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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 102
Amendment No. (req. for Amendments *)

Filing by The Nasdaq Stock Market LLC

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

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 the Order Price Protection

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 * Angela Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * angela.dunn@nasdaq.com

Telephone * (215) 496-5692 Fax

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 12/07/2018

By Edward S. Knight

(Name *)

(Title *)

Global Chief Legal & 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

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of 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")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to amend the Order Price Protection or "OPP" within The Nasdaq Options Market LLC ("NOM") Rules at Chapter VI, Section 18, entitled, "Risk Protections."

A notice of the proposed rule change for publication in the Federal Register is at Exhibit 1 and the text of the amended Exchange Rule is at 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 (the "Board") on September 26, 2018. 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:

Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692.

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

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

a. Purpose

The purpose of the proposed rule change is to amend Chapter VI, Section 18, entitled, "Risk Protections." Specifically, the Exchange proposes to amend the Order Price Protection or "OPP" functionality at Chapter VI, Section 18(a) to: (i) propose an alternative method to determine parameters for this risk protection; and (ii) memorialize certain rule text within Chapter VI, Section 18. The Exchage notes that OPP is intended to prevent erroneous executions of orders on NOM. This proposal seeks to further this objective by introducting a fixed dollar threshold that in combination with the existing percentage threshold will provide a modified approach to order rejection based on the price of the order.

Background

Today, the OPP feature prevents certain day limit, good til cancelled or immediate or cancel orders at prices outside of certain pre-set limits from being accepted by the System. OPP applies market-wide to all options, but does not apply to market orders or Intermarket Sweep Orders. OPP is operational each trading day after the opening until the close of trading, except during trading halts.[3] The OPP assists Participants in controlling risk by checking each order, before it is accepted into the System, against certain parameters. Today, OPP rejects incoming orders that exceed certain parameters according to the following algorithm:

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00,

[3] See Chapter VI, Section 18(a)(1).

> orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.
>
> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

Today, NOM offers price improving orders[4] to market participants for submitting orders in increments smaller than the minimum price variation ("MPV") and as small as one cent. Price Improving Orders are displayed on The Options Price Report Authority ("OPRA") as part of volume at the MPV.

<u>Alternative Method</u>

The Exchange proposes to expand the algorithm for OPP to permit an alternative to the percentage specified within the current rule. The proposal is similar to Nasdaq ISE, LLC's Limit Order Price Protection feature.[5] The Exchange proposes to amend Chapter VI, Section 18(1)(B)(i) to provide that OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

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[4] Price Improving Orders are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. <u>See</u> NOM Rules at Chapter VI, Section 1(e)(6).

[5] Nasdaq ISE, LLC ("ISE") provides a Limit Order Price Protection feature at Rule 714(b)(1)(A). This risk protection limits the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%. Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(A) 50% through such contra-side Reference BBO; or

(B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.

The Exchange proposes to amend Chapter VI, Section 18(1)(B)(ii) to provide that OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(A) 100% through such contra-side Reference BBO; or

(B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.

Today, orders are rejected if they exceed the percentage threshold and in some cases the percentages may be too restrictive. The proposed alternative would permit for a range of prices to be executed where the incoming order is up to $1.00 from the Reference BBO. The Exchange believes that utilizing the greater of a fixed dollar amount alternative or percentage would expand the applicability of OPP while still providing a reasonable limit to the range where orders will be accepted. By implementing a functionality which applies the greater of (i) a fixed dollar amount not to exceed $1.00; or (ii) a percentage, the Exchange would ensure that this protection would be able to accommodate all orders based on a determination of how far from the Reference BBO the order is priced. The application of OPP would continue to be market-wide. This proposal permits the

Exchange to consider the price of the order to determine the appropriate threshold with which to apply OPP.

