

an appropriate balance between providing fair process and enabling the Exchange to fulfill its statutory obligations to protect investors and maintain fair and orderly markets, while accounting for the significant health and safety risks of in-person hearings stemming from the outbreak of COVID-19.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended to address competitive issues but is rather intended solely to provide temporary relief given the impacts of the COVID-19 pandemic. In its filing, FINRA provides an abbreviated economic impact assessment maintaining that the changes are necessary to temporarily rebalance the attendant benefits and costs of the obligations under FINRA Rules 1015, 9261, 9524 and 9830 in response to the impacts of the COVID-19 pandemic that is equally applicable to the changes the Exchange proposes.<sup>17</sup> The Exchange accordingly incorporates FINRA's abbreviated economic impact assessment by reference.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>18</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>19</sup>

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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2020-076 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-2020-076. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should

submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-NASDAQ-2020-076 and should be submitted on or before December 8, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-90389; File No. SR-NASDAQ-2020-071]

### **Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Rules 4613, 4702, and 4703**

November 10, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 29, 2020, The Nasdaq Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II 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 Rules 4613, 4702, and 4703 in light of planned changes to the System, as described further below.

The text of the proposed rule change is available on the Exchange's website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the

<sup>20</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>17</sup> See FINRA Filing, 85 FR at 55716.

<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>19</sup> 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.

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

Presently, the Exchange is making functional enhancements and improvements to specific Order Types<sup>3</sup> and Order Attributes<sup>4</sup> that are currently only available via the RASH Order entry protocol.<sup>5</sup> Specifically, the Exchange will be upgrading the logic and implementation of these Order Types and Order Attributes so that the features are more streamlined across the Nasdaq Systems and order entry protocols, and will enable the Exchange to process these Orders more quickly and efficiently. Additionally, this System upgrade will pave the way for the Exchange to enhance the OUCH Order entry protocol<sup>6</sup> so that Participants may enter such Order Types and Order Attributes via OUCH, in addition to the RASH Order entry protocols.<sup>7</sup> The

<sup>3</sup> An "Order Type" is a standardized set of instructions associated with an Order that define how it will behave with respect to pricing, execution, and/or posting to the Nasdaq Book when submitted to Nasdaq. See Rule 4701(e).

<sup>4</sup> An "Order Attribute" is a further set of variable instructions that may be associated with an Order to further define how it will behave with respect to pricing, execution, and/or posting to the Nasdaq Book when submitted to Nasdaq. See *id.*

<sup>5</sup> The RASH (Routing and Special Handling) Order entry protocol is a proprietary protocol that allows members to enter Orders, cancel existing Orders and receive executions. RASH allows participants to use advanced functionality, including discretion, random reserve, pegging and routing. See [http://nasdaqtrader.com/content/technicalsupport/specifications/TradingProducts/rash\\_sb.pdf](http://nasdaqtrader.com/content/technicalsupport/specifications/TradingProducts/rash_sb.pdf).

<sup>6</sup> The OUCH Order entry protocol is a Nasdaq proprietary protocol that allows subscribers to quickly enter orders into the System and receive executions. OUCH accepts limit Orders from members, and if there are matching Orders, they will execute. Non-matching Orders are added to the Limit Order Book, a database of available limit Orders, where they are matched in price-time priority. OUCH only provides a method for members to send Orders and receive status updates on those Orders. See <https://www.nasdaqtrader.com/Trader.aspx?id=OUCH>.

<sup>7</sup> The Exchange designed the OUCH protocol to enable members to enter Orders quickly into the System. As such, the Exchange developed OUCH with simplicity in mind, and it therefore lacks more complex order handling capabilities. By contrast, the Exchange specifically designed RASH to support advanced functionality, including discretion, random reserve, pegging and routing. Once the System upgrades occur, then the Exchange intends to propose further changes to its Rules to permit participants to utilize OUCH, in addition to

Exchange plans to implement its enhancement of the OUCH protocol sequentially, by Order Type and Order Attribute.<sup>8</sup>

To support and prepare for these upgrades and enhancements, the Exchange now proposes to amend its Rules governing Order Types and Order Attributes, at Rules 4702 and 4703, respectively. In particular, the Exchange proposes to adjust the current functionality of the Market Maker Peg Order<sup>9</sup> and Reserve Size Order Attribute,<sup>10</sup> as described below, so that they align with how the System, once upgraded, will handle these Orders going forward. The Exchange also proposes to make several associated clarifications and corrections to these Rules, and to Rule 4613, as it prepares to enhance its order handling processes.

