup>22</sup> and the price at which such interest would execute at the time of dissemination.

Last, the Participants have agreed that the proposed new procedures for reopening trading following a Trading Pause would eliminate the need to evaluate whether a transaction in such reopening auction would be clearly erroneous. Specifically, the Participants believe that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous. Accordingly, the Exchange proposes to amend Rule 11890 to preclude members from requesting a review of a Halt Auction conducted pursuant to Rule 4120(c)(10) as a clearly erroneous execution.

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<sup>22</sup> “Eligible Interest” is defined as any quotation or any order that has been entered into the system and designated with a time-in-force that would allow the order to be in force at the time of the Halt Cross. See Rule 4753(a)(5).

### Implementation Date

The Exchange proposes to implement the proposed rule change following the Commission's approval of Amendment 12. The Exchange will announce the implementation date via a notice to be issued after the Commission's approval of this proposed rule change.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>23</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>24</sup> in particular, in that it is designed to promote just and equitable principles of trade, 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 Exchange believes that the proposed rule change, together with the proposed amendments to the Plan, are necessary or appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, to remove impediments to and perfect the mechanisms of, a national market system, or otherwise in furtherance of the purposes of the Act.

The Exchange believes the proposed changes would 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, because they are designed, together with the proposed amendments to the Plan, to address the issues experienced on August 24, 2015 by reducing the number of repeat Trading Pauses in a single NMS Stock. The

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<sup>23</sup> 15 U.S.C. 78f(b).

<sup>24</sup> 15 U.S.C. 78f(b)(5).

proposed Plan amendments are an essential component to Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium Reopening Price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The proposed Plan amendments support this initiative by requiring trading centers to wait to resume trading following Trading Pause until there is a Reopening Price.

This proposed rule change further supports this initiative by proposing uniform trading practices for reopening trading following a Trading Pause. The Exchange believes that the proposed standardized approach for how the Primary Listing Exchanges would conduct certain aspects of an automated reopening following a Trading Pause would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide certainty for market participants regarding how a security would reopen following a Trading Pause, regardless of the listing exchange. The Exchange further believes that the proposed changes would remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest because the goal of the proposed changes is to ensure that all market order interest could be satisfied in an automated reopening auction while at the same time reducing the potential for multiple Trading Pauses in a single security due to a large order imbalance.

The Exchange also believes that the standardized proposal to extend a Trading Pause an additional five minutes would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would

provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within price collar thresholds or if the reopening auction would be priced outside of the applicable price collar thresholds, the Primary Listing Exchange would extend the Trading Pause an additional five minutes, which the Exchange believes would further protect investors and the public interest by reducing the potential for significant price disparity in post-auction trading, which could otherwise trigger another Trading Pause. With each such extension, the Exchange believes that widening the price collar threshold on the side of the market on which there is buying or selling pressure would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting interest while at the same time addressing that an imbalance may not be resolved within the prior auction collars.

With respect to price collar thresholds, the Exchange believes that using the price of the limit state that preceded the Trading Pause, i.e., either the Lower or Upper Price Band price, would better reflect the most recent price of the security and therefore should be used as the reference price for determining the auction collars for such Halt Auction. The Exchange believes that widening auction collars only in the direction of the imbalance would address issues relating to the concept of mean reversion, which would protect investors and the public interest by reducing the potential for wide price swings following a Halt Auction.

Finally, the Exchange believes that precluding a member from requesting a review of an execution arising from a Halt Auction as clearly erroneous execution would remove impediments to and perfect the mechanism of a free and open market and a

national market system because the proposed new procedures for reopening trading following a Trading Pause would obviate the need to evaluate whether a transaction in such reopening auction would be clearly erroneous. Specifically, the Exchange believes that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any competitive issues, but rather, to achieve the Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium reopening price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The Exchange believes that the proposed rule change reduces the burden on competition for market participants because it promotes a transparent and consistent process for reopening trading following a Trading Pause regardless of where a security may be listed. The Exchange further believes that the proposed rule change would not impose any burden on competition because it is designed to increase transparency surrounding the Exchange's Trading Halt Auction process while also increasing the ability for offsetting interest to participate in an auction, which would assist in achieving pricing equilibrium in such an auction.

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

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-2016-131 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2016-131. 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, 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 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-2016-131 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>25</sup>

Robert W. Errett  
Deputy Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**The NASDAQ Stock Market Rules**

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**4120. Limit Up-Limit Down Plan and Trading Halts****(a) Authority to Initiate Trading Halts or Pauses**

In circumstances in which Nasdaq deems it necessary to protect investors and the public interest, Nasdaq, pursuant to the procedures set forth in paragraph (c):

(1) – (11) No change.

(12) Limit Up-Limit Down Mechanism.

(A) – (F) No change.

(G) If the Exchange is unable to reopen trading due to a systems or technology issue, it shall notify the Processor immediately.[Trading Pause. During Phase 1 of the Plan, a Trading Pause in Tier 1 NMS Stocks shall be subject to the requirements of the Plan and Rule 4753 and a Trading Pause in Tier 2 NMS Stocks shall be subject to the requirements set forth in paragraphs (a)(11) of this Rule. Once the Plan has been fully implemented and all NMS Stocks are subject to the Plan, a Trading Pause under the Plan shall be subject to paragraph (12) of this Rule only.]