The Exchange notes that ISE's Limit Order Price Protection feature combines a percentage and fixed dollar threshold, similar to NOM's proposal. The Exchange notes that certain securities in lower price ranges would not benefit from the application of a percentage as would securities with higher prices. For example, the application of a 50% threshold to a $50 security would provide a rejection if a limit order was priced $75 or greater compared to a 100% threshold for a $0.02 security which would be rejected a limit order priced $0.04 or greater.

Today, the Exchange notes that certain orders, such as the price improving orders noted previously, are rejected because a 100% percentage is applied to the contra-side of an incoming order that is less than $1.00. A rejection occurs in cases where the order is not erroneously priced. Below are some additional examples utilizing the proposed rule:

Example 2: An option priced less than $1.00

For a penny MPV option with a BBO on NOM of $0.01 x $0.02, consider that the configurable dollar amount is set to $0.05

Current Rule: Reject buy orders of more than $0.04 bid if incoming order was less than $1.00, and it was more than 100% through the contra-side of the Reference BBO.

Proposed Rule: A buy order priced up to $0.07 ($0.02 offer + $0.05 configuration) would not be rejected because a configurable dollar amount from $0.00 to $0.05 would allow the order to be entered into the System for execution.

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

Example 3: An option priced greater than $1.00

For a penny MPV option with a BBO on NOM of $1.01 x $1.02, consider that the configurable dollar amount is set to $0.60

Current Rule**:** Reject buy orders 50% through $1.02 - orders priced greater than $1.53 ($1.02 + $0.51).

Proposed Rule**:** Reject buy orders priced greater than $1.62 - $0.60 through 1.02 (this would be greater than 50% through 1.02).

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

Example No. 4: Price Improving Order[6]

Today, assume a NOM Participant enters a $.01 offer in an issue that is a $0.05 MPV.

The NOM Order Book would be $0 x $.01 and would be displayed on OPRA as $0 x $.05.

Current Rule: Reject Buy orders 100% through $0.01 – orders priced greater than $0.02 ($0.01 + $0.01)

Proposed Rule: Reject buy orders priced greater than $0.06 - $0.05 through $0.01 (this would be greater than 100% through $0.01).

If a buyer submits a $0.05 order, OPP checks the order against the NOM Order Book and assuming a configurable amount of $0.05, this order would not reject the the $.05 bid utilizing the proposed fixed dollar parameter.

The desire for this alternative arose specifically in the case where the contra-side of an incoming order is less than $1.00, but the Exchange believes that an incoming order priced more than $1.00 could also benefit by this alternative method because the fixed amount provides for additional executions in certain situations where a percentage would reject an order which was intentional and not erroneous, as displayed in the examples above. The Exchange specifically selected a limit of $1.00 because within that range, $1.00 from the Reference BBO, applying a percentage may cause the System to reject a greater number of orders than the Exchange intended. Also, the $1.00 equates to 100%

6 The Exchange notes that this particular scenario is not very frequent, but may occur on NOM because of the price improving order type.

through the $1.00 threshold that exists today for OPP. The configurable dollar amount would provide more granularity to the application of OPP to permit a larger range of orders to execute. The Exchange believes that this approach will accomplish the goal of limiting erroneous executions while permitting intentional executions at reasonable prices.

The Exchange would continue to analyze trading behavior and its experience with OPP to determine the configurable amount not to exceed $1.00. The Exchange would post the configurable amount on its website and announce any changes to the configurable amount in an Options Trader Alert. The Exchange notes that it typically has not changed its configurable amounts over the years with respect to its risk protections. The Exchange researches market behavior to determine the amount in setting risk thresholds, in this case for rejection of orders. The Exchange notifies market participants of the thresholds. The Exchange would revisit its proposed OPP threshold if there was a change in behavior of OPP rejections or in response to market participant feedback regarding the behavior of a risk protection.

