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

Exhibit 2 Sent As Paper Document
Exhibit 3 Sent As Paper Document

Description

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

A proposal to amend Chapter XIV, Index Rules, Section 10(g), Pricing When Primary Market Does Not Open.

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 * Carla
Title * Associate General Counsel
E-mail * Carla.Behnfeldt@nasdaq.com
Telephone * (215) 496-5208

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 10/23/2018
Global Chief Legal and Policy Officer

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.

edward.knight@nasdaq.com
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 the “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)\(^1\) and Rule 19b-4 thereunder,\(^2\) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Chapter XIV, Index Rules, Section 10(g), Pricing When Primary Market Does Not Open. The Exchange requests that the Commission waive the 30-day operative delay period contained in Exchange Act Rule 19b-4(f)(6)(iii).\(^3\)

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

   (b) Not applicable.

   (c) Not applicable.

2. **Procedures of the Self-Regulatory Organization**

   The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on September 19, 2017. 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:

   Carla Behnfeldt
   Associate General Counsel

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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 its rules at Chapter XIV, Index Rules, Section 10(g) of the Exchange’s rulebook regarding determination of the price of component securities for purposes of calculating the current index value at expiration of Exchange index options on days when the primary market for the underlying security does not open. The proposed amendment would apply to both AM-settled and PM-settled index options.

Currently, Chapter XIV, Section 10(g) provides that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day, the price of that security shall be determined, for purposes of calculating

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4 Three of the Exchange’s affiliated options exchanges, Nasdaq ISE, LLC (“ISE”), Nasdaq BX (“BX”) and Nasdaq PHLX LLC, will also be proposing rule changes relating to the manner of determining an underlying index component security’s price for purposes of calculating the current index value at expiration of an index option under these circumstances. See SR-BX-2018-049, SR-Phlx-2018-63, and SR-ISE-2018-88. The Exchange desires its rules to be aligned with those of the affiliated exchanges.

5 Currently, traditional index options expiring on the third Friday of the month are A.M.-settled, meaning that the index option’s settlement value is calculated based upon opening prices of the index’s component securities on the last day of trading in the component securities prior to expiration, normally on Friday morning. By contrast, the settlement of P.M.-settled index options is based upon the closing index value, defined as the last index value reported on a business day, for the day on which the index option is exercised. P.M.-settled options expiring on the third Friday of the month would therefore normally be settled on the basis of Friday’s closing prices of component securities.
the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading.  

The Exchange now proposes to delete from the rule the language providing for determination of the price of the component security, for purposes of calculating the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading. The Exchange proposes to amend Chapter XIV, Section 10(g) so that it provides that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. The revised provision would permit market participants the certainty of knowing the settlement value on the day on which the primary market fails to open. Additionally, the amendment would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.

The rule would continue to provide that this procedure shall not be used if the current index value at expiration is fixed in accordance with OCC rules and by-laws.

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6 The rule provides, however, that this procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the options Clearing Corporation (“OCC”).

7 Chapter XIV, Section 10(g) would continue to apply to both A.M.-settled and P.M.-settled index options.

8 The index calculator for the NDX, MNX and BKX indexes, which are products traded on Nasdaq affiliated exchanges, uses the previous day’s closing price if components of the index do not open.
This language recognizes that OCC is authorized under its rules and by-laws to take certain actions relating to settlement in the event of the unavailability or inaccuracy of the current underlying interest value.\(^9\) The Exchange proposes to retain this language in recognition of OCC’s authority to establish settlement prices and procedures in certain circumstances where normal settlement procedures cannot be followed due unforeseen events, such as the unanticipated closure of a primary market for a component security on a day on which it would normally be open for trading. The Exchange would thus retain the last sentence of Chapter XIV, Section 10(g) which will make clear that the new procedure would not apply in the event that OCC exercises its authority to determine settlement prices. Rather, the proposed new language would apply only when a primary market does not open and OCC elects not to exercise its authority to intervene and take action to establish a settlement price.

b.     Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,\(^10\) in general, and furthers the objectives of Section 6(b)(5) of the Act,\(^11\) in particular,\

\(^9\) See OCC By-Laws Article XVII, Section 4(a), which provides in relevant part that if OCC shall determine that the primary market for one or more index components did not open or remain open for trading (or that any such components did not open or remain open for trading on such market(s)) on a trading day at or before the time when the current index value for that trading day would ordinarily be determined, or that a current index value or other value or price to be used as, or to determine, the exercise settlement amount (a “required value”) for a trading day is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount, then, in addition to any other actions that OCC may be entitled to take under OCC’s bylaws and rules, the, OCC is empowered to take any or all of a range of permitted actions with respect to any series of options on such index, including fixing the exercise settlement amount.