Changes to Market Maker Peg Order

A Market Maker Peg Order is an Order Type that exists to help a Market Maker to meet its obligation to maintain continuous two-sided quotations (the "Two-Sided Obligation"), as set forth in Rule 4613(a)(2).<sup>11</sup> The Exchange proposes to make four changes related to the Market Maker Peg Order.

First, the Exchange proposes to amend Rule 4702(b)(7) to correct the conditions under which a Market Maker Peg Order will be sent back to a Participant. Rule 4702(b)(7) currently states that a Market Maker Peg Order will be sent back to the Participant if: (1) Upon entry of the Order, the limit price of the Order is not within the Designated Percentage;<sup>12</sup> or (2) after the Order has been posted to the Nasdaq Book, the Reference Price<sup>13</sup> shifts to

RASH, to enter order types that require advanced functionality.

<sup>8</sup> The Exchange notes that its sister exchanges, Nasdaq BX and Nasdaq PSX, plan to file similar proposed rule changes with the Commission shortly.

<sup>9</sup> See Rule 4702(b)(7).

<sup>10</sup> See Rule 4703(h).

<sup>11</sup> See Rule 4613(a)(2).

<sup>12</sup> See Rule 4702(b)(7). The "Designated Percentage" is 8% for securities subject to Rule 4120(a)(11)(A), 28% for securities subject to Rule 4120(a)(11)(B), and 30% for securities subject to Rule 4120(a)(11)(C), except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, when Rule 4120(a)(11) is not in effect, the Designated Percentage is 20% for securities subject to Rule 4120(a)(11)(A), 28% for securities subject to Rule 4120(a)(11)(B), and 30% for securities subject to Rule 4120(a)(11)(C). See Rule 4613(a)(2)(D). As discussed below, the Exchange proposes to amend this definition.

<sup>13</sup> The "Reference Price" for a Market Maker Peg Order to buy (sell) is the then-current National Best Bid (National Best Offer) (including Nasdaq), or if no such National Best Bid or National Best Offer, the most recent reported last-sale eligible trade from the responsible single plan processor for that day, or if none, the previous closing price of the security as adjusted to reflect any corporate actions (e.g.,

reach the Defined Limit,<sup>14</sup> such that the Order is subject to re-pricing at the Designated Percentage away from the shifted Reference Price, but the limit price of the Order would then fall outside of the Defined Limit (which would now be measured by the difference between the re-priced Order and the shifted Reference Price).<sup>15</sup>

The Exchange proposes to correct the second of these two conditions because it inadvertently allows for a circumstance in which a Market Maker Peg Order will be automatically re-priced by the System to a limit price that is outside of the Designated Percentage but inside of the Defined Limit. Such an outcome is inconsistent with a Market Maker's obligations to price or reprice its bid (offer) quotations not more than the Designated Percentage away from the then National Best Bid (Offer), as set forth in Rule 4613(a)(2).<sup>16</sup> In order for Rule 4702(b)(7) to be consistent with Rule 4613(a)(2), Rule 4702(b)(7) cannot permit the System to re-price a Market Maker Peg Order to a limit price that is outside of the Designated Percentage. In any circumstance in which the Order would be re-priced to a limit that is outside of the Designated Percentage, the Rule must require the System to return the Order to the Participant. The Exchange proposes to amend Rule 4702(b)(7) accordingly.<sup>17</sup>

dividends or stock splits) in the security. See Rule 4702(b)(7).

