

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="45"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2019"/> - * <input type="text" value="057"/>
		Amendment No. (req. for Amendments *) <input type="text"/>

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

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

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

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

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

A proposal to amend Rule 4121 (Trading Halts Due to Extraordinary Market Volatility) to enhance the re-opening auction process for Nasdaq listed securities following trading halts due to 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 \*  Last Name \*

Title \*

E-mail \*

Telephone \*  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.

(Title \*)

Date

By

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

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 4121 (Trading Halts Due to Extraordinary Market Volatility) to enhance the re-opening auction process for Nasdaq listed securities following trading halts due to extraordinary market volatility.

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 the Board of Directors of the Exchange on May 8, 2019. No other action is necessary for the filing of the rule change.

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

Sun Kim  
Associate General Counsel  
Nasdaq, Inc.  
212-231-5106

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

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

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

a. Purpose

The purpose of the proposed rule change is to amend the re-opening auction process for Nasdaq listed securities following trading halts due to extraordinary market volatility (i.e., “market-wide circuit breakers”) to be similar to the process currently employed following a Trading Pause initiated pursuant to the Plan to Address Extraordinary Market Volatility (i.e., the “Limit Up-Limit Down” or “LULD” Plan). In 2017, the Exchange amended its auction process for re-opening a Nasdaq listed security following a Trading Pause initiated pursuant to the LULD Plan.<sup>3</sup> Specifically, the Exchange modified its rules such that initial Auction Collars following a Trading Pause would be calculated using a new methodology based on the Price Band that triggered the Trading Pause, and instituted the process for extending the auction and further widening the collars if necessary to accommodate buy or sell pressure outside of the collars then in effect. The Exchange believes that these changes have been effective in facilitating a fair and orderly market following Trading Pauses initiated pursuant to the Limit Up-Limit Down Plan, and has decided to implement similar functionality for trading halts in Nasdaq listed securities following the initiation of market-wide circuit breakers.<sup>4</sup> The Exchange believes that the proposed changes would promote price formation and provide a more consistent re-opening process for members and investors following such trading

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<sup>3</sup> See Securities Exchange Act Release No. 79876 (January 25, 2017), 82 FR 8888 (January 31, 2017) (SR-NASDAQ-2016-131).

<sup>4</sup> A market-wide circuit breaker is triggered if the price of the S&P 500 Index declines by a specified amount compared to the closing price for the immediately preceding trading day. See Rule 4121.

halts, similar to the current implementation on NYSE Arca, Inc. (“Arca”) and Cboe BZX Exchange, Inc. (“BZX”).<sup>5</sup>

Today, trading in Nasdaq listed securities would resume on the Exchange in most cases through a Halt Cross,<sup>6</sup> including after a Level 1 or Level 2 market-wide circuit breaker trading halt initiated under Rule 4121. In particular, Rule 4121(c)(i) provides that the re-opening of trading following a Level 1 or Level 2 trading halt shall follow the procedures set forth in Rule 4120. These procedures are in Rule 4120(c)(7), which provides, in relevant part, for a 5-minute Display Only Period during which market participants may enter quotes and orders in Nasdaq systems, at the conclusion of which trading will immediately resume through the Halt Cross under Rule 4753.<sup>7</sup> Additionally, the Exchange will extend the Display Only Period for an additional 1-minute period if there is volatility during the Display Only Period (i.e., an order imbalance in the security). The volatility checks are governed under Rule 4120(c)(7)(C)(1) and (2), and provides that the Display Only Period will be extended if: (i) the expected cross price

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<sup>5</sup> Both Arca and BZX implemented similar processes for resuming trading following non-LULD regulatory halts (which include trading halts following market-wide circuit breakers). See Securities Exchange Act Release Nos. 79846 (January 19, 2017), 82 FR 8548 (January 26, 2017) (SR-NYSEArca-2016-130); and 84927 (December 21, 2018), 83 FR 67768 (December 31, 2018) (SR-CboeBZX-2018-090).

<sup>6</sup> The Halt Cross process is set forth in Rule 4753. As discussed in more detail later in this filing, the Halt Cross does not apply to the re-opening of a Nasdaq listed security following a Trading Pause initiated under the LULD Plan, which instead re-opens pursuant to Rule 4120(c)(10).

<sup>7</sup> The Exchange would then re-open the Nasdaq listed security that was subject to the Level 1 or Level 2 market-wide circuit breaker trading halt at an execution price determined pursuant to the execution algorithm in Rule 4753(b)(2)(A) – (D), which sets forth a series of tie-breakers for selecting the execution price of the Halt Cross.

moves the greater of 5% or 50 cents, or (ii) all market orders will not be executed in the cross. The Exchange now proposes to amend this process such that for the resumption of trading after a Level 1 or Level 2 market-wide circuit breaker trading halt, the Exchange proposes to instead follow a process similar to that currently applied for releasing a security following a Trading Pause initiated under the LULD Plan, which is described in Rule 4120(c)(10).

Rule 4120(c)(10), which describes the current process for resuming trading after a Trading Pause, provides for an initial auction period and additional auction periods with widening price collars should the security fail to conclude each auction period. For any such security listed on Nasdaq, prior to terminating the pause, there is a 5-minute initial Display Only Period during which market participants may enter quotations and orders in that security in Nasdaq systems. During this initial period, the Exchange also establishes the auction reference price (hereinafter “LULD Auction Reference Price”),<sup>8</sup> as well as the upper and lower auction collar (hereinafter, “LULD Auction Collar”) prices.<sup>9</sup> The security is released at the end of the initial Display Only Period unless the Exchange detects an order imbalance<sup>10</sup> in the security, in which case the initial Display Only Period

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<sup>8</sup> See Rule 4120(c)(10)(A)(i).

<sup>9</sup> See Rule 4120(c)(10)(A)(ii). In contrast, price collars would not be established for re-opening a Nasdaq listed security after a Level 1 or Level 2 market-wide circuit breaker trading halt today. As noted above, the Exchange would instead re-open at an execution price determined pursuant to the execution algorithm in Rule 4753(b)(2)(A) – (D). See supra note 8.

<sup>10</sup> For purposes of Rule 4120(c)(10), an order imbalance is established if: (i) the calculated price at which the security would be released for trading is outside the applicable Auction Collar prices calculated under paragraphs (A), (B), or (C) of Rule 4120(c)(10); or (ii) all market orders would not be executed in the cross. See Rule 4120(c)(10)(E).

is extended for an additional five minutes, and the LULD Auction Collar prices are further widened by 5% increments (or \$0.15 for securities with a LULD Auction Reference Price of \$3 or less) in the direction of the order imbalance.<sup>11</sup> At the end of the first extended Display Only Period, the security is released for trading unless there is an order imbalance in the security, in which case the extended Display Only Period will be further extended every five minutes in the manner described in Rule 4120(c)(10)(B) until the security is released for trading. The security is released for trading at the first point there is no order imbalance.