(H) Re-opening of Trading following a Trading Pause. At the end of the Trading Pause, the Exchange shall re-open the security in a manner similar to the procedures set forth in Rule 4753, provided that following a Trading Pause that exists [is triggered] at or after 3:50 p.m. a stock shall re-open via a LULD Closing Cross pursuant to Rule 4754(b)(6). If a Trading Pause was initiated by another exchange, Nasdaq may resume trading following the Trading Pause upon receipt of the Price Bands from the Processor.

(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), or (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. Such orders will be accepted and entered into the system.

(B) – (C) No change.

(8) – (9) No change.

(10) A trading pause initiated under Rule 4120(a)(12) shall be terminated when Nasdaq releases the security for trading. For any such security listed on Nasdaq, prior to terminating the pause, there will be a 5-minute “Initial Display Only Period” during which market participants may enter quotations and orders in that security in Nasdaq systems.

(A) Nasdaq will:

(i) establish the “Auction Reference Price”, which is determined by:

a. For a Limit Down triggered pause, the Lower Band price of the LULD Band in place at the time the trading pause was triggered; or

b. For a Limit Up triggered pause, the Upper Band price of the LULD Band in place at the time the trading pause was triggered.

(ii) determine the upper and lower “Auction Collar” prices, which are determined by:

a. For a Limit Down triggered pause, the lower Auction Collar price is derived by subtracting 5% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, from the Auction Reference Price, and the upper Auction Collar price is the Upper Band price on the LULD Band in place at the time the trading pause was triggered.

b. For a Limit Up triggered pause, the upper Auction Collar price is derived by adding 5% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, from the Auction Reference Price, and the lower Auction Collar price is the Lower Band price of the LULD Band in place at the time the trading pause was triggered.

(B) At the conclusion of the Initial Display Only Period, the security will be released for trading unless, at the end of an Initial Display Only Period, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will extend the Display Only Period for an additional 5-minute period (“Extended Display Only Period”), and the Auction Collar prices will be adjusted as follows:

- (i) If the Display Only Period is extended because the calculated price at which the security would be released for trading is below the lower Auction Collar price or all sell market orders would not be executed in the cross, then the new lower Auction Collar price is derived by subtracting 5% of the initial Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, from the previous lower Auction Collar price, and the upper Auction Collar price will not be changed.
- (ii) If the Display Only Period is extended because the calculated price at which the security would be released for trading is above the upper Auction Collar price or all buy market orders would not be executed in the cross, then the new upper Auction Collar price is derived by adding 5% of the initial Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities priced \$3 or less, \$0.15, to the previous upper Auction Collar price, and the lower Auction Collar price will not be changed.
- (C) At the conclusion of the Extended Display Only Period, the security will be released for trading unless, at the end of the Extended Display Only Period, Nasdaq detects an order imbalance in the security. In that case, Nasdaq will further extend the Display Only Period, continuing to adjust the Auction Collar prices every five minutes in the manner described in paragraph (B) above until the security is released for trading. Nasdaq shall release the security for trading at the first point there is no order imbalance.
- (D) Notwithstanding paragraphs (A) – (C) above, a Trading Pause that exists at or after 3:50 p.m. in a stock shall re-open via a LULD Closing Cross pursuant to Rule 4754(b)(6).
- (E) For purposes of Rule 4120(c)(10), upon completion of the cross calculation an order imbalance shall be established as follows:
- (i) the calculated price at which the security would be released for trading is above (below) the upper (lower) Auction Collar price calculated under paragraphs (A), (B), or (C) above; or
- (ii) all market orders would not be executed in the cross.

\* \* \* \* \*

### **4753. Nasdaq Halt Cross**

**(a) Definitions.**

For the purposes of this rule the term:

- (1) – (2) No change.**

(3) “Order Imbalance Indicator” shall mean a message disseminated by electronic means containing information about Eligible Interest and the price at which such interest would execute at the time of dissemination. The Order Imbalance Indicator shall disseminate the following information:

(A) – (E) No change.

(F) For purposes of a Trading Pause initiated pursuant to Rule 4120(a)(12), “Order Imbalance Indicator” will include Auction Reference Prices and Auction Collars, as defined in Rule 4120(c)(10)(A).

(4) – (6) No change.

(b) – (c) No change.

\* \* \* \* \*

### **11890. Clearly Erroneous Transactions**

The provisions of paragraphs (a)(2)(C), (c)(1), (b)(i), and (b)(ii) of this Rule, as amended on September 10, 2010, and the provisions of paragraphs (g) through (i), shall be in effect during a pilot period to coincide with the pilot period for the Limit Up-Limit Down Plan, including any extensions to the pilot period for the Plan. If the Plan is not either extended or approved as permanent, the prior versions of paragraphs (a)(2)(C), (c)(1), and (b) shall be in effect, and the provisions of paragraphs (g) through (i) shall be null and void.

#### **(a) Authority to Review Transactions Pursuant to Complaint of Market Participant**

##### **(1) Definition.**

For purposes of this rule, the terms of a transaction executed on Nasdaq are “clearly erroneous” when there is an obvious error in any term, such as price, number of shares or other unit of trading, or identification of the security. A transaction made in clearly erroneous error and cancelled by both parties or determined by Nasdaq to be clearly erroneous will be removed from the consolidated tape. Executions as a result of a Halt Auction under Rule 4120(c)(10) are not eligible for a request for review as clearly erroneous under this Rule.

(2) No change.

(b) – (i) No change.

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