<sup>14</sup> The term "Defined Limit" means 9.5% for securities subject to Rule 4120(a)(11)(A), 29.5% for securities subject to Rule 4120(a)(11)(B), and 31.5% for securities subject to Rule 4120(a)(11)(C), except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, when Rule 4120(a)(11) is not in effect, the Defined Limit is 21.5% for securities subject to Rule 4120(a)(11)(A), 29.5% for securities subject to Rule 4120(a)(11)(B), and 31.5% for securities subject to Rule 4120(a)(11)(C). See Rule 4613(a)(2)(E).

<sup>15</sup> See Rule 4702(b)(7).

<sup>16</sup> Rule 4613(a)(2) states that for a Market Maker to satisfy its Two-Sided Obligation, the Market Maker must price bid (offer) interest not more than the Designated Percentage away from the then current National Best Bid (Offer) (or if there is no National Best Bid (Offer), not more than the Designated Percentage away from the last reported sale from the responsible single plan processor). Moreover, Rule 4613(a)(2) states that if the National Best Bid (Offer) or reported sale increases (decreases) to a level that would cause the bid (offer) interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Bid (offer) or last reported sale, or if the bid (offer) is executed or cancelled, then the Market Maker must enter new bid (offer) interest at a price not more than the Designated Percentage away from the then current National Best Bid (Offer) or last reported sale.

<sup>17</sup> The Exchange also proposes to amend this condition to clarify that repricing will occur when the difference between the displayed price of a Market Maker Peg Order and the Reference Price exceeds, rather than merely reaches, the Defined

Second, the Exchange proposes to amend Rule 4702(b)(7) to no longer allow entry of a Market Maker Peg Order entered with an offset. The Rule presently permits a Market Maker to enter a Market Maker Peg Order with a more aggressive offset than the Designated Percentage, but not a less aggressive offset. The Exchange has reviewed usage of offsets with Market Maker Peg Orders and found that no Market Maker assigned an offset to their Market Maker Peg Orders since January 2019. The Exchange does not believe that there is value in keeping offsets as an option for Market Maker Peg Orders. Accordingly, the Exchange proposes to delete text from Rule 4702(b)(7)(A) that discusses offsets and replace it with text stating that Market Maker Peg Orders entered with pegging offsets will not be accepted. The Exchange also makes conforming changes to Rule 4702(b)(7) where the text refers to offsets.

Third, the Exchange proposes to delete “Trade Now”<sup>18</sup> from the list of Order Attributes that may be associated with Market Maker Peg Orders under Rule 4702(b)(7). As noted above, Market Maker Peg Orders allow Market Makers to maintain continuous two-sided quotations at displayed prices that are compliant with the Market Makers’ obligations under Rule 4613. By their nature, Market Maker Peg Orders are always Displayed Orders, while Orders with Trade Now are Non-Displayed Orders.<sup>19</sup> Consequently, there are no circumstances in which a Market Maker Peg Order could have Trade Now

Limit. Currently, the Rule uses the term “reaches,” but this is inconsistent with the example that follows it (“In the foregoing example, if the Defined Limit is 9.5% and the National Best Bid increases to \$10.17, such that the displayed price of the Market Maker Peg Order would be *more than* 9.5% away, the Order will be repriced to \$9.36, or 8% away from the National Best Bid.”) (emphasis added). The Exchange proposes to reconcile this inconsistency in a manner that reflects the stated example as well as the manner in which the Exchange’s System presently applies the Rule. It would also render the Rule consistent with Market Maker obligations under Rule 4613.

<sup>18</sup> “Trade Now” is an Order Attribute that allows a resting Order that becomes locked by an incoming Displayed Order to execute against a locking or crossing Order(s) as a liquidity taker, and any remaining shares of the resting Order will remain posted on the Nasdaq Book with the same priority. See Rule 4703(m).