### Proposal

The Exchange now proposes to implement this process for resuming trading following a market-wide circuit breaker under Rule 4121 as well. As noted above, the current re-opening process for a Level 1 or Level 2 trading halt initiated under Rule 4121 does not have a mechanism for calculating price collars and a process for widening the collars if necessary to accommodate buy or sell pressure outside of the collars then in effect. The Exchange therefore believes that its proposal will facilitate a fair and orderly market following such trading halts initiated pursuant to a Level 1 or Level 2 market-wide circuit breaker that is designed to reduce the potential for significant price disparity in post-auction trading. The proposed process for re-opening a Nasdaq listed security under Rule 4121 would be substantially similar to the re-opening process employed today for Trading Pauses under Rule 4120(c)(10), with certain differences discussed below, primarily related to the calculation of the halt auction collars.

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<sup>11</sup> See Rule 4120(c)(10)(B).

Accordingly, the Exchange will provide in new paragraph (d) to Rule 4121 that a Level 1 or Level 2 trading halt initiated under this Rule (“MWCB Halt”) shall be terminated when Nasdaq releases the security for trading.<sup>12</sup> For any such security listed on Nasdaq, prior to terminating the MWCB Halt, there will be a 15-minute “Initial Display Only Period” during which market participants may enter quotations and orders in that security in Nasdaq systems. The Initial Display Only Period will be 15 minutes in duration instead of the 5 minute initial display only period currently employed for Trading Pauses under Rule 4120(c)(10) to coincide with the entire duration of a MWCB Halt.<sup>13</sup> The Exchange believes that the proposed Initial Display Only Period would provide additional time to attract offsetting interest, and would help address order imbalances that may not be resolved within the current 5-minute period.

Proposed Rule 4121(d)(1) (A) will provide that during the Initial Display Only Period, the Exchange will also establish the “Auction Reference Price.” The Auction Reference Price shall mean the Nasdaq last sale price (either round or odd lot) after 9:15 a.m. Eastern Time (“ET”) but prior to the MWCB Halt and, if none, the prior trading day’s Nasdaq Office Closing Price (“NOCP”). The Exchange is not proposing to use the LULD Auction Reference Price, which is based on the Price Band that triggered the Trading Pause, as the Exchange believes that a different reference is necessary for a re-opening process that is unrelated to the LULD mechanism. The Exchange has chosen to

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<sup>12</sup> Rule 4121(c)(i) currently points to Rule 4120 for the re-opening process following a MWCB Halt. The new re-opening process will be set forth in proposed Rule 4121(d), so the Exchange will delete this portion from the current Rule.

<sup>13</sup> See Rule 4121(b).

use the last Nasdaq sale price prior to the MWCB Halt (or if none, the prior trading day's NOCP) in this circumstance as this price is reflective of the current market for the halted security. The Exchange's proposal is similar to the current implementation on Arca and BZX.<sup>14</sup>

Proposed Rule 4121(d)(1)(B) will describe how the Exchange would calculate the upper and lower "MWCB Auction Collar" prices during the Initial Display Period.

Specifically, the initial upper and lower collar prices would be determined as follows:

- The lower MWCB Auction Collar is derived by subtracting from the Auction Reference Price 10% of the Auction Reference Price, rounded to the nearest minimum price increment,<sup>15</sup> or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50.
- The upper MWCB Auction Collar is derived by adding to the Auction Reference Price 10% of the Auction Reference Price, rounded to the nearest

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<sup>14</sup> See Arca Rule 7.35-E(a)(8)(A) and BZX Rule 11.23(a)(9). See also SR-CboeBZX-2018-090 for discussion of similarities between Arca's and BZX's auction reference prices for non-LULD regulatory halts. The Exchange's proposed Auction Reference Price for MWCB Halts is substantially similar to Arca's and BZX's auction reference prices, except the Exchange will use the last Nasdaq sale price prior to the MWCB Halt, as described above. The Exchange believes that it is appropriate to use the price of a trade on the primary listing market, i.e., Nasdaq, to set the reference price for auctions in Nasdaq listed securities when such a trade has been executed recently.

<sup>15</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 4107(k). Thus, for example, if adding 10% of the Auction Reference Price to the MWCB 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.

minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50.

In contrast, the initial price collar thresholds currently used for the LULD mechanism are applied only in the direction of the trading that invoked the Trading Pause.<sup>16</sup> In this case, because there would not be a security-specific pricing direction reason for the MWCB Halt, the Exchange believes that it is appropriate to apply the initial thresholds on both sides of the Auction Reference Price. For example, if the Nasdaq last sale price (either round or odd lot) after 9:15 a.m. ET but prior to the MWCB Halt for a security is \$100.00, then the lower and upper initial MWCB Auction Collar prices would be \$90 and \$110 – i.e., 10% below and above the Nasdaq last sale price. This mirrors the application of the initial halt auction collars on both Arca and BZX today, except the Exchange’s proposed MWCB Auction Collar threshold amounts will be 10% of the Auction Reference Price (or \$0.50 for securities priced \$5 or less).<sup>17</sup> The Exchange believes that the wider parameters proposed for MWCB Auction Collars are set at appropriate levels that would allow the Exchange to re-open trading in securities more quickly while still reducing the potential to re-open at a price that is significantly away from the last traded price of the security. Furthermore, the Exchange has traditionally been a listing venue for equity stocks, while Arca and BZX have traditionally listed more ETFs. ETFs track entire sectors, indices or other groups of

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<sup>16</sup> See Rule 4120(c)(10)(A)(ii).

<sup>17</sup> Both Arca and BZX employ auction collar thresholds identical to the parameters currently used for LULD auction collars (i.e., 5% of the auction reference price, or \$0.15 for securities with an auction reference price of \$3 or less). See Arca Rule 7.35-E(e)(7)(B)(ii) and BZX Rule 11.23(d)(2)(C)(i)(B).

assets, which can mute the effect of price volatility of the ETF. The Exchange therefore believes that the wider price bands proposed herein strikes an appropriate balance between allowing the Exchange to return to normal continuous trading in a measured, timely manner while accommodating the potential higher volatility of individual stocks.

Proposed Rules 4121(d)(2) and (d)(3) will specify the circumstances when the Exchange would extend the Display Only Period for a MWCB Halt re-opening process, and how the Exchange would adjust the MWCB Auction Collars for each extension. In particular, at the conclusion of the Initial Display Only Period, the security will be released for trading unless, at the end of the Initial Display Only Period, Nasdaq detects an order imbalance in the security.<sup>18</sup> In that case, Nasdaq will extend the Display Only Period for an additional 5-minute period (“Extended Display Only Period”), and the MWCB 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 MWCB Auction Collar price or all sell market orders would not be executed in the cross, then the new lower MWCB Auction Collar price is derived by subtracting 10% of the Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50, from the previous lower MWCB Auction Collar price, and the upper MWCB Auction Collar price will not be changed.

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<sup>18</sup> As discussed below, an order imbalance under the proposed re-opening process for MWCB Halts will be established in the same manner as an order imbalance under the current LULD re-opening process as set forth in Rule 4120(c)(10)(E).