Memorialization of Rule Text

A prior rule change[7] specified that the Exchange is permitted to temporarily deactivate OPP from time to time on an intraday basis at its discretion if it determined that volatility warranted deactivation. Participants would be notified of intraday OPP deactivation due to volatility and any subsequent intraday reactivation by the Exchange through the issuance of System status messages. The Exchange proposes to memorialize the Exchange's discretion within NOM Rules at Chapter VI, Section 18(a)(1)(A) by

7 See Securities Exchange Act Release No. 64312 (April 20, 2011), 76 FR 23351 (April 26, 2011)(SR-NASDAQ-2011-053)("2011 Rule Change").

adding the following rule text, "OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion."

Implementation

The Exchange proposes to implement this rule change prior to March 2019. The Exchange will announce the date of implementation via an Options Traders Alert.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[8] in general, and furthers the objectives of Section 6(b)(5) of the Act,[9] 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, by adopting an alternative configurable dollar amount standard, not to exceed $1.00, which would allow NOM to establish appropriate boundaries for rejecting potentially erroneous orders while continuing to allow Participants to access liquidity.

Alternative Method

OPP is intended to prevent orders which were clearly erroneous from executing within the System to the detriment of market participants. OPP was not intended to reject legitimate orders which are otherwise capable of execution at a fair price. The Exchange's proposal would allow the Exchange to establish a fixed dollar amount in addition to a percentage threshold, similar to ISE,[10] which would continue to protect

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[8] 15 U.S.C. 78f(b).

[9] 15 U.S.C. 78f(b)(5).

[10] See note 5 above.

investors and the public interest against erroneous executions while also allowing orders to execute where appropriate at a more granular level where the incoming order is $1.00 from the Reference BBO.

Because today NOM offers price improving orders[11] to market participants for submitting orders in increments smaller than the MPV and as small as one cent, OPP orders which rely on the Reference BBO on the NOM Order Book are rejected because in some cases the price improving order appears greater than than 100% through the contra-side Reference BBO of $.01.[12] The Exchange believes that it is consistent with the Act in this case because the order was not entered at an erroneous price. The Exchange proposes an alternative to utilize a second method to determine the rejection of orders in addition to the current OPP methodology for rejecting orders. The Exchange believes that by implementing a functionality which applies the greater of (i) a fixed dollar amount not to exceed $1.00; or (ii) a percentage, the Exchange would ensure that this protection would be able to accommodate all orders based on a determination of how far from the Reference BBO the order is priced. The application of OPP would continue to be market-wide.

The Exchange believes that its proposal is consistent with the Act because the fixed amount provides for a larger range of executions within the $1.00 variance which would otherwise be rejected by the application of a percentage which would not capture the potential incremental executions. Orders would be rejected which were intentional and not erroneous. The Exchange specifically selected a limit of $1.00 because within

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[11] See note 4 above.

[12] The Exchange notes that this particular scenario is not very frequent, but may occur on NOM because of the price improving order type.

that range, $1.00 from the Reference BBO, applying a percentage may reject a greater number of orders than is intended. The Exchange notes that options which are at or near the money with regard to the strike and the price of the underlying stock are typically priced in a range between $0.0 - $2.00.[13] The Exchange would provide market participants with greater flexilibity to enter orders priced near in-the-money ranges. The Exchange will continue to analyze trading behavior and its experience with OPP to determine the configurable amount not to exceed $1.00. The Exchange would post the configurable amount on its website and announce any changes to the configurable amount in an Options Trader Alert. The configurable dollar amount would provide more granularity to the application of OPP to permit a larger range of orders to execute. The Exchange believes that this approach will accomplish the goal of limiting erroneous executions while permitting intentional executions at reasonable prices.

Memorialization of Rule Text

The Exchange's proposal to memorialize rule text which was described in the 2011 Rule Change[14] relating to discretion to deactivate OPP on an intraday basis would bring greater transparency to the ability of the Exchange to exercise this discretion.

