



NASDAQ AND BX POST-ONLY FUNCTIONALITY MODIFICATIONS

Post-Only orders are designed to allow firms to submit orders that will not remove liquidity, unless removing liquidity would result in price improvement that is greater than the sum of the foregone rebate and remove fee (the “net rebate/fee”). Currently, if a Post-Only order, upon entry, would lock a resting contra-side order (displayed or non-displayed) on the Exchange book, the Post-Only order will post and display at one minimum price variation away from the locking price.

Current Functionality Example:

A \$10.03 offer resides on the Exchange book, non-displayed. A Post-Only order to buy is submitted to the Exchange at \$10.03. The incoming Post-Only order will be accepted and displayed at \$10.02.

New Functionality

The Nasdaq Stock Market (“Nasdaq”) will be modifying the functionality of Post-Only orders, allowing Post-Only orders for securities trading at or above one dollar to lock contra-side non-displayed orders resting on the Nasdaq book (“Exchange book”). Nasdaq and Nasdaq BX (“BX”) will also be modifying the functionality of Post-Only orders for securities trading under one dollar (note: the functionality of Post-Only orders for securities trading at or above one dollar on BX will not change; due to the price structure on BX, Post Only orders always remove liquidity upon entry). In addition to the Post-Only modifications, Nasdaq and BX will be modifying the handling of midpoint orders during a crossed market. The changes will be implemented in **late Q1 2017**; more information on the exact date is forthcoming.

Post-Only and Non-Displayed Orders

Nasdaq will allow incoming Post-Only orders, entered at the same limit price as a resting contra-side non-displayed order on the Exchange book, to post and display at the locking price. The resting non-displayed order will remain posted on the book, at the locking price. If such a lock exists, both the resting non-displayed and Post-Only orders will be eligible to execute against new incoming contra-side orders. No changes in behavior will be made at this time for incoming Post-Only orders that would lock a resting contra-side **displayed** order; specifically, the Post-Only order will continue to post and display at one minimum price variation away from the contra-side displayed price.

Example:

A \$10.03 offer resides on the Exchange book, non-displayed. A Post-Only order to buy is submitted to the Exchange at \$10.03. The incoming Post-Only order will be accepted and displayed at \$10.03. The resting non-displayed offer remains posted at \$10.03. An incoming order (not Post-Only) to buy at \$10.03 is submitted and removes liquidity against the resting non-displayed offer. The resting Post-Only order remains posted at \$10.03.

Post-Only and Price to Comply Orders

Orders that are posted, on the Exchange book at a non-displayed price that is different than its displayed price are subject to be locked by an incoming contra-side Post-Only order at the non-displayed price.

Example:

The NBBO is \$10.00/\$10.01. A price to comply order to sell at \$10.00 is submitted. The order is posted on the Exchange book at \$10.00 and displayed at \$10.01. A Post-Only order to buy is submitted to the Exchange at \$10.00. The incoming Post-Only order will be accepted and displayed at \$10.00. The resting price to comply offer remains posted at \$10.00, displayed at \$10.01.

Post-Only and Midpoint Orders

Nasdaq will also allow incoming Post-Only orders, entered at a limit price that would lock or cross a resting contra-side midpoint order on the Exchange book, to post and display at the locking or crossing price (if the difference in price between the incoming Post-Only order and the resting midpoint is less than the forgone net rebate/fee). If such a lock or cross exists, new incoming orders may remove liquidity against the locked or crossed midpoint orders, but only at a price equal to the NBBO midpoint; otherwise, depending on the order entry protocol, the resting midpoint order will be updated to the new NBBO midpoint (e.g. RASHport, FIX) or canceled (e.g. OUCH, Flite). The resting Post-Only order will remain posted.

Post-Only Orders in Securities Under One Dollar

In securities that are trading under \$1.00 on Nasdaq and BX, incoming Post-Only orders, entered at a limit price that would cross a resting contra-side non-displayed (non-midpoint) order on the Exchange book, will post and display at the crossing price if the economics are not in the interest of the investor to remove liquidity (the difference in price between the incoming Post-Only order and the resting non-displayed order is less than the forgone net rebate/fee). The resting non-displayed (non-midpoint) order will remain posted on the book, at the locked or crossed price. If such a lock or cross exists, new incoming orders may remove liquidity against either the non-displayed or Post-Only orders at a price equal to or better than the Post-Only order price.

Example:

A non-displayed bid is posted on the Exchange book at \$0.50. A Post-Only order to sell is submitted to the Exchange at \$0.499. The incoming Post-Only order will be accepted and displayed at \$0.499, crossing the resting non-displayed order. The NBBO is \$0.47/\$0.499. An incoming order (not Post-Only) to sell at \$0.49 is submitted and removes liquidity against the resting non-displayed bid at \$0.499. The resting Post-Only order will remain posted and displayed at \$0.499.

Reactive Trade-Now

Pending filing with the SEC, Nasdaq and BX will introduce a new “Reactive Trade-Now” option on FIX and RASHport protocols, providing participants the ability to specify, on the original order that once posted on the Exchange book, if the order is locked by a contra-side displayed order, the resting order will attempt to remove liquidity against locking contra-side orders up to its available size; any unexecuted portion of the order will remain posted at its price, with no change in order priority.

Example:

A non-displayed order to sell 200 shares is posted on the Exchange book at \$10.03. A Post-Only order is received to buy 100 shares at \$10.03. The Post-Only order posts to the Exchange book at \$10.03, locking the resting non-displayed order at \$10.03. Because the non-displayed order was originally submitted with the Reactive Trade-Now option specified, the non-displayed order will remove 100 shares against the locking contra-side Post-Only order at \$10.03 and the remaining 100 shares of the non-displayed order will remain posted at \$10.03, with no change in order priority.

Reactive Trade-Now will also be available on a port-by-port basis, and if designated on a particular port, all orders entered via the port will be specified with the Reactive Trade-Now option.

Customers using OUCH and FIX Lite will have the ability to send a Trade-Now message which instructs the Exchange to allow the resting order to remove liquidity against any locking contra-side orders. The Trade-Now message can only be initiated by a firm that has an order already posted on the Exchange book. If the Trade-Now message results in no execution (or partial execution), the resting order (or unexecuted portion of the order) will remain posted at its price, with no change in order priority.

Example:

A non-displayed order to sell 100 shares is posted on the Exchange book @ \$10.03. A Post-Only order is received buy 100 shares at \$10.03. The Post-Only order posts to the Exchange book at \$10.03, locking the resting non-displayed order. A Trade-Now instruction is submitted, by the entering firm, for the resting non-displayed order. The non-displayed order removes 100 shares against the locking contra-side Post-Only order at \$10.03.

Midpoint Orders in Crossed Market

In a crossed market, resting midpoint orders posted on the Exchange Book will either be canceled back to the customer if entered over OUCH and FIX Lite, or will be updated if entered over FIX, RASHport or QIX. Additionally, Nasdaq and BX will be rejecting incoming midpoint orders back to the customer during a crossed market. This particular change will be implemented at a later time, separate from the aforementioned changes; more information on the exact date is forthcoming.

Example:

The NBBO is \$10.06/\$10.05. A midpoint order to sell with a limit price of \$10.04 is submitted. The midpoint order is rejected.