- If the Display Only Period is extended because the calculated price at which the security would be released for trading is above the upper MWCBA Auction Collar price or all buy market orders would not be executed in the cross, then the new upper MWCBA Auction Collar price is derived by adding 10% of the Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50, to the previous upper MWCBA Auction Collar price, and the lower MWCBA 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 MWCBA Auction Collar prices every five minutes in the manner described in Rule 4121(d)(2) until the security is released for trading; provided, however, that Nasdaq will not adjust the MWCBA Auction Collar prices past 50% of the Auction Reference Price for any security during any Extended Display Only Period. During any additional Extended Display Only Period after the first Extended Display Only Period, Nasdaq shall release the security for trading at the first point there is no order imbalance.

As proposed, the process for initiating extensions of the Display Only Period for a MWCBA Halt auction will be identical to the process currently used for extending Trading Pauses, with only two differences that relate to the calculation of the auction collars. First, for each extension period, the MWCBA Auction Collars would be widened in the direction of the imbalance using the wider parameters described above for the initial

MWCB Auction Collar (i.e., by an additional 10% or \$0.50 for securities with an Auction Reference Price of \$5 or less) as opposed to the parameters currently used to widen LULD Auction Collars (i.e., by an additional 5% or \$0.15 for securities with a reference price of \$3 or less). Second, the Exchange would not adjust the MWCB Auction Collars past 50% of the Auction Reference Price for any security during any Extended Display Only Period, whereas under the current LULD mechanism, the price collars would continue to be adjusted for each extension period.<sup>19</sup> For example, a security with an Auction Reference Price of \$3 would have initial lower and upper MWCB Auction Collar prices of \$2.50 and \$3.50. If all buy market orders would not be executed in the cross at the end of the Initial Display Only Period, the Exchange would extend the Display Only Period and widen the upper MWCB Auction Collar price to \$4.00. The lower MWCB Auction Collar price would remain at \$2.50. If there continues to be any buy side imbalance at the end of the first Extended Display Only Period, the Exchange would further adjust the upper collar price to \$4.50 (while keeping the lower collar at \$2.50) for the second extension period. To the extent there are subsequent Extended Display Only Periods to accommodate buy side trading interest, the Exchange would not adjust the upper MWCB Auction Collar past \$4.50 (i.e., 50% of the Auction Reference Price), and would continue to use this price threshold for the duration of the MWCB Halt, until the security is released for trading.

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<sup>19</sup> Thus as proposed, if the upper or lower MWCB Auction Collar is already adjusted by 50% of the Auction Reference Price for any extension period, that price threshold will be used for the duration of the MWCB Halt, until the security is released for trading.

As mentioned above, unlike the current implementation of auction collars under LULD as well as similar MWCB auction collars on Arca and BZX, the Exchange will not adjust the MWCB Auction Collars past 50% of the Auction Reference Price. The Exchange recognizes that the proposed 50% limit for adjusting the MWCB Auction Collars may prevent the transition to continuous trading, particularly in instances of extreme price volatility that could result in increased Extended Display Only Periods. On the other hand, however, if there was no limit on adjusting the price collars, there is potential for extreme volatility resulting in trades at prices far away from a security's fundamental value, ultimately harming investors that are party to the trade. The Exchange considered using the same logic as currently implemented under the LULD mechanism (i.e., where there is no limit on adjusting the price collars) and ultimately determined not to align its proposal in this manner. The Exchange believes that it may be more appropriate to continue adjusting price collars in the context of LULD where trading is halted due to a period of extraordinary volatility in a single security (as opposed to all securities under a MWCB Halt) because there may be instances of a discrete event (such as the announcement of material news) that ultimately impacts the value of the individual security. A MWCB Halt, however, will be triggered during a period of significant volatility across markets that may not correlate to the fundamental value of a single security. As such, the Exchange believes that by proposing to adjust the MWCB Auction Collars up to 50% of the Auction Reference Price, an appropriate balance can be achieved in favor of preventing extraordinary volatility that could result in significant price disparity in post-auction trading.

Proposed Rule 4121(d)(4) will specify that an order imbalance would be established for purposes of the process under Rule 4121 as follows:<sup>20</sup>

- the calculated price at which the security would be released for trading is above (below) the upper (lower) MWCB Auction Collar price calculated under paragraphs (1), (2), or (3) of Rule 4121(d); or
- all market orders would not be executed in the cross.

Proposed Rule 4121(d)(5) will describe how the MWCB Auction Collars will function in the event of more than one trading halt initiated under Rule 4121 in the same day. In the event of a Level 2 Market Decline while a security is in a Level 1 MWCB Halt and has not been released for trading, Nasdaq will recalculate the lower and upper MWCB Auction Collar prices in the particular security in accordance with paragraph (1)(B) of Rule 4121.<sup>21</sup> In this instance, the Exchange will start the calculation of the new upper and lower MWCB Auction Collar prices using 10% of the Auction Reference Price, rounded to the nearest minimum price increment, or \$0.50 for securities with an Auction Reference Price of \$5 or less. The Exchange believes that the proposed language would bring greater transparency to market participants in how the Exchange would handle the calculation of MWCB Auction Collars.

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<sup>20</sup> This is the same manner in which an order imbalance is established under the current re-opening process for Trading Pauses. See Rule 4120(c)(10)(E).

<sup>21</sup> As currently provided in Rule 4121(b)(i), the Exchange would halt trading based on a Level 1 or Level 2 Market Decline only once per day. Thus for example, if a Level 1 Market Decline were to occur and trading were halted, following the re-opening of trading, the Exchange would not halt the market again unless a Level 2 Market Decline were to occur.

The Exchange also proposes to add new paragraph (e) to Rule 4121 to describe how the Exchange will handle the publication of MWCB Halt Information. Specifically, at the beginning of the Initial Display Only Period and continuing through the resumption of trading, Nasdaq will disseminate by electronic means an Order Imbalance Indicator<sup>22</sup> every second. The Exchange also proposes to make a related change by adding new Rule 4753(a)(3)(G), which will provide that for purposes of a MWCB Halt initiated pursuant to Rule 4121, the Order Imbalance Indicator will include Auction Reference Prices and MWCB Auction Collars, as defined in Rule 4121(d).

The Exchange also proposes a number of formatting clean-ups in Rule 4121. In light of the above changes, Rule 4121(d) will be renumbered as Rule 4121(f). Finally, subparagraphs (i) – (iv) in Rule 4121(a) and subparagraphs (i) – (ii) in Rule 4121(b) will be renumbered as subparagraphs (1) – (4) and subparagraphs (1) – (2), respectively, for greater consistency with the Rulebook.

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, in that it is designed to promote just and equitable principles of trade, to remove

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<sup>22</sup> As described in Rule 4753(a)(3), an “Order Imbalance Indicator” is 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.

“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).