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 proposal does not impose an intra-market burden on competition because this

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[13] By way of example, with the current OPP methodology an option priced at $1.90 would be rejected for order priced greater than $2.85. Whereas the threshold would allow an order priced at $2.90 to be submitted to the System for execution.

[14] See note 7 above.

mandatory risk protection applies to all Participants who submit orders into NOM. The Exchange would reject all incoming orders that exceed certain parameters uniformly for all Participants. The proposal does not impose an inter-market burden on competition because today other markets offer similar protections to avoid erroneous executions on their markets.[15]

The Exchange's proposal to memorialize rule text which was described in a prior rule change[16] relating to discretion to deactivate OPP on an intraday basis does not impose an undue burden on competition, rather this proposal would bring greater transparency to the OPP rule.

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)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)[17] of the Act and Rule 19b-4(f)(6) thereunder[18] in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii)

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15 See ISE 714(b)(1)(A).

16 See note 7 above.

17 15 U.S.C. 78s(b)(3)(A)(iii).

18 17 CFR 240.19b-4(f)(6).

does not impose any significant burden on competition; and (iii) by its terms, does not 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 Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the proposed changes are intended to continue to provide the Exchange with the ability to better manage the rejection of erroneous orders entered into NOM while allowing legitimate orders to be executed by adopting an alternative method to determine whether to reject orders. The proposal does not impose a significant burden on competition an undue burden on competition because this mandatory risk protection applies to all Participants who submit orders into NOM. The Exchange would reject all incoming orders that exceed certain parameters uniformly for all Participants. Memorializing rule text which was described in a prior rule change[19] relating to discretion to deactivate OPP on an intraday basis is not a substantive rule change.

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: (i) necessary or appropriate in the public interest; (ii) for

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[19] See note 7 above.

the protection of investors; or (iii) 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.

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

ISE provides a similar Limit Order Price Protection feature at Rule 714(b)(1)(A).[20]

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.

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20 ISE's risk protection limits the amount by which incoming limit orders to buy may be priced above ISE's best offer and by which incoming limit orders to sell may be priced below ISE's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of ISE's best offer (bid) plus (minus): (i) an absolute amount not to exceed $2.00, or (ii) a percentage of ISE's best bid/offer not to exceed 10%. While ISE's Limit Order Price Protection utilizes a fixed dollar and percentage, similar to NOM's proposal, the thresholds differ. NOM's proposal provides for different thresolds depending on whether the incoming order is greater or less than or equal to $1.00. Also, the configurable dollar amount wuld not exceed $1.00 through the contra-side Reference BBO.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-NASDAQ-2018-102)

December __, 2018

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Order Price Protection

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 December 7, 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 the Order Price Protection or "OPP" within The Nasdaq Options Market LLC ("NOM") Rules at Chapter VI, Section 18, entitled, "Risk Protections."

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.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

In its filing with the Commission, 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 purpose of the proposed rule change is to amend Chapter VI, Section 18, entitled, "Risk Protections." Specifically, the Exchange proposes to amend the Order Price Protection or "OPP" functionality at Chapter VI, Section 18(a) to: (i) propose an alternative method to determine parameters for this risk protection; and (ii) memorialize certain rule text within Chapter VI, Section 18. The Exchage notes that OPP is intended to prevent erroneous executions of orders on NOM. This proposal seeks to further this objective by introducting a fixed dollar threshold that in combination with the existing percentage threshold will provide a modified approach to order rejection based on the price of the order.

Background

Today, the OPP feature prevents certain day limit, good til cancelled or immediate or cancel orders at prices outside of certain pre-set limits from being accepted by the System. OPP applies market-wide to all options, but does not apply to market orders or Intermarket Sweep Orders. OPP is operational each trading day after the opening until the close of trading, except during trading halts.[3] The OPP assists Participants in controlling risk by checking each order, before it is accepted into the System, against certain parameters. Today, OPP rejects incoming orders that exceed certain parameters according to the following algorithm:

> (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.
>
> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

Today, NOM offers price improving orders[4] to market participants for submitting orders in increments smaller than the minimum price variation ("MPV") and as small as one cent. Price Improving Orders are displayed on The Options Price Report Authority ("OPRA") as part of volume at the MPV.