<sup>19</sup> “Display” is an Order Attribute that allows the price and size of an Order to be displayed to market participants via market data feeds. All Orders that are Attributable are also displayed, but an Order may be displayed without being Attributable. As discussed in Rule 4702, a Non-Displayed Order is a specific Order Type, but other Order Types may also be non-displayed if they are not assigned a Display Order Attribute; however, depending on context, all Orders that are not displayed may be referred to as “Non-Displayed Orders.” An Order with a Display Order Attribute may be referred to as a “Displayed Order.” See Rule 4703(k).

associated with it; the Exchange proposes to delete text from Rule 4702(b)(7)(B) that incorrectly suggests otherwise. For the same reason, the Exchange also proposes to delete Trade Now from the list of Order Attributes that may be associated with Price to Display Orders;<sup>20</sup> again, Price to Display Orders are Displayed Orders, whereas Trade Now is applicable to Non-Displayed Orders.<sup>21</sup>

Fourth, the Exchange proposes to amend Rule 4702(b)(7) to account for a scenario where, after entry of a Market Maker Peg Order whose initial displayed price was set with reference to the National Best Bid or Offer, the National Best Bid or Offer shifts such that the displayed price of the Order to buy (sell) is equal to or greater (less) than the National Best Bid (Offer). The Exchange proposes to state that the Exchange will not reprice the Market Maker Peg Order in this scenario until a new Reference Price is established that is more aggressive than the displayed price of the Order. By specifying that the Exchange will not reprice Market Maker Peg Orders in this scenario until a new, more aggressive Reference Price is established, the Exchange will ensure that it does not engage in a potential cycle of pegging against a Reference Price established by the Order itself.

#### Change to Rule 4613

Next, the Exchange proposes to clarify the definitions of “Designated Percentage” in Rule 4613(a)(2)(D) and “Defined Limit” in Rule 4613(a)(2)(E), which presently are as follows:

(D) For purposes of this Rule, the “Designated Percentage” shall be 8% for securities subject to Rule 4120(a)(11)(A), 28% for securities subject to Rule 4120(a)(11)(B), and 30% for securities subject to Rule 4120(a)(11)(C), except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, when Rule 4120(a)(11) is not in effect, the Designated Percentage shall be 20% for securities subject to Rule 4120(a)(11)(A), 28% for securities subject to Rule 4120(a)(11)(B), and 30% for securities subject to Rule 4120(a)(11)(C). The Designated Percentage for rights and warrants shall be 30%.

(E) For purposes of this Rule, the “Defined Limit” shall be 9.5% for securities subject to Rule 4120(a)(11)(A), 29.5% for securities subject to Rule 4120(a)(11)(B), and 31.5% for securities subject to Rule 4120(a)(11)(C),

<sup>20</sup> “Price to Display” is an Order Type designed to comply with Rule 610(d) under Regulation NMS by avoiding the display of quotations that lock or cross any Protected Quotation in a System Security during Market Hours. See Rule 4702(b)(2).

<sup>21</sup> The Exchange also proposes to amend its discussion of Price to Display Orders, in Rule 4702(b)(2), to correct an erroneous reference to a “Price to Comply Order” that should read “Price to Display Order.”

except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, when Rule 4120(a)(11) is not in effect, the Defined Limit shall be 21.5% for securities subject to Rule 4120(a)(11)(A), 29.5% for securities subject to Rule 4120(a)(11)(B), and 31.5% for securities subject to Rule 4120(a)(11)(C).

