

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82327; File No. SR-NASDAQ-2017-129)

December 14, 2017

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 4120 (Limit Up-Limit Down Plan and Trading Halts) to Reduce the Length of the “Display-Only Period” for the Initial Pricing on Nasdaq of a Security that is the Subject of an Initial Public Offering

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 December 8, 2017, 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 Rule 4120 (Limit Up-Limit Down Plan and Trading Halts)<sup>3</sup> to reduce the length of the “Display-Only Period” for the initial pricing on Nasdaq of a security that is the subject of an initial public offering (“IPO”).

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.

<sup>3</sup> References to rules are to Nasdaq rules, unless otherwise noted.

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 this proposal is to amend Rule 4120 (Limit Up-Limit Down Plan and Trading Halts) to reduce the length of the Display-Only Period for the initial pricing on Nasdaq of a security that is the subject of an IPO from 15 minutes to 10 minutes. In all other respects, the process for conducting the initial pricing of an IPO security will remain unchanged.

Initial pricing of an IPO security on Nasdaq occurs by means of the IPO Halt Cross provided for in Rule 4753. Prior to the IPO Halt Cross, trading in the security is halted, pursuant to Rule 4120(a)(7), until such time as the conditions in Rule 4120(c)(8) are satisfied and Nasdaq releases the security for trading. Market participants may enter orders in the security for participation in the IPO Halt Cross beginning at 4:00 a.m. As the scheduled time for the IPO Halt Cross approaches, the security enters a Display-Only Period during which indicative information about the potential outcome of the IPO Halt Cross is displayed to market participants and during which market participants may continue to enter orders.

After the conclusion of the Display-Only Period, the security enters a "Pre-Launch Period" of indeterminate duration, during which indicative information continues to be

disseminated.<sup>4</sup> The Pre-Launch Period ends and the security is released for trading by Nasdaq when the conditions described in paragraphs (c)(8)(A)(i), (ii), and (iii) of Rule 4120 are all met:

- Nasdaq receives notice from the underwriter of the IPO that the security is ready to trade. The Nasdaq system then calculates the Current Reference Price at that time (the “Expected Price”) and displays it to the underwriter. If the underwriter then approves proceeding, the Nasdaq system will conduct two pricing validation checks.
- First, the Nasdaq system must determine that all market orders will be executed in the IPO Halt Cross; and
- Second, if the actual price calculated by the IPO Halt Cross differs from the Expected Price by an amount in excess of a price band previously selected by the underwriter, the security will not be released for trading and the Pre-Launch Period will continue.

The failure to satisfy these conditions during the process to release the security for trading will result in a delay of the release for trading of the IPO security, and a continuation of the Pre-Launch Period, until all conditions have been satisfied. Market participants may continue to enter orders and order cancellations for participation in the IPO Halt Cross during the Pre-Launch Period up to the point that the IPO Halt Cross auction process commences.

Based on feedback from underwriters participating in the IPO process, Nasdaq is proposing to reduce the time of the Display-Only Period from 15 minutes to 10 minutes. As discussed above, market participants may begin entering orders in an IPO security at 4:00 a.m., while the initial pricing of IPOs occurs no earlier than 10 a.m. Thus, market participants have ample opportunity to enter order for participation in the IPO Halt Cross. Moreover, the IPO Halt Cross does not actually occur until the conditions described above, including a decision from the

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<sup>4</sup> Nasdaq Rule 4753(b)(1).

underwriter that the security is ready to commence trading, have been satisfied. The underwriter generally bases this decision upon a determination that expected trading interest with respect to the IPO Halt Cross has been entered and that the IPO Halt Cross will occur at a stable price and quantity consistent with the underwriter's expectations. In some IPOs, particularly smaller ones, this determination can be made relatively quickly after the commencement of the Display-Only Period, but Rule 4120 does not allow the IPO Halt Cross to occur until after the end of the 15-minute Display-Only Period. Thus, shortening the Display-Only Period to 10 minutes will provide the underwriter with greater flexibility to initiate trading more quickly where circumstances warrant. On the other hand, since the IPO Halt Cross will not occur until all of the conditions provided for by the rule (including underwriter approval) are satisfied, the change will not prevent the continuation of a longer pre-IPO Halt Cross period if more time is needed to allow further order entry and greater price stability.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>5</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>6</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. In particular, Nasdaq believes that the change will facilitate the commencement of orderly trading in securities that are the subject of an IPO, by providing the underwriter with greater flexibility to allow an earlier commencement of trading in cases, such as smaller IPOs, where an extended pre-Cross period is not required to allow order entry and the development of price stability. At the same time, the change will not constrain the

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

underwriter from requiring a longer pre-Cross period in cases where extensive order entry is still occurring or where price stability has not yet developed.

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. In particular, the Exchange believes that the change will enhance the competitiveness of its process for initial pricing of IPO securities without imposing any burdens on the ability of underwriters or other market participants to participate in that process.

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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>7</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>8</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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or

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<sup>7</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>8</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 the 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.

(iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2017-129 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-2017-129. 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 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-2017-129 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>9</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>9</sup> 17 CFR 200.30-3(a)(12).