Alternative Method

The Exchange proposes to expand the algorithm for OPP to permit an alternative to the percentage specified within the current rule. The proposal is similar to Nasdaq ISE, LLC's Limit Order Price Protection feature.[5] The Exchange proposes to amend

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3 See Chapter VI, Section 18(a)(1).

4 Price Improving Orders are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders. See NOM Rules at Chapter VI, Section 1(e)(6).

5 Nasdaq ISE, LLC ("ISE") provides a Limit Order Price Protection feature at Rule 714(b)(1)(A). This risk protection limits the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit

Chapter VI, Section 18(1)(B)(i) to provide that OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

> (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
>
> (A) 50% through such contra-side Reference BBO; or
>
> (B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.

The Exchange proposes to amend Chapter VI, Section 18(1)(B)(ii) to provide that OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

> (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.
>
> (A) 100% through such contra-side Reference BBO; or
>
> (B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert.

Today, orders are rejected if they exceed the percentage threshold and in some cases the percentages may be too restrictive. The proposed alternative would permit for a range of prices to be executed where the incoming order is up to $1.00 from the Reference BBO. The Exchange believes that utilizing the greater of a fixed dollar amount alternative or

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orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%. Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.

percentage would expand the applicability of OPP while still providing a reasonable limit to the range where orders will be accepted. By implementing a functionality which applies the greater of (i) a fixed dollar amount not to exceed $1.00; or (ii) a percentage, the Exchange would ensure that this protection would be able to accommodate all orders based on a determination of how far from the Reference BBO the order is priced. The application of OPP would continue to be market-wide. This proposal permits the Exchange to consider the price of the order to determine the appropriate threshold with which to apply OPP.

The Exchange notes that ISE's Limit Order Price Protection feature combines a percentage and fixed dollar threshold, similar to NOM's proposal. The Exchange notes that certain securities in lower price ranges would not benefit from the application of a percentage as would securities with higher prices. For example, the application of a 50% threshold to a $50 security would provide a rejection if a limit order was priced $75 or greater compared to a 100% threshold for a $0.02 security which would be rejected a limit order priced $0.04 or greater.

Today, the Exchange notes that certain orders, such as the price improving orders noted previously, are rejected because a 100% percentage is applied to the contra-side of an incoming order that is less than $1.00. A rejection occurs in cases where the order is not erroneously priced. Below are some additional examples utilizing the proposed rule:

Example 2: An option priced less than $1.00

For a penny MPV option with a BBO on NOM of $0.01 x $0.02, consider that the configurable dollar amount is set to $0.05

Current Rule: Reject buy orders of more than $0.04 bid if incoming order was less than $1.00, and it was more than 100% through the contra-side of the Reference BBO.

Proposed Rule: A buy order priced up to $0.07 ($0.02 offer + $0.05 configuration) would not be rejected because a configurable dollar amount from $0.00 to $0.05 would allow the order to be entered into the System for execution.

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

Example 3: An option priced greater than $1.00

For a penny MPV option with a BBO on NOM of $1.01 x $1.02, consider that the configurable dollar amount is set to $0.60

Current Rule**:** Reject buy orders 50% through $1.02 - orders priced greater than $1.53 ($1.02 + $0.51).

Proposed Rule**:** Reject buy orders priced greater than $1.62 - $0.60 through 1.02 (this would be greater than 50% through 1.02).

This order was marketable upon entry and was not priced far from the current bid. The Exchange believes in this example, the order should be permitted to trade instead of being rejected.

Example No. 4: Price Improving Order[6]

Today, assume a NOM Participant enters a $.01 offer in an issue that is a $0.05 MPV.