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

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

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 is consistent with the Act because it would amend the halt auction process following a MWCB Halt to be more closely aligned with the process currently implemented for halt auctions following a Trading Pause under the LULD Plan. The Exchange amended its re-opening process following a Trading Pause to better account for buy or sell pressure by changing the manner in which initial LULD Auction Collars are established, and widening the collars as appropriate to accommodate trading interest submitted to participate in the auction. The Exchange believes that these changes have been generally successful in facilitating a fair and orderly process for re-opening securities following a Trading Pause. The Exchange has therefore decided to use a similar process for halt auctions following a MWCB Halt. The Exchange believes that its proposal would benefit investors by facilitating price discovery and promoting more consistency in how the Exchange conducts the re-opening process following a Trading Pause or a MWCB Halt.

While the proposed re-opening process following MWCB Halts would largely follow the re-opening process in place today for Trading Pauses, there would be several notable differences. These differences are primarily designed to ensure that suitable MWCB Auction Collars are utilized for the re-opening process following MWCB Halts. For instance, while an Auction Reference Price based on the Price Band that triggered the Trading Pause continues to be appropriate in the context of the re-opening process following Trading Pauses, the Exchange believes that a different reference is necessary for the re-opening process for MWCB Halts. The Exchange has chosen to use the

Nasdaq last sale price and, if none, the prior trading day's NOCP as the MWCB Auction Reference Price in these circumstances as this price is reflective of the current market for the halted security. Similarly, the Exchange believes that it is appropriate to calculate both upper and lower MWCB Auction Collars that are a specified percentage or dollar amount from this reference price because MWCB Halts do not involve security specific buy or sell pressure. These differences are similar to the application of MWCB Auction Collars on Arca and BZX today, except for the parameters used to calculate the price collars.<sup>25</sup> The Exchange believes that the wider parameters of 10% increments (or \$0.50 for securities priced at \$5 or less) proposed above for MWCB Auction Collars when compared to the parameters of 5% increments (or \$0.15 for securities priced at \$3 or less) currently used to calculate the LULD Auction Collars are set at appropriate levels that would allow the Exchange to re-open trading in securities more quickly while still reducing the potential for re-opening at a price that is significantly away from the last traded price of the security. Furthermore, the Exchange believes that it is appropriate to stop widening the MWCB Auction Collar prices past 50% of the Auction Reference Price to ensure that upon the resumption of trading after an MWCB Halt, the security is priced at a reasonable level from the Auction Reference Price.<sup>26</sup>

Otherwise, the proposed re-opening process for MWCB Halts is consistent with the current LULD re-opening process. Similar to the current LULD re-opening process,

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<sup>25</sup> See supra notes 14 and 17 above, with accompanying text.

<sup>26</sup> As noted above, this is different from the current implementation of the price collars under the LULD mechanism where the price collars continue to be adjusted for each extension period. This also differs from the current implementation of non-LULD price collars on Arca and BZX, which both mirror the LULD process in this respect.

the Exchange also believes that the proposed process is consistent with the protection of investors and the public interest because they are designed to facilitate price discovery by ensuring that all market order interest could be satisfied in the auction process following MWCB Halts. Furthermore, the Exchange believes that the standardized procedures to extend MWCB Halt auctions an additional five minutes are appropriate because this would provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within the applicable collars, or if the re-opening price would be outside of the applicable collars, the Exchange would extend the halt auction process an additional five minutes. The Exchange believes that extending the auction in these circumstances would protect investors and the public interest by reducing the potential for significant price disparity in post-auction trading. With each such extension, the Exchange believes that it is appropriate to widen the price collar threshold on the side of the market on which there is buying or selling pressure as market conditions may prevent an order imbalance from being resolved within the prior auction collars.

The Exchange also believes it is appropriate to add language clarifying how the MWCB Auction Collars will function in the event of more than one trading halt initiated under Rule 4121 in the same day. The proposed changes would increase transparency in how the Exchange would handle the calculation of MWCB Auction Collars, and is therefore consistent with the public interest and the protection of investors. The Exchange likewise believes that specifying how it will handle the publication of MWCB Halt information will bring greater transparency around the operation of the Exchange's auction process.

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 designed to provide for a measured and transparent process for re-opening Nasdaq listed securities after a MWCB Halt that is similar to the current re-opening process following a Trading Pause initiated under the LULD Plan and the process already implemented on Arca and BZX for non-LULD regulatory halts.<sup>27</sup>

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 proposed change is based in part on the rules of Arca and BZX,<sup>28</sup> with certain differences related to the proposed parameters of 10% (or \$0.50 for securities with an Auction Reference Price of \$5 or less) for calculating the MWCB Auction Collars, and

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<sup>27</sup> See supra note 5.

<sup>28</sup> See supra note 5.

proposed restriction on adjusting the MWCBA Auction Collars past 50% of the Auction Reference Price.

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-2019-057)

July \_\_, 2019

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Rule 4121

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 July 16, 2019, 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 4121 (Trading Halts Due to Extraordinary Market Volatility) to enhance the re-opening auction process for Nasdaq listed securities following trading halts due to extraordinary market volatility.

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

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

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

In its filing with the Commission, 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 the re-opening auction process for Nasdaq listed securities following trading halts due to extraordinary market volatility (i.e., "market-wide circuit breakers") to be similar to the process currently employed following a Trading Pause initiated pursuant to the Plan to Address Extraordinary Market Volatility (i.e., the "Limit Up-Limit Down" or "LULD" Plan). In 2017, the Exchange amended its auction process for re-opening a Nasdaq listed security following a Trading Pause initiated pursuant to the LULD Plan.<sup>3</sup> Specifically, the Exchange modified its rules such that initial Auction Collars following a Trading Pause would be calculated using a new methodology based on the Price Band that triggered the Trading Pause, and instituted the process for extending the auction and further widening the collars if necessary to accommodate buy or sell pressure outside of the collars then in effect. The Exchange believes that these changes have been effective in facilitating a fair and orderly market following Trading Pauses initiated pursuant to the Limit Up-Limit

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<sup>3</sup> See Securities Exchange Act Release No. 79876 (January 25, 2017), 82 FR 8888 (January 31, 2017) (SR-NASDAQ-2016-131).

Down Plan, and has decided to implement similar functionality for trading halts in Nasdaq listed securities following the initiation of market-wide circuit breakers.<sup>4</sup> The Exchange believes that the proposed changes would promote price formation and provide a more consistent re-opening process for members and investors following such trading halts, similar to the current implementation on NYSE Arca, Inc. (“Arca”) and Cboe BZX Exchange, Inc. (“BZX”).<sup>5</sup>

Today, trading in Nasdaq listed securities would resume on the Exchange in most cases through a Halt Cross,<sup>6</sup> including after a Level 1 or Level 2 market-wide circuit breaker trading halt initiated under Rule 4121. In particular, Rule 4121(c)(i) provides that the re-opening of trading following a Level 1 or Level 2 trading halt shall follow the procedures set forth in Rule 4120. These procedures are in Rule 4120(c)(7), which provides, in relevant part, for a 5-minute Display Only Period during which market participants may enter quotes and orders in Nasdaq systems, at the conclusion of which trading will immediately resume through the Halt Cross under Rule 4753.<sup>7</sup> Additionally,

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<sup>4</sup> A market-wide circuit breaker is triggered if the price of the S&P 500 Index declines by a specified amount compared to the closing price for the immediately preceding trading day. See Rule 4121.