The Exchange is concerned that these two provisions could be misinterpreted to suggest that prior to 9:30 a.m., when Rule 4120(a)(11) is not in effect, the Exchange applies a narrower Designated Percentage and Defined Limit than it does between 9:30 and 9:45 a.m., under the same conditions. In fact, the Exchange applies the same wider Designated Percentage and Defined Limit prior to 9:30 a.m. as it does between 9:30 and 9:45 a.m. To avoid confusion (and without changing existing market maker obligations), the Exchange therefore proposes to clarify both of these provisions of Rule 4613(a)(2) to read that “prior to 9:45 a.m.” and between 3:35 p.m. and the close of trading, the Designated Percentage and Defined Limit (including for Market Maker Peg Orders) shall be as stated. Furthermore, throughout Rule 4613(a)(2)(D), in defining the term “Designated Percentage,” the Exchange proposes to replace references to securities subject to Rule 4120(a)(11)(A), (B), and (C) with the following: (i) The Designated Percentage shall be 8% for all Tier 1 NMS Stocks under the LULD Plan,<sup>22</sup> 28% for all Tier 2 NMS Stocks under the LULD Plan with a price equal to or greater than \$1, and 30% for all Tier 2 NMS Stocks under the LULD Plan with a price less than \$1, except that prior to 9:45 a.m. and between 3:35 p.m. and the close of trading, the Designated Percentage shall be: (i) 20% for Tier 1 NMS Stocks under the LULD Plan; (ii) 28% for all Tier 2 NMS Stocks under the LULD Plan with a price equal to or greater than \$1; and (iii) 30% for all Tier 2 NMS Stocks under the LULD Plan with a price less than \$1. Similarly, in Rule 4613(a)(2)(E), in defining the term “Defined Limit,” the Exchange proposes to replace references to securities subject to Rule 4120(a)(11)(A), (B), and (C) with the following: (i) 9.5% for all Tier 1 NMS Stocks under the LULD Plan; (ii) 29.5% for all Tier 2 NMS Stocks under the LULD Plan with a price equal to or greater than \$1; and (iii) 31.5% for all Tier 2 NMS Stocks

<sup>22</sup> Tier 1 NMS Stocks under the LULD Plan comprise all NMS Stocks included in the S&P 500® Index, Russell 1000® Index, and a list of Exchange Traded Products identified as Schedule 1 to the Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934 (the “LULD Plan”).

under the LULD Plan with a price less than \$1, except that prior to 9:45 a.m. and between 3:35 p.m. and the close of trading, the Defined Limit shall be: (i) 21.5% all Tier 1 NMS Stocks under the LULD Plan; (ii) 29.5% for all Tier 2 NMS Stocks under the LULD Plan with a price equal to or greater than \$1; and (iii) 31.5% for all Tier 2 NMS Stocks under the LULD Plan with a price less than \$1. The Exchange proposes this change because references to Rule 4120(a)(11) are obsolete.

The Exchange also proposes to add to Rule 4613(a)(2)(E) the fact that the Defined Limit for rights and warrants shall be 31.5%. The Exchange mistakenly omitted the Defined Limit for such securities from prior filings.<sup>23</sup>

#### Changes to Reserve Size

As set forth in Rule 4703(h), “Reserve Size” is an Order Attribute that permits a Participant to stipulate that an Order Type that is Displayed may have its displayed size replenished from additional non-displayed size.<sup>24</sup> The Exchange proposes three changes to the rule text describing the Reserve Size Order Attribute.

First, the Exchange proposes to amend a paragraph of Rule 4703(h) which begins as follows: “Whenever a Participant enters an Order with Reserve Size, the Nasdaq Market Center will process the Order as two Orders: A Displayed Order (with the characteristics of its selected Order Type) and a Non-Displayed Order. Upon entry, the full size of each such Order will be processed for potential execution in accordance with the parameters applicable to the Order Type.” The Exchange proposes to amend this language because it does not describe precisely how the Exchange processes Orders with Reserve Size. The Exchange proposes to state instead that whenever a Participant enters an Order with Reserve Size, the full size of the Order will be presented for potential execution in compliance with Regulation NMS and that thereafter, unexecuted portions of the Order will be processed as two Orders: A Displayed Order (with the characteristics of its selected Order Type) and a Non-Displayed Order. The Exchange also proposes to delete the following sentence: “Upon entry, the full size of each such Order will be processed for potential execution in accordance with the parameters applicable to the Order Type.” The

proposed re-formulation reflects that it is possible that the Order with Reserve Size will be executed immediately in full and without needing to place unexecuted portions of the Order in reserve. Furthermore, it clarifies that the System will present the Order for immediate execution (provided that it does not trade through a protected quotation, in accordance with Regulation NMS) without complying with underlying characteristics of the Order Type that might otherwise require an adjustment to the price of the Order before the System attempts to execute it.<sup>25</sup> The proposed language is consistent with the following example set forth in the existing rule text:

