**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34–91109; File No. SR–NASDAQ–2020–090]

**Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Order Approving a Proposed Rule Change To Amend the Exchange's Rules at Equity 4, Section 4703(h) Relating to Reserve Orders**

February 11, 2021.

**I. Introduction**

On December 15, 2020, The Nasdaq Stock Market LLC (''Exchange'' or ''Nasdaq'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend the Exchange's rules at Equity 4, Section 4703(h) relating to orders with the reserve size order attribute. The proposed rule change was published for comment in the **Federal Register** on December 30, 2020.[3] The Commission has received no comments on the proposed rule change. This order approves the proposed rule change.

**II. Description of the Proposal**

Pursuant to Equity 4, Section 4703(h) of the Exchange's rules, 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. When a participant enters an order with reserve size (''Reserve Order''), the full size of the order will be presented for potential execution in compliance with Regulation NMS and thereafter, unexecuted portions of the order will be processed as a displayed order and a non-displayed order.[4] When a Reserve Order is posted, if there is an execution against the displayed order that causes its size to decrease below a normal unit of trading, a new displayed order will be entered and receive a new timestamp, while the size of the non-displayed order will be reduced by the same amount and will not receive a new timestamp.[5]

The Exchange proposes to amend Equity 4, Section 4703(h) to provide that, if the new displayed order would lock an order that posted to the Nasdaq book before replenishment can occur, the displayed order would post at the locking price if the resting order is non-displayed,[6] or would be repriced, ranked, and displayed at one minimum price increment lower (higher) than the locking price if the resting order to sell (buy) is displayed. The proposed functionality would also apply to a Reserve Order that does not execute fully upon initial order entry, if the displayed order portion of the Reserve Order would lock a resting order upon entry.[7]

According to the Exchange, it established the Reserve Order with the intention that the order would always act as a provider of liquidity upon replenishment, and this is what Exchange participants have come to expect from the operation of Reserve Orders.[8] The Exchange states that the proposal would eliminate any ambiguity under its existing rules as to whether a Reserve Order would take liquidity when a locking order posts to the Nasdaq book prior to the Reserve Order completing its replenishment (or prior to the displayed order portion of the Reserve Order posting to the Nasdaq book for the first time).[9]

**III. Discussion and Commission Findings**

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[10] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[11] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

As discussed above, the proposed rule change is designed to provide that a Reserve Order, after posting on the Nasdaq book, would always act as a liquidity provider upon replenishment of its displayed order portion. The Commission believes that the proposed rule change is reasonably designed to ensure that a Reserve Order would operate similarly during race conditions (*i.e.,* when a locking order posts to the Nasdaq book prior to the Reserve Order completing its replenishment, or prior to the displayed order portion of the Reserve Order posting to the Nasdaq book for the first time) as it would during non-race conditions. The Commission also believes that the proposed rule change would provide the users of Reserve Orders greater certainty and transparency about how the Exchange processes these orders.[12]

Based on the foregoing, the Commission finds that the proposed rule change is consistent with the Act.

**IV. Conclusion**

*It is therefore ordered,* pursuant to Section 19(b)(2) of the Act,[13] that the proposed rule change (SR–NASDAQ–2020–090) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[14]

**J. Matthew DeLesDernier,**
*Assistant Secretary.*
[FR Doc. 2021–03214 Filed 2–17–21; 8:45 am]
**BILLING CODE 8011–01–P**

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 90793 (December 23, 2020), 85 FR 86598 (''Notice'').

[4] *See* Exchange Equity 4, Section 4703(h). *See also* Securities Exchange Act Release No. 90389 (November 10, 2020), 85 FR 73304 (November 17, 2020) (amending Exchange Equity 4, Section 4703(h) relating to Reserve Orders).

[5] *See* Exchange Equity 4, Section 4703(h).

[6] The Exchange states that, if the new displayed order posts to the Nasdaq book and locks a resting non-displayed order with the Trade Now order attribute enabled, then consistent with the definition of Trade Now, the Trade Now functionality would apply and the non-displayed order would be able to execute against the locking displayed order as a liquidity taker. *See* Notice, *supra* note 3, at 86598–99 n.7. If a locked non-displayed order does not have the Trade Now order attribute enabled, then new incoming orders would be eligible to execute against the displayed order. *See id. See also* Exchange Equity 4, Section 4703(m) (describing the Trade Now order attribute).

[7] *See* Notice, *supra* note 3, at 86598 n.6. The Exchange also proposes to correct a non-substantive typographical error in Exchange Equity 4, Section 4703(h).

[8] *See id.* at 86598.

[9] *See id.* at 86599. The Exchange also states that a rule filing from 2016 introduced a rare circumstance where a Reserve Order, upon replenishment of its displayed order portion, theoretically could become a liquidity remover under existing Exchange rules. *See id.* at 86598–89.

[10] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

[11] 15 U.S.C. 78f(b)(5).

[12] The Commission also believes that the correction of the non-substantive typographical error in Exchange Equity 4, Section 4703(h) would improve the readability and clarity of that rule.

[13] 15 U.S.C. 78s(b)(2).

[14] 17 CFR 200.30–3(a)(12).