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. As noted above, the amendment to Chapter XIV, Section 10(g) would establish clearly the procedure for determination of an index component security’s price in the event that the primary market for the security fails to open. By adopting the proposed rule amendment, the Exchange would provide certainty to the market regarding the procedure it would follow in the absence of action by OCC. Additionally, it would provide market participants with the certainty of knowing the settlement value on the day on which the primary market fails to open, and eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.

It would also acknowledge clearly, however, that OCC may, under its rules and by-laws, establish settlement prices for expiring index options that may differ from the settlement prices that would otherwise be provided for in Exchange rules, thereby protecting investors and the public interest by reducing potential for confusion in that regard.

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. On the contrary, the Exchange believes that the proposed amendment will benefit

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investors, market participants, and the marketplace in general by setting forth clearly the manner in which index option settlement values will be determined if the primary market for a security underlying the current index value of an index option does not open for trading, allowing market participants the certainty of knowing the settlement price on the day on which the primary market fails to open, eliminating the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading, and retaining the existing provision stating that the Exchange will defer to OCC in the determination of settlement prices when and if OCC exercises its authority under its own settlement price procedures in accordance with its rules and by-laws.

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

   No written comments were either solicited or received.

6. **Extension of Time Period for Commission Action**

   Not applicable.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

   The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)\(^\text{12}\) of the Act and Rule 19b-4(f)(6) thereunder\(^\text{13}\) in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not


\(^{13}\) 17 CFR 240.19b-4(f)(6).
become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The proposed rule change (i) does not significantly affect the protection of investors or the public interest; and (ii) does not impose any significant burden on competition, as it merely adopts a procedure to establish the price of component securities for purposes of determining the settlement price in the case where the primary market for a component security does not open and when OCC determines not to exercise its authority to take action to establish settlement prices. As noted above, the amended rule would also provide market participants with the certainty of knowing the settlement value on the day on which the primary market fails to open, and would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.
A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay period for “non-controversial” proposals contained in Rule 19b-4(f)(6)(iii) and make the proposed rule change effective and operative upon filing. Such a waiver will permit the Exchange to immediately amend Chapter XIV, Section 10(g) thereby providing certainty regarding determination of settlement prices for index options, including in instances where OCC exercises its authority under its own rules and by-laws regarding settlement. The waiver will immediately allow investors the certainty of knowing the settlement price on the day on which the primary market of an underlying component fails to open, and will immediately foreclose the possibility of difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.

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

   Not applicable.

9. **Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

   Not applicable.

10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

    Not applicable.
11. **Exhibits**

    
    5. Text of the proposed rule change.
Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Chapter XIV, Index Rules, Section 10(g), Pricing When Primary Market Does Not Open

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),\(^1\) and Rule 19b-4 thereunder,\(^2\) notice is hereby given that on October 23, 2018, 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 Chapter XIV, Index Rules, Section 10(g), Pricing When Primary Market Does Not Open.

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

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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

The Exchange proposes to amend its rules at Chapter XIV, Index Rules, Section 10(g) of the Exchange’s rulebook regarding determination of the price of component securities for purposes of calculating the current index value at expiration of Exchange index options on days when the primary market for the underlying security does not open.3 The proposed amendment would apply to both AM-settled and PM-settled index options.4

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3 Three of the Exchange’s affiliated options exchanges, Nasdaq ISE, LLC (“ISE”), Nasdaq BX (“BX”) and Nasdaq PHLX LLC, will also be proposing rule changes relating to the manner of determining an underlying index component security’s price for purposes of calculating the current index value at expiration of an index option under these circumstances. See SR-BX-2018-049, SR-Phlx-2018-63, and SR-ISE-2018-88. The Exchange desires its rules to be aligned with those of the affiliated exchanges.