For example, a Participant might enter a Price to Display Order with 200 shares displayed and an additional 3,000 shares non-displayed. Upon entry, the Order would attempt to execute against available liquidity on the Nasdaq Book, up to 3,200 shares. Thereafter, unexecuted portions of the Order would post to the Nasdaq Book as a Displayed Price to Display Order and a Non-Displayed Order; provided, however, that if the remaining total size is less than the display size stipulated by the Participant, the Displayed Order will post without Reserve Size. Thus, if 3,050 shares executed upon entry, the Price to Display Order would post with a size of 150 shares and no Reserve Size.

The proposed language eliminates confusion that might otherwise arise from perceived inconsistencies between the above example and existing rule text. Again, the existing rule text states that whenever a participant enters an Order with Reserve Size, the System will process the Reserve Order as two orders upon entry and also, upon entry, the full size of an Order with Reserve will be presented for potential execution in accordance with the parameters applicable to the Order Type.

When there is, in fact, an unexecuted portion of the Order, then the Exchange will continue to process the unexecuted portion as two Orders: A Displayed Order and a Non-Displayed Order.

Second, the Exchange proposes to delete text from Rule 4703(h) which states that “[a] Participant may stipulate that the Displayed Order should be replenished to its original size.” The Exchange proposes to delete this text because it is redundant of text elsewhere in the Rule that describes how a Displayed Order with Reserve Size replenishes.<sup>26</sup>

<sup>25</sup> This clarification is needed due to the fact that pursuant to Rule 4702(b)(2)(A), a Price to Display Order would automatically reprice upon entry if its entered limit price would lock or cross a protected quotation.

<sup>26</sup> The Exchange proposes to clarify a portion of Rule 4703(h) which states that if an execution against a Displayed Order causes its size to decrease

Third, the Exchange proposes to amend text from Rule 4703(h) that allows participants to designate that the original and subsequent displayed sizes of the Displayed Order are amounts randomly determined based upon factors they select (“Random Reserve”). The amendments also state that when Participants stipulate use of a Random Reserve, they would select a nominal (rather than a “theoretical”) displayed size, which is a more precise term. Furthermore, the amendment adds a reminder that the actual displayed size will be randomly determined by the System from a range of “normal trading units.” Lastly, the amendments include other changes that do not change the substantive meaning of the text, but simply improve its readability.

The Exchange intends to implement the foregoing changes during the First Quarter of 2021. The Exchange will issue an Equity Trader Alert at least 30 days in advance of implementing the changes.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>27</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>28</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange believes that it is consistent with the Act to amend Rule 4702(b)(7), which describes the Market Maker Peg Order Type, to correct one of the stated conditions under which a Market Maker Peg Order will be sent back to a Participant. As presently stated, this condition provides for Market Maker Peg Orders to be repriced automatically at limit prices that are within the Defined Limit, but outside of the Designated Percentage, which places them in conflict with Rule 4613(a)(2), which requires Market Makers to price and re-price bid and offer interest at the Designated Percentage. It is just and in the interests of the investors and the public for the Exchange to correct Rule 4702(b)(7) to ensure that Market Maker Peg Orders operate in a manner that

below a normal unit of trading, another Displayed Order will be entered at the “level” stipulated by the Participant while the size of the Non-Displayed Order will be reduced by the same amount. In describing the entry of the new Displayed Order in this instance, the Exchange proposes to replace the word “level” with “limit price and size,” which is a more precise phrase.

<sup>27</sup> 15 U.S.C. 78f(b).

<sup>28</sup> 15 U.S.C. 78f(b)(5).

<sup>23</sup> See Securities Exchange Act Release No. 34–65915 (December 8, 2011), 76 FR 77863 (December 14, 2011) (SR–NASDAQ–2011–166).

<sup>24</sup> An Order with Reserve Size may be referred to as a “Reserve Order.”

helps rather than hinders Market Makers from complying with Rule 4613.

