

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-89077; File No. SR-NASDAQ-2020-031)

June 16, 2020

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Delay the Protocol “Ouch to Trade Options” or “OTTO”

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 11, 2020, 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 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 delay the protocol “Ouch to Trade Options” or “OTTO” on The Nasdaq Options Market LLC (“NOM”).

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.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

Nasdaq filed a rule change³ which adopted a new protocol “Ouch to Trade Options” or “OTTO”⁴ and proposed to rename and modify the current OTTO protocol as “Quote Using Orders” or “QUO.”⁵ The Exchange subsequently filed a rule change to amend Options 3, Section 18, titled “Detection of Loss of Communication” which describes the impact to NOM protocols in the event of a loss of a communication. The Exchange accounted for both the new OTTO and renamed and modified QUO within this rule. Similarly, the Exchange amended Options 3, Section 8, “Nasdaq Opening and Halt Cross” to account for the new OTTO and

³ See Securities Exchange Act Release No. 83888 (August 20, 2018), 83 FR 42954 (August 24, 2018) (SR-NASDAQ-2018-069) (“Prior Rule Change”). In the Prior Rule Change the Exchange stated that it would issue an Options Trader Alert introducing the new OTTO protocol in Q4 of 2018. The rule numbers were amended in 2019 when the Rulebook was relocated. See Securities Exchange Act Release No. 87778 (December 17, 2019), 84 FR 70590 (December 23, 2019) (SR-NASDAQ-2019-098).

⁴ As modified by the Prior Rule Change, OTTO is an interface that allows Participants and their Sponsored Customers to connect, send, and receive messages related to orders to and from the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; and (6) risk protection triggers and cancel notifications. See NOM Rules at Options 3, Section 7(d)(1)(C).

⁵ QUO is an interface that allows NOM Market Makers to connect, send, and receive messages related to single-sided orders to and from the Exchange. Order Features include the following: (1) options symbol directory messages (e.g., underlying); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; and (6) risk protection triggers and cancel notifications. Orders submitted by NOM Market Makers over this interface are treated as quotes. See Options 3, Section 7(d)(1)(D).

renamed and modified QUO within this rule. Finally, the Exchange amended Options 3, Section 23, “Data Feeds and Trade Information” to amend “OTTO DROP” to “QUO DROP” and noted within Options 3, Section 15(a)(1) related to Order Price Protection rule or “OPP” that OPP shall not apply to orders entered through QUO.⁶

Both the Prior Rule Change and the Subsequent Rule Change indicated the aforementioned rule changes would be implemented for QUO and OTTO in Q4 of 2018 with the date announced via an Options Traders Alert. The Exchange filed a rule change implementing QUO and delaying the introduction of the OTTO functionality until Q3 2019 by announcing the date of implementation via an Options Traders Alert.⁷ The Exchange further delayed the implementation of OTTO functionality until Q3 2019 and then Q2 2020, respectively.⁸ At this time, the Exchange proposes to further delay the implementation of OTTO functionality until Q2 2021. The Exchange will issue an Options Trader Alert notifying Participants when this functionality will be available.

Nasdaq is considering enhancing OTTO features to provide members with other capabilities, which are currently not offered with OTTO, in the area of risk enhancements. Nasdaq would need time to file a proposal with the Commission with respect to any

⁶ See Securities Exchange Act Release No. 84559 (November 9, 2019), 83 FR 57774 (November 16, 2018) (SR-NASDAQ-2018-085) (“Subsequent Rule Change”).

⁷ See Securities Exchange Act Release No. 84723 (December 4, 2018), 83 FR 63692 (December 11, 2018) (SR-NASDAQ-2018-097). The Exchange proposed to immediately implement QUO as of the effectiveness of SR-NASDAQ-2018-097 and delay the implementation of OTTO by issuing an Options Trader Alert announcing the implementation date in Q1 2019. The QUO implementation became effective upon filing on November 26, 2018.

⁸ See Securities Exchange Act Release Nos. 85386 (March 21, 2019), 84 FR 11597 (March 27, 2019) (SR-NASDAQ-2019-016); and 87160 (September 30, 2019), 84 FR 53186 (October 4, 2019) (SR-NASDAQ-2019-078).

enhancement. Nasdaq proposes to delay the implementation of OTTO in order to receive additional feedback from market participants regarding the protocol. Also, Nasdaq proposes this delay to account for a change in its timeline to deliver this product, as a result of the market events in 2020

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest by delaying the OTTO functionality to allow the Exchange additional time to implement this functionality.

Nasdaq is considering enhancing OTTO features to provide members with other capabilities, which are currently not offered with OTTO, in the area of risk enhancements. Nasdaq would need time to file a proposal with the Commission with respect to any enhancement. Nasdaq proposes to delay the implementation of OTTO in order to receive additional feedback from market participants regarding the protocol. Also, Nasdaq proposes this delay to account for a change in its timeline to deliver this product, as a result of the market events in 2020.

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

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

Exchange's proposal to delay the adoption of the OTTO functionality does not impose an undue burden on competition as no Participant has access to OTTO today on NOM.

Nasdaq is considering enhancing OTTO features to provide members with other capabilities, which are currently not offered with OTTO, in the area of risk enhancements. Nasdaq would need time to file a proposal with the Commission with respect to any enhancement. Nasdaq proposes to delay the implementation of OTTO in order to receive additional feedback from market participants regarding the protocol. Also, Nasdaq proposes this delay to account for a change in its timeline to deliver this product, as a result of the market events in 2020.

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

A proposed rule change filed under Rule 19b-4(f)(6)¹¹ normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)¹² permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange states that the waiver will allow the Exchange to immediately delay the implementation of the OTTO functionality. The Exchange notes that it is considering enhancing OTTO features to provide members with other risk-enhancement capabilities, which are currently not offered with OTTO, and that Nasdaq would need time to file a proposal with the

¹¹ 17 CFR 240.19b-4(f)(6).

¹² 17 CFR 240.19b-4(f)(6).

Commission with respect to any such enhancement. The Exchange further notes that a delay in the implementation of OTTO would allow the Exchange to receive additional feedback from market participants regarding the protocol. Finally, Nasdaq notes this delay is needed to account for a change in its timeline to deliver this product, as a result of the market events in 2020. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the operative delay and designates the proposed rule change as operative upon filing.¹³

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:

¹³ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2020-031 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-2020-031. 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-2020-031 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.¹⁴

J. Matthew DeLesDernier
Assistant Secretary

¹⁴ 17 CFR 200.30-3(a)(12).