<sup>5</sup> Both Arca and BZX implemented similar processes for resuming trading following non-LULD regulatory halts (which include trading halts following market-wide circuit breakers). See Securities Exchange Act Release Nos. 79846 (January 19, 2017), 82 FR 8548 (January 26, 2017) (SR-NYSEArca-2016-130); and 84927 (December 21, 2018), 83 FR 67768 (December 31, 2018) (SR-CboeBZX-2018-090).

<sup>6</sup> The Halt Cross process is set forth in Rule 4753. As discussed in more detail later in this filing, the Halt Cross does not apply to the re-opening of a Nasdaq listed security following a Trading Pause initiated under the LULD Plan, which instead re-opens pursuant to Rule 4120(c)(10).

<sup>7</sup> The Exchange would then re-open the Nasdaq listed security that was subject to the Level 1 or Level 2 market-wide circuit breaker trading halt at an execution

the Exchange will extend the Display Only Period for an additional 1-minute period if there is volatility during the Display Only Period (i.e., an order imbalance in the security). The volatility checks are governed under Rule 4120(c)(7)(C)(1) and (2), and provides that the Display Only Period will be extended if: (i) the expected cross price moves the greater of 5% or 50 cents, or (ii) all market orders will not be executed in the cross. The Exchange now proposes to amend this process such that for the resumption of trading after a Level 1 or Level 2 market-wide circuit breaker trading halt, the Exchange proposes to instead follow a process similar to that currently applied for releasing a security following a Trading Pause initiated under the LULD Plan, which is described in Rule 4120(c)(10).

Rule 4120(c)(10), which describes the current process for resuming trading after a Trading Pause, provides for an initial auction period and additional auction periods with widening price collars should the security fail to conclude each auction period. For any such security listed on Nasdaq, prior to terminating the pause, there is a 5-minute initial Display Only Period during which market participants may enter quotations and orders in that security in Nasdaq systems. During this initial period, the Exchange also establishes the auction reference price (hereinafter “LULD Auction Reference Price”),<sup>8</sup> as well as the upper and lower auction collar (hereinafter, “LULD Auction Collar”) prices.<sup>9</sup> The

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price determined pursuant to the execution algorithm in Rule 4753(b)(2)(A) – (D), which sets forth a series of tie-breakers for selecting the execution price of the Halt Cross.

<sup>8</sup> See Rule 4120(c)(10)(A)(i).

<sup>9</sup> See Rule 4120(c)(10)(A)(ii). In contrast, price collars would not be established for re-opening a Nasdaq listed security after a Level 1 or Level 2 market-wide circuit breaker trading halt today. As noted above, the Exchange would instead

security is released at the end of the initial Display Only Period unless the Exchange detects an order imbalance<sup>10</sup> in the security, in which case the initial Display Only Period is extended for an additional five minutes, and the LULD Auction Collar prices are further widened by 5% increments (or \$0.15 for securities with a LULD Auction Reference Price of \$3 or less) in the direction of the order imbalance.<sup>11</sup> At the end of the first extended Display Only Period, the security is released for trading unless there is an order imbalance in the security, in which case the extended Display Only Period will be further extended every five minutes in the manner described in Rule 4120(c)(10)(B) until the security is released for trading. The security is released for trading at the first point there is no order imbalance.

#### Proposal

The Exchange now proposes to implement this process for resuming trading following a market-wide circuit breaker under Rule 4121 as well. As noted above, the current re-opening process for a Level 1 or Level 2 trading halt initiated under Rule 4121 does not have a mechanism for calculating price collars and a process for widening the collars if necessary to accommodate buy or sell pressure outside of the collars then in effect. The Exchange therefore believes that its proposal will facilitate a fair and orderly market following such trading halts initiated pursuant to a Level 1 or Level 2 market-

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re-open at an execution price determined pursuant to the execution algorithm in Rule 4753(b)(2)(A) – (D). See supra note 8.

<sup>10</sup> For purposes of Rule 4120(c)(10), an order imbalance is established if: (i) the calculated price at which the security would be released for trading is outside the applicable Auction Collar prices calculated under paragraphs (A), (B), or (C) of Rule 4120(c)(10); or (ii) all market orders would not be executed in the cross. See Rule 4120(c)(10)(E).

<sup>11</sup> See Rule 4120(c)(10)(B).

wide circuit breaker that is designed to reduce the potential for significant price disparity in post-auction trading. The proposed process for re-opening a Nasdaq listed security under Rule 4121 would be substantially similar to the re-opening process employed today for Trading Pauses under Rule 4120(c)(10), with certain differences discussed below, primarily related to the calculation of the halt auction collars.

Accordingly, the Exchange will provide in new paragraph (d) to Rule 4121 that a Level 1 or Level 2 trading halt initiated under this Rule (“MWCB Halt”) shall be terminated when Nasdaq releases the security for trading.<sup>12</sup> For any such security listed on Nasdaq, prior to terminating the MWCB Halt, there will be a 15-minute “Initial Display Only Period” during which market participants may enter quotations and orders in that security in Nasdaq systems. The Initial Display Only Period will be 15 minutes in duration instead of the 5 minute initial display only period currently employed for Trading Pauses under Rule 4120(c)(10) to coincide with the entire duration of a MWCB Halt.<sup>13</sup> The Exchange believes that the proposed Initial Display Only Period would provide additional time to attract offsetting interest, and would help address order imbalances that may not be resolved within the current 5-minute period.

Proposed Rule 4121(d)(1) (A) will provide that during the Initial Display Only Period, the Exchange will also establish the “Auction Reference Price.” The Auction Reference Price shall mean the Nasdaq last sale price (either round or odd lot) after 9:15 a.m. Eastern Time (“ET”) but prior to the MWCB Halt and, if none, the prior trading

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<sup>12</sup> Rule 4121(c)(i) currently points to Rule 4120 for the re-opening process following a MWCB Halt. The new re-opening process will be set forth in proposed Rule 4121(d), so the Exchange will delete this portion from the current Rule.

<sup>13</sup> See Rule 4121(b).

day's Nasdaq Office Closing Price ("NOCP"). The Exchange is not proposing to use the LULD Auction Reference Price, which is based on the Price Band that triggered the Trading Pause, as the Exchange believes that a different reference is necessary for a re-opening process that is unrelated to the LULD mechanism. The Exchange has chosen to use the last Nasdaq sale price prior to the MWCB Halt (or if none, the prior trading day's NOCP) in this circumstance as this price is reflective of the current market for the halted security. The Exchange's proposal is similar to the current implementation on Arca and BZX.<sup>14</sup>

Proposed Rule 4121(d)(1)(B) will describe how the Exchange would calculate the upper and lower "MWCB Auction Collar" prices during the Initial Display Period.