It is also consistent with the Act for the Exchange to amend Rule 4702(b)(7) to clarify that repricing will occur when the difference between the displayed price of a Market Maker Peg Order and the Reference Price “exceeds,” rather than merely “reaches,” the Defined Limit, as the Rule states presently. The proposed change would ensure that the Rule text is internally consistent, as the example set forth in the text suggests that the Rule should be read to mean exceeds. It would also render the Rule consistent with Market Maker obligations under Rule 4613. The Exchange believes that it is in the interest of investors and the public to eliminate such inconsistencies.

Meanwhile, the Exchange believes that it is consistent with the Act to eliminate the option for Participants to enter offsets from the Market Maker Peg Orders. The proposal is consistent with the Act because Market Makers do not actively employ such offsets. As noted above, the Exchange has reviewed usage of offsets with Market Maker Peg Orders and found that no Market Maker has assigned an offset with their Market Maker Peg Orders since January 2019. Moreover, elimination of the option to enter offsets would simplify the Exchange’s efforts to improve processing.

The Exchange’s proposal to eliminate Trade Now as an Order Attribute that may be associated with the Market Maker Peg and Price to Display Order Types is consistent with the Act because there are no instances in which Trade Now actually may be associated with a Market Maker Peg Order or a Price to Display Order. Eliminating the reference to Trade Now in 4702(b)(7) will serve to avoid market Participant confusion that may otherwise arise from associating an incompatible Order Attribute with these Order Types.

The Exchange believes that it is consistent with the Act to clarify Rule 4702(b)(7) so that it specifies how the System will react when, after entry of a Market Maker Peg Order whose initial displayed price was set with reference to the National Best Bid or Offer, the National Best Bid or Offer shifts such that the displayed price of the Order to buy (sell) is equal to or greater (less) than the National Best Bid (National Best Offer). Specifically, the Exchange believes that it is just and in the interests of investors to specify that the Exchange will not reprice Market Maker Peg Orders in this scenario until a new, more aggressive Reference Price is established, because doing so ensures that the Exchange will not engage in a

potential cycle of pegging against a Reference Price established by the Order itself.

The Exchange’s proposal to amend the definitions of “Designated Percentage” and “Defined Limit,” as set forth in Rule 4613(a)(2)(D) and (E), is consistent with the Act because the amendment is necessary to correct obsolete cross-references and to avoid confusion about which particular percentage or limit will apply to orders prior to 9:30 a.m. The proposal clarifies the Rule by stating expressly that the same sets of bands that apply between 9:30–9:45 a.m. and between 3:35 p.m. and the close of trading also apply prior to 9:30 a.m. The proposal also specifies a Defined Limit for rights and warrants, which was mistakenly omitted from prior filings and which relates to the Designated Percentage for rights and warrants, which is set forth already at Rule 4613(a)(2)(D).

It is also consistent with the Act to amend Rule 4703(h) to clarify that when a Participant enters an Order with Reserve Size, the full size of the Order will first be presented for potential execution in compliance with Regulation NMS, and only if there is an unexecuted portion of the Order will it be processed as a Displayed Order and a Non-Displayed Order. This clarification describes the behavior of the System more precisely than the existing Rule language. It also reflects the possibility that the Order with Reserve Size will be executed immediately in full and without needing to place unexecuted portions of the Order in reserve. Furthermore, it eliminates inconsistency between rule text which presently suggests that the System will process the Order with Reserve Size for potential immediate execution consistent with the characteristics of its underlying Order Type, and an example in the rule text in which the Exchange provides that the System will process the Order for potential immediate execution regardless of the parameters applicable to the Order Type. The proposed amendment will resolve this inconsistency by making clear that the System will present an order for potential immediate execution regardless of the characteristics of the underlying Order Type, with the caveat that the Order will not trade-through a protected quotation as required by Regulation NMS.

It is consistent with the Act to amend Rule 4703(h) to state that when participants stipulate use of a Random Reserve, they would select a “nominal”—rather than a “theoretical” displayed size. The proposed term

“nominal” is more precise than the existing Rule text. Improving the precision of the Exchange’s Rules improves the ability of the public and investors to comprehend them and account for and comply with them. For similar reasons, proposed non-substantive amendments to other text in Rule 4703(h) are consistent with the Act because they would improve the readability of the Rule.