The NOM Order Book would be $0 x $.01 and would be displayed on OPRA as $0 x $.05.

Current Rule: Reject Buy orders 100% through $0.01 – orders priced greater than $0.02 ($0.01 + $0.01)

Proposed Rule: Reject buy orders priced greater than $0.06 - $0.05 through $0.01 (this would be greater than 100% through $0.01).

If a buyer submits a $0.05 order, OPP checks the order against the NOM Order Book and assuming a configurable amount of $0.05, this order would not reject the the $.05 bid utilizing the proposed fixed dollar parameter.

The desire for this alternative arose specifically in the case where the contra-side of an incoming order is less than $1.00, but the Exchange believes that an incoming order

6 The Exchange notes that this particular scenario is not very frequent, but may occur on NOM because of the price improving order type.

priced more than $1.00 could also benefit by this alternative method because the fixed amount provides for additional executions in certain situations where a percentage would reject an order which was intentional and not erroneous, as displayed in the examples above. The Exchange specifically selected a limit of $1.00 because within that range, $1.00 from the Reference BBO, applying a percentage may cause the System to reject a greater number of orders than the Exchange intended. Also, the $1.00 equates to 100% through the $1.00 threshold that exists today for OPP. The configurable dollar amount would provide more granularity to the application of OPP to permit a larger range of orders to execute. The Exchange believes that this approach will accomplish the goal of limiting erroneous executions while permitting intentional executions at reasonable prices.

The Exchange would continue to analyze trading behavior and its experience with OPP to determine the configurable amount not to exceed $1.00. The Exchange would post the configurable amount on its website and announce any changes to the configurable amount in an Options Trader Alert. The Exchange notes that it typically has not changed its configurable amounts over the years with respect to its risk protections. The Exchange researches market behavior to determine the amount in setting risk thresholds, in this case for rejection of orders. The Exchange notifies market participants of the thresholds. The Exchange would revisit its proposed OPP threshold if there was a change in behavior of OPP rejections or in response to market participant feedback regarding the behavior of a risk protection.

Memorialization of Rule Text

A prior rule change[7] specified that the Exchange is permitted to temporarily deactivate OPP from time to time on an intraday basis at its discretion if it determined that volatility warranted deactivation. Participants would be notified of intraday OPP deactivation due to volatility and any subsequent intraday reactivation by the Exchange through the issuance of System status messages. The Exchange proposes to memorialize the Exchange's discretion within NOM Rules at Chapter VI, Section 18(a)(1)(A) by adding the following rule text, "OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion."

Implementation

The Exchange proposes to implement this rule change prior to March 2019. The Exchange will announce the date of implementation via an Options Traders Alert.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[8] in general, and furthers the objectives of Section 6(b)(5) of the Act,[9] 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, by adopting an alternative configurable dollar amount standard, not to exceed $1.00, which would allow NOM to establish appropriate boundaries for rejecting potentially erroneous orders while continuing to allow Participants to access liquidity.

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7 See Securities Exchange Act Release No. 64312 (April 20, 2011), 76 FR 23351 (April 26, 2011)(SR-NASDAQ-2011-053)("2011 Rule Change").

8 15 U.S.C. 78f(b).

9 15 U.S.C. 78f(b)(5).

<u>Alternative Method</u>

OPP is intended to prevent orders which were clearly erroneous from executing within the System to the detriment of market participants. OPP was not intended to reject legitimate orders which are otherwise capable of execution at a fair price. The Exchange's proposal would allow the Exchange to establish a fixed dollar amount in addition to a percentage threshold, similar to ISE,[10] which would continue to protect investors and the public interest against erroneous executions while also allowing orders to execute where appropriate at a more granular level where the incoming order is $1.00 from the Reference BBO.