Specifically, the initial upper and lower collar prices would be determined as follows:

- The lower MWCB Auction Collar is derived by subtracting from the Auction Reference Price 10% of the Auction Reference Price, rounded to the nearest minimum price increment,<sup>15</sup> or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50.

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<sup>14</sup> See Arca Rule 7.35-E(a)(8)(A) and BZX Rule 11.23(a)(9). See also SR-CboeBZX-2018-090 for discussion of similarities between Arca's and BZX's auction reference prices for non-LULD regulatory halts. The Exchange's proposed Auction Reference Price for MWCB Halts is substantially similar to Arca's and BZX's auction reference prices, except the Exchange will use the last Nasdaq sale price prior to the MWCB Halt, as described above. The Exchange believes that it is appropriate to use the price of a trade on the primary listing market, i.e., Nasdaq, to set the reference price for auctions in Nasdaq listed securities when such a trade has been executed recently.

<sup>15</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 4107(k). Thus, for example, if adding 10% of the Auction Reference Price to the MWCB 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

- The upper MWCB Auction Collar is derived by adding to the Auction Reference Price 10% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50.

In contrast, the initial price collar thresholds currently used for the LULD mechanism are applied only in the direction of the trading that invoked the Trading Pause.<sup>16</sup> In this case, because there would not be a security-specific pricing direction reason for the MWCB Halt, the Exchange believes that it is appropriate to apply the initial thresholds on both sides of the Auction Reference Price. For example, if the Nasdaq last sale price (either round or odd lot) after 9:15 a.m. ET but prior to the MWCB Halt for a security is \$100.00, then the lower and upper initial MWCB Auction Collar prices would be \$90 and \$110 – i.e., 10% below and above the Nasdaq last sale price. This mirrors the application of the initial halt auction collars on both Arca and BZX today, except the Exchange’s proposed MWCB Auction Collar threshold amounts will be 10% of the Auction Reference Price (or \$0.50 for securities priced \$5 or less).<sup>17</sup> The Exchange believes that the wider parameters proposed for MWCB Auction Collars are set at appropriate levels that would allow the Exchange to re-open trading in securities more quickly while still reducing the potential to re-open at a price that is significantly

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would round up to the nearest penny when the calculation results in five to nine tenths of a penny.

<sup>16</sup> See Rule 4120(c)(10)(A)(ii).

<sup>17</sup> Both Arca and BZX employ auction collar thresholds identical to the parameters currently used for LULD auction collars (i.e., 5% of the auction reference price, or \$0.15 for securities with an auction reference price of \$3 or less). See Arca Rule 7.35-E(e)(7)(B)(ii) and BZX Rule 11.23(d)(2)(C)(i)(B).

away from the last traded price of the security. Furthermore, the Exchange has traditionally been a listing venue for equity stocks, while Arca and BZX have traditionally listed more ETFs. ETFs track entire sectors, indices or other groups of assets, which can mute the effect of price volatility of the ETF. The Exchange therefore believes that the wider price bands proposed herein strikes an appropriate balance between allowing the Exchange to return to normal continuous trading in a measured, timely manner while accommodating the potential higher volatility of individual stocks.

Proposed Rules 4121(d)(2) and (d)(3) will specify the circumstances when the Exchange would extend the Display Only Period for a MWCB Halt re-opening process, and how the Exchange would adjust the MWCB Auction Collars for each extension. In particular, at the conclusion of the Initial Display Only Period, the security will be released for trading unless, at the end of the Initial Display Only Period, Nasdaq detects an order imbalance in the security.<sup>18</sup> In that case, Nasdaq will extend the Display Only Period for an additional 5-minute period (“Extended Display Only Period”), and the MWCB 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 MWCB Auction Collar price or all sell market orders would not be executed in the cross, then the new lower MWCB Auction Collar price is derived by subtracting 10% of the Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price

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<sup>18</sup> As discussed below, an order imbalance under the proposed re-opening process for MWCB Halts will be established in the same manner as an order imbalance under the current LULD re-opening process as set forth in Rule 4120(c)(10)(E).

of \$5 or less, \$0.50, from the previous lower MWCB Auction Collar price, and the upper MWCB 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 MWCB Auction Collar price or all buy market orders would not be executed in the cross, then the new upper MWCB Auction Collar price is derived by adding 10% of the Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50, to the previous upper MWCB Auction Collar price, and the lower MWCB 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 MWCB Auction Collar prices every five minutes in the manner described in Rule 4121(d)(2) until the security is released for trading; provided, however, that Nasdaq will not adjust the MWCB Auction Collar prices past 50% of the Auction Reference Price for any security during any Extended Display Only Period. During any additional Extended Display Only Period after the first Extended Display Only Period, Nasdaq shall release the security for trading at the first point there is no order imbalance.

As proposed, the process for initiating extensions of the Display Only Period for a MWCB Halt auction will be identical to the process currently used for extending Trading Pauses, with only two differences that relate to the calculation of the auction collars.

First, for each extension period, the MWCB Auction Collars would be widened in the direction of the imbalance using the wider parameters described above for the initial MWCB Auction Collar (i.e., by an additional 10% or \$0.50 for securities with an Auction Reference Price of \$5 or less) as opposed to the parameters currently used to widen LULD Auction Collars (i.e., by an additional 5% or \$0.15 for securities with a reference price of \$3 or less). Second, the Exchange would not adjust the MWCB Auction Collars past 50% of the Auction Reference Price for any security during any Extended Display Only Period, whereas under the current LULD mechanism, the price collars would continue to be adjusted for each extension period.<sup>19</sup> For example, a security with an Auction Reference Price of \$3 would have initial lower and upper MWCB Auction Collar prices of \$2.50 and \$3.50. If all buy market orders would not be executed in the cross at the end of the Initial Display Only Period, the Exchange would extend the Display Only Period and widen the upper MWCB Auction Collar price to \$4.00. The lower MWCB Auction Collar price would remain at \$2.50. If there continues to be any buy side imbalance at the end of the first Extended Display Only Period, the Exchange would further adjust the upper collar price to \$4.50 (while keeping the lower collar at \$2.50) for the second extension period. To the extent there are subsequent Extended Display Only Periods to accommodate buy side trading interest, the Exchange would not adjust the upper MWCB Auction Collar past \$4.50 (i.e., 50% of the Auction Reference Price), and would continue to use this price threshold for the duration of the MWCB Halt, until the security is released for trading.

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<sup>19</sup> Thus as proposed, if the upper or lower MWCB Auction Collar is already adjusted by 50% of the Auction Reference Price for any extension period, that price threshold will be used for the duration of the MWCB Halt, until the security is released for trading.