Finally, the Exchange believes that various proposed non-substantive clarifications and corrections to the text of the Rule will improve its readability, which is in the interests of market participants and investors, and would promote a more orderly market.

#### *B. Self-Regulatory Organization’s Statement on Burden on Competition*

The Exchange does not believe that its proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As a general principle, the proposed changes are reflective of the significant competition among Exchanges and non-exchange venues for order flow. In this regard, proposed changes that facilitate enhancements to the Exchange’s System and order entry protocols as well as those that clarify and correct the Exchange’s Rules regarding its Order Types and Attributes, are pro-competitive because they bolster the efficiency, integrity, and overall attractiveness of the Exchange in an absolute sense and relative to its peers.

Moreover, none of the proposed changes will burden intra-market competition among various Exchange Participants. Proposed changes to the Market Maker Peg Order Type, at Rule 4702(b)(7), and to Rule 4613, will apply equally to all Market Makers. Market Makers will experience no competitive impact from proposals to eliminate their ability to use offsets with Market Maker Peg Orders or the Trade Now functionality for Market Maker Peg Orders and Price to Display Orders because Market Makers do not actually utilize offsets and cannot, by definition, apply Trade Now to Market Maker Peg Orders or Price to Display Orders. Likewise, Market Makers will feel no competitive effects from proposed corrections and clarifications to the manner in which the Exchange prices and re-prices their Market Maker Peg Orders, except that the changes will benefit Market Makers by ensuring that the Exchange always processes those Orders in a manner that complies with their Market Maker pricing obligations under Rule 4613. Proposed changes to Rule 4613 are intended to update

obsolete references and to correct inadvertent errors and should have no competitive impact on Market Makers. Proposed clarifications and amendments to the Reserve Order Attribute Rule, at Rule 4703(h), are intended to improve the precision and readability of the Rule text and will not have any competitive impact on participants.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>29</sup> and Rule 19b-4(f)(6) thereunder.<sup>30</sup>

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 change 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2020-071 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-2020-071. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2020-071 and should be submitted on or before December 8, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>31</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

**Submission for OMB Review; Comment Request**

*Upon Written Request, Copies Available From: Securities and Exchange*

Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549-2736

*Extension:* Rule 38a-1; [SEC File No. 270-522, OMB Control No. 3235-0586]

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission (the "Commission") has submitted to the Office of Management and Budget a request for extension of the previously approved collection of information discussed below.

Rule 38a-1 (17 CFR 270.38a-1) under the Investment Company Act of 1940 (15 U.S.C. 80a) ("Investment Company Act") is intended to protect investors by fostering better fund compliance with securities laws. The rule requires every registered investment company and business development company ("fund") to: (i) Adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws by the fund, including procedures for oversight of compliance by each investment adviser, principal underwriter, administrator, and transfer agent of the fund; (ii) obtain the fund board of directors' approval of those policies and procedures; (iii) annually review the adequacy of those policies and procedures and the policies and procedures of each investment adviser, principal underwriter, administrator, and transfer agent of the fund, and the effectiveness of their implementation; (iv) designate a chief compliance officer to administer the fund's policies and procedures and prepare an annual report to the board that addresses certain specified items relating to the policies and procedures; and (v) maintain for five years the compliance policies and procedures and the chief compliance officer's annual report to the board.

The rule contains certain information collection requirements that are designed to ensure that funds establish and maintain comprehensive, written internal compliance programs. The information collections also assist the Commission's examination staff in assessing the adequacy of funds' compliance programs.

While Rule 38a-1 requires each fund to maintain written policies and procedures, most funds are located within a fund complex. The experience of the Commission's examination and oversight staff suggests that each fund in a complex is able to draw extensively from the fund complex's "master" compliance program to assemble appropriate compliance policies and

<sup>29</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>30</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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.

<sup>31</sup> 17 CFR 200.30-3(a)(12).