4 Currently, traditional index options expiring on the third Friday of the month are A.M.-settled, meaning that the index option’s settlement value is calculated based upon opening prices of the index’s component securities on the last day of trading in the component securities prior to expiration, normally on Friday morning. By contrast, the settlement of P.M.-settled index options is based upon the closing index value, defined as the last index value reported on a business day, for the day on which the index option is exercised. P.M.-settled options expiring on the third
Currently, Chapter XIV, Section 10(g) provides that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day, the price of that security shall be determined, for purposes of calculating the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading.\(^5\)

The Exchange now proposes to delete from the rule the language providing for determination of the price of the component security, for purposes of calculating the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading. The Exchange proposes to amend Chapter XIV, Section 10(g) so that it provides that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used.\(^6\) The revised provision would permit market participants the certainty of knowing the settlement value on the day on which the primary market fails to open. Additionally, the amendment would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement price.

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\(^5\) The rule provides, however, that this procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the options Clearing Corporation (“OCC”).

\(^6\) Chapter XIV, Section 10(g) would continue to apply to both A.M.-settled and P.M.-settled index options.
value using prices for the relevant security(ies) on the next day that its primary market is open for trading.  

The rule would continue to provide that this procedure shall not be used if the current index value at expiration is fixed in accordance with OCC rules and by-laws. This language recognizes that OCC is authorized under its rules and by-laws to take certain actions relating to settlement in the event of the unavailability or inaccuracy of the current underlying interest value. The Exchange proposes to retain this language in recognition of OCC’s authority to establish settlement prices and procedures in certain circumstances where normal settlement procedures cannot be followed due unforeseen events, such as the unanticipated closure of a primary market for a component security on a day on which it would normally be open for trading. The Exchange would thus retain the last sentence of Chapter XIV, Section 10(g) which will make clear that the new procedure would not apply in the event that OCC exercises its authority to determine settlement prices. Rather, the proposed new language would apply only when a primary

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7 The index calculator for the NDX, MNX and BKX indexes, which are products traded on Nasdaq affiliated exchanges, uses the previous day’s closing price if components of the index do not open.

8 See OCC By-Laws Article XVII, Section 4(a), which provides in relevant part that if OCC shall determine that the primary market for one or more index components did not open or remain open for trading (or that any such components did not open or remain open for trading on such market(s)) on a trading day at or before the time when the current index value for that trading day would ordinarily be determined, or that a current index value or other value or price to be used as, or to determine, the exercise settlement amount (a “required value”) for a trading day is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount, then, in addition to any other actions that OCC may be entitled to take under OCC’s bylaws and rules, the, OCC is empowered to take any or all of a range of permitted actions with respect to any series of options on such index, including fixing the exercise settlement amount.
market does not open and OCC elects not to exercise its authority to intervene and take action to establish a settlement price.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act, 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. As noted above, the amendment to Chapter XIV, Section 10(g) would establish clearly the procedure for determination of an index component security’s price in the event that the primary market for the security fails to open. By adopting the proposed rule amendment, the Exchange would provide certainty to the market regarding the procedure it would follow in the absence of action by OCC. Additionally, it would provide market participants with the certainty of knowing the settlement value on the day on which the primary market fails to open, and eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.

It would also acknowledge clearly, however, that OCC may, under its rules and by-laws, establish settlement prices for expiring index options that may differ from the settlement prices that would otherwise be provided for in Exchange rules, thereby

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protecting investors and the public interest by reducing potential for confusion in that regard.

**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. On the contrary, the Exchange believes that the proposed amendment will benefit investors, market participants, and the marketplace in general by setting forth clearly the manner in which index option settlement values will be determined if the primary market for a security underlying the current index value of an index option does not open for trading, allowing market participants the certainty of knowing the settlement price on the day on which the primary market fails to open, eliminating the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading, and retaining the existing provision stating that the Exchange will defer to OCC in the determination of settlement prices when and if OCC exercises its authority under its own settlement price procedures in accordance with its rules and by-laws.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed,
or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act\textsuperscript{11} and subparagraph (f)(6) of Rule 19b-4 thereunder.\textsuperscript{12}

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2018-081 on the subject line.


\textsuperscript{12} 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.
Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2018-081. 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 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-2018-081 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.\footnote{17 CFR 200.30-3(a)(12).}

Eduardo A. Aleman
Assistant Secretary
The Nasdaq Stock Market Rules

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Chapter XIV Index Rules

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Sec. 10 Trading Sessions

(a) –(f) No change.

(g) Pricing When Primary Market Does Not Open. When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used.[the price of that security shall be determined, for the purposes of calculating the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading.] This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation.

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