As mentioned above, unlike the current implementation of auction collars under LULD as well as similar MWCB auction collars on Arca and BZX, the Exchange will not adjust the MWCB Auction Collars past 50% of the Auction Reference Price. The Exchange recognizes that the proposed 50% limit for adjusting the MWCB Auction Collars may prevent the transition to continuous trading, particularly in instances of extreme price volatility that could result in increased Extended Display Only Periods. On the other hand, however, if there was no limit on adjusting the price collars, there is potential for extreme volatility resulting in trades at prices far away from a security's fundamental value, ultimately harming investors that are party to the trade. The Exchange considered using the same logic as currently implemented under the LULD mechanism (i.e., where there is no limit on adjusting the price collars) and ultimately determined not to align its proposal in this manner. The Exchange believes that it may be more appropriate to continue adjusting price collars in the context of LULD where trading is halted due to a period of extraordinary volatility in a single security (as opposed to all securities under a MWCB Halt) because there may be instances of a discrete event (such as the announcement of material news) that ultimately impacts the value of the individual security. A MWCB Halt, however, will be triggered during a period of significant volatility across markets that may not correlate to the fundamental value of a single security. As such, the Exchange believes that by proposing to adjust the MWCB Auction Collars up to 50% of the Auction Reference Price, an appropriate balance can be achieved in favor of preventing extraordinary volatility that could result in significant price disparity in post-auction trading.

Proposed Rule 4121(d)(4) will specify that an order imbalance would be established for purposes of the process under Rule 4121 as follows:<sup>20</sup>

- the calculated price at which the security would be released for trading is above (below) the upper (lower) MWCB Auction Collar price calculated under paragraphs (1), (2), or (3) of Rule 4121(d); or
- all market orders would not be executed in the cross.

Proposed Rule 4121(d)(5) will describe how the MWCB Auction Collars will function in the event of more than one trading halt initiated under Rule 4121 in the same day. In the event of a Level 2 Market Decline while a security is in a Level 1 MWCB Halt and has not been released for trading, Nasdaq will recalculate the lower and upper MWCB Auction Collar prices in the particular security in accordance with paragraph (1)(B) of Rule 4121.<sup>21</sup> In this instance, the Exchange will start the calculation of the new upper and lower MWCB Auction Collar prices using 10% of the Auction Reference Price, rounded to the nearest minimum price increment, or \$0.50 for securities with an Auction Reference Price of \$5 or less. The Exchange believes that the proposed language would bring greater transparency to market participants in how the Exchange would handle the calculation of MWCB Auction Collars.

The Exchange also proposes to add new paragraph (e) to Rule 4121 to describe how the Exchange will handle the publication of MWCB Halt Information. Specifically,

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<sup>20</sup> This is the same manner in which an order imbalance is established under the current re-opening process for Trading Pauses. See Rule 4120(c)(10)(E).

<sup>21</sup> As currently provided in Rule 4121(b)(i), the Exchange would halt trading based on a Level 1 or Level 2 Market Decline only once per day. Thus for example, if a Level 1 Market Decline were to occur and trading were halted, following the re-opening of trading, the Exchange would not halt the market again unless a Level 2 Market Decline were to occur.

at the beginning of the Initial Display Only Period and continuing through the resumption of trading, Nasdaq will disseminate by electronic means an Order Imbalance Indicator<sup>22</sup> every second. The Exchange also proposes to make a related change by adding new Rule 4753(a)(3)(G), which will provide that for purposes of a MWCB Halt initiated pursuant to Rule 4121, the Order Imbalance Indicator will include Auction Reference Prices and MWCB Auction Collars, as defined in Rule 4121(d).

The Exchange also proposes a number of formatting clean-ups in Rule 4121. In light of the above changes, Rule 4121(d) will be renumbered as Rule 4121(f). Finally, subparagraphs (i) – (iv) in Rule 4121(a) and subparagraphs (i) – (ii) in Rule 4121(b) will be renumbered as subparagraphs (1) – (4) and subparagraphs (1) – (2), respectively, for greater consistency with the Rulebook.

## 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.

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<sup>22</sup> As described in Rule 4753(a)(3), an “Order Imbalance Indicator” is 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.

“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).

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

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

The Exchange believes that the proposed rule change is consistent with the Act because it would amend the halt auction process following a MWCB Halt to be more closely aligned with the process currently implemented for halt auctions following a Trading Pause under the LULD Plan. The Exchange amended its re-opening process following a Trading Pause to better account for buy or sell pressure by changing the manner in which initial LULD Auction Collars are established, and widening the collars as appropriate to accommodate trading interest submitted to participate in the auction. The Exchange believes that these changes have been generally successful in facilitating a fair and orderly process for re-opening securities following a Trading Pause. The Exchange has therefore decided to use a similar process for halt auctions following a MWCB Halt. The Exchange believes that its proposal would benefit investors by facilitating price discovery and promoting more consistency in how the Exchange conducts the re-opening process following a Trading Pause or a MWCB Halt.

While the proposed re-opening process following MWCB Halts would largely follow the re-opening process in place today for Trading Pauses, there would be several notable differences. These differences are primarily designed to ensure that suitable MWCB Auction Collars are utilized for the re-opening process following MWCB Halts. For instance, while an Auction Reference Price based on the Price Band that triggered the Trading Pause continues to be appropriate in the context of the re-opening process following Trading Pauses, the Exchange believes that a different reference is necessary for the re-opening process for MWCB Halts. The Exchange has chosen to use the Nasdaq last sale price and, if none, the prior trading day's NOCP as the MWCB Auction Reference Price in these circumstances as this price is reflective of the current market for

the halted security. Similarly, the Exchange believes that it is appropriate to calculate both upper and lower MWCB Auction Collars that are a specified percentage or dollar amount from this reference price because MWCB Halts do not involve security specific buy or sell pressure. These differences are similar to the application of MWCB Auction Collars on Arca and BZX today, except for the parameters used to calculate the price collars.<sup>25</sup> The Exchange believes that the wider parameters of 10% increments (or \$0.50 for securities priced at \$5 or less) proposed above for MWCB Auction Collars when compared to the parameters of 5% increments (or \$0.15 for securities priced at \$3 or less) currently used to calculate the LULD Auction Collars are set at appropriate levels that would allow the Exchange to re-open trading in securities more quickly while still reducing the potential for re-opening at a price that is significantly away from the last traded price of the security. Furthermore, the Exchange believes that it is appropriate to stop widening the MWCB Auction Collar prices past 50% of the Auction Reference Price to ensure that upon the resumption of trading after an MWCB Halt, the security is priced at a reasonable level from the Auction Reference Price.<sup>26</sup>

Otherwise, the proposed re-opening process for MWCB Halts is consistent with the current LULD re-opening process. Similar to the current LULD re-opening process, the Exchange also believes that the proposed process is consistent with the protection of investors and the public interest because they are designed to facilitate price discovery by

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<sup>25</sup> See supra notes 14 and 17 above, with accompanying text.

<sup>26</sup> As noted above, this is different from the current implementation of the price collars under the LULD mechanism where the price collars continue to be adjusted for each extension period. This also differs from the current implementation of non-LULD price collars on Arca and BZX, which both mirror the LULD process in this respect.

ensuring that all market order interest could be satisfied in the auction process following MWCB Halts. Furthermore, the Exchange believes that the standardized procedures to extend MWCB Halt auctions an additional five minutes are appropriate because this would provide additional time to attract offsetting liquidity. If at the end of such extension, market orders still cannot be satisfied within the applicable collars, or if the re-opening price would be outside of the applicable collars, the Exchange would extend the halt auction process an additional five minutes. The Exchange believes that extending the auction in these circumstances would protect investors and the public interest by reducing the potential for significant price disparity in post-auction trading. With each such extension, the Exchange believes that it is appropriate to widen the price collar threshold on the side of the market on which there is buying or selling pressure as market conditions may prevent an order imbalance from being resolved within the prior auction collars.