Because today NOM offers price improving orders[11] to market participants for submitting orders in increments smaller than the MPV and as small as one cent, OPP orders which rely on the Reference BBO on the NOM Order Book are rejected because in some cases the price improving order appears greater than than 100% through the contra-side Reference BBO of $.01.[12] The Exchange believes that it is consistent with the Act in this case because the order was not entered at an erroneous price. The Exchange proposes an alternative to utilize a second method to determine the rejection of orders in addition to the current OPP methodology for rejecting orders. The Exchange believes that by implementing a functionality which applies the greater of (i) a fixed dollar amount not to exceed $1.00; or (ii) a percentage, the Exchange would ensure that this protection would be able to accommodate all orders based on a determination of how far from the

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10 <u>See</u> note 5 above.

11 <u>See</u> note 4 above.

12 The Exchange notes that this particular scenario is not very frequent, but may occur on NOM because of the price improving order type.

Reference BBO the order is priced. The application of OPP would continue to be market-wide.

The Exchange believes that its proposal is consistent with the Act because the fixed amount provides for a larger range of executions within the $1.00 variance which would otherwise be rejected by the application of a percentage which would not capture the potential incremental executions. Orders would be rejected which were intentional and not erroneous. The Exchange specifically selected a limit of $1.00 because within that range, $1.00 from the Reference BBO, applying a percentage may reject a greater number of orders than is intended. The Exchange notes that options which are at or near the money with regard to the strike and the price of the underlying stock are typically priced in a range between $0.0 - $2.00.[13] The Exchange would provide market participants with greater flexilibity to enter orders priced near in-the-money ranges. The Exchange will continue to analyze trading behavior and its experience with OPP to determine the configurable amount not to exceed $1.00. The Exchange would post the configurable amount on its website and announce any changes to the configurable amount in an Options Trader Alert. The configurable dollar amount would provide more granularity to the application of OPP to permit a larger range of orders to execute. The Exchange believes that this approach will accomplish the goal of limiting erroneous executions while permitting intentional executions at reasonable prices.

<u>Memorialization of Rule Text</u>

The Exchange's proposal to memorialize rule text which was described in the

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13 By way of example, with the current OPP methodology an option priced at $1.90 would be rejected for order priced greater than $2.85. Whereas the threshold would allow an order priced at $2.90 to be submitted to the System for execution.

2011 Rule Change[14] relating to discretion to deactivate OPP on an intraday basis would bring greater transparency to the ability of the Exchange to exercise this discretion.

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 proposal does not impose an intra-market burden on competition because this mandatory risk protection applies to all Participants who submit orders into NOM. The Exchange would reject all incoming orders that exceed certain parameters uniformly for all Participants. The proposal does not impose an inter-market burden on competition because today other markets offer similar protections to avoid erroneous executions on their markets.[15]

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

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14 See note 7 above.

15 See ISE 714(b)(1)(A).

to Section 19(b)(3)(A)(iii) of the Act[16] and subparagraph (f)(6) of Rule 19b-4 thereunder.[17]

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-2018-102 on the subject line.

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16 15 U.S.C. 78s(b)(3)(A)(iii).

17 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-2018-102. 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-2018-102 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.[18]

Eduardo A. Aleman
Assistant Secretary

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18 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

The Nasdaq Stock Market Rules

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Chapter VI Trading Systems

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Sec. 18 Risk Protections

(a) The following are order risk protections on NOM:

(1) No change.

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts. OPP may be temporarily deactivated on an intra-day basis at the Exchange's discretion.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(A) 50% through such contra-side Reference BBO; or

(B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert. [will be rejected by the System upon receipt.]

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to $1.00, orders with a limit more than the greater of the below will cause the order to be rejected by the System upon receipt.

(A) 100% through such contra-side Reference BBO; or

(B) a configurable dollar amount not to exceed $1.00 through such contra-side Reference BBO as specified by the Exchange announced via an Options Trader Alert. [will be rejected by the System upon receipt.]

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