The Exchange also believes it is appropriate to add language clarifying how the MWCB Auction Collars will function in the event of more than one trading halt initiated under Rule 4121 in the same day. The proposed changes would increase transparency in how the Exchange would handle the calculation of MWCB Auction Collars, and is therefore consistent with the public interest and the protection of investors. The Exchange likewise believes that specifying how it will handle the publication of MWCB Halt information will bring greater transparency around the operation of the Exchange's auction process.

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 designed to provide for a measured and transparent process for re-opening Nasdaq listed securities after a MWCB Halt that is similar to the current re-opening process following a Trading Pause initiated under the LULD Plan and the process already implemented on Arca and BZX for non-LULD regulatory halts.

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-2019-057 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2019-057. 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-2019-057 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>27</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>27</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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**4121. Trading Halts Due to Extraordinary Market Volatility**

This Rule shall be in effect during a pilot period that expires at the close of business on October 18, 2019. If the pilot is not either extended or approved permanently at the end of the pilot period, the prior version of Rule 4121 shall be in effect.

(a) The Exchange shall halt trading in all stocks and shall not reopen for the time periods specified in this Rule if there is a Level 1, 2, or 3 Market Decline.

[(i)](1) For purposes of this Rule, a Market Decline means a decline in price of the S&P 500® Index between 9:30 a.m. EST and 4:00 p.m. EST on a trading day as compared to the closing price of the S&P 500® Index for the immediately preceding trading day. The Level 1, Level 2, and Level 3 Market Declines that will be applicable for the trading day will be publicly disseminated before 9:30 a.m. EST.

[(ii)](2) A "Level 1 Market Decline" means a Market Decline of 7%.

[(iii)](3) A "Level 2 Market Decline" means a Market Decline of 13%.

[(iv)](4) A "Level 3 Market Decline" means a Market Decline of 20%.

(b) Halts in Trading.

[(i)](1) If a Level 1 Market Decline or a Level 2 Market Decline occurs after 9:30 a.m. EST and up to and including 3:25 p.m, EST or in the case of an early scheduled close, 12:25 p.m. EST the Exchange shall halt trading in all stocks for 15 minutes after a Level 1 or Level 2 Market Decline. The Exchange shall halt trading based on a Level 1 or Level 2 Market Decline only once per trading day. The Exchange will not halt trading if a Level 1 Market Decline or a Level 2 Market Decline occurs after 3:25 p.m. EST or in the case of an early scheduled close, 12:25 p.m. EST.

[(ii)](2) If a Level 3 Market Decline occurs at any time during the trading day, the Exchange shall halt trading in all stocks until the primary listing market opens the next trading day.

(c) [Re-opening of Trading

(i) The re-opening of trading following a Level 1 or 2 trading halt shall follow the procedures set forth in Rule 4120.

(ii) If the primary listing market halts trading in all stocks, the Exchange will halt trading in those stocks until trading has resumed on the primary listing market or notice has been received from the primary listing market that trading may resume. If the primary listing market does not reopen a security within 15 minutes following the end of the 15-minute halt period, the Exchange may resume trading in that security.

(d) Re-opening of Trading. A Level 1 or Level 2 trading halt initiated under this Rule (“MWCB Halt”) shall be terminated when Nasdaq releases the security for trading. For any such security listed on Nasdaq, prior to terminating the MWCB Halt, there will be a 15-minute “Initial Display Only Period” during which market participants may enter quotations and orders in that security in Nasdaq systems.

(1) Nasdaq will:

(A) establish the “Auction Reference Price”, which shall mean the Nasdaq last sale price (either round or odd lot) after 9:15 a.m. ET but prior to the MWCB Halt and, if none, the prior trading day’s Nasdaq Official Closing Price (“NOCP”).

(B) determine the upper and lower “MWCB Auction Collar” prices, as follows:

(i) The lower MWCB Auction Collar price is derived by subtracting from the Auction Reference Price 10% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50.

(ii) The upper MWCB Auction Collar price is derived by adding to the Auction Reference Price 10% of the Auction Reference Price, rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50.

(2) At the conclusion of the Initial Display Only Period, the security will be released for trading unless, at the end of the 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 MWCB Auction Collar prices will be adjusted as follows:

(A) If the Display Only Period is extended because the calculated price at which the security would be released for trading is below the lower MWCB Auction Collar price or all sell market orders would not be executed in the cross, then the new lower MWCB Auction Collar price is derived by subtracting 10% of the Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50, from the previous lower MWCB Auction Collar price, and the upper MWCB Auction Collar price will not be changed.

(B) If the Display Only Period is extended because the calculated price at which the security would be released for trading is above the upper MWCB Auction Collar price or all buy

market orders would not be executed in the cross, then the new upper MWCB Auction Collar price is derived by adding 10% of the Auction Reference Price, which was rounded to the nearest minimum price increment, or in the case of securities with an Auction Reference Price of \$5 or less, \$0.50, to the previous upper MWCB Auction Collar price, and the lower MWCB Auction Collar price will not be changed.

(3) 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 MWCB Auction Collar prices every five minutes in the manner described in paragraph (2) above until the security is released for trading; provided, however, that Nasdaq will not adjust the MWCB Auction Collar prices past 50% of the Auction Reference Price for any security during any Extended Display Only Period. During any additional Extended Display Only Period after the first Extended Display Only Period, Nasdaq shall release the security for trading at the first point there is no order imbalance.

(4) For purposes of this Rule, upon completion of the cross calculation an order imbalance shall be established as follows:

(A) the calculated price at which the security would be released for trading is above (below) the upper (lower) MWCB Auction Collar price calculated under paragraphs (1), (2), or (3) above; or

(B) all market orders would not be executed in the cross.

(5) In the event of a Level 2 Market Decline while a security is in a Level 1 MWCB Halt and has not been released for trading, Nasdaq will recalculate the lower and upper MWCB Auction Collar prices in the particular security in accordance with paragraph (1)(B) above.

(e) Publication of Halt Auction Information. At the beginning of the Initial Display Only Period and continuing through the resumption of trading, Nasdaq will disseminate by electronic means an Order Imbalance Indicator (as defined in Rule 4753(a)(3)) every second.

[(d)](f) Nothing in this Rule 4121 should be construed to limit the ability of the Exchange to otherwise halt, suspend, or pause the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange rule or policy.

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

**(a) Definitions.**

For the purposes of this rule the term:

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**(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) - (F)** No change.

**(G)** For purposes of a MWCB Halt initiated pursuant to Rule 4121, "Order Imbalance Indicator" will include Auction Reference Prices and MWCB Auction Collars, as defined in Rule 4121(d).

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