Nasdaq, BX and PSX Order Functionality Enhancements

The Nasdaq Stock Market (Nasdaq), Nasdaq BX (BX) and Nasdaq PSX (PSX) will begin introducing performance improvements to a number of order functionality it currently supports via INET FIX and RASHport order entry protocols (i.e. Reserves, Pegging, Discretion, Trade Now, Market Maker Peg).

Later this year, the Exchanges will be introducing the aforementioned order functionality via its OUCH order entry protocol, with the goal to streamline functionality across all order entry protocols offered by the Exchanges.

What is changing?

Reserves

- No significant functional changes; will be relatively seamless for customers

Market Maker Peg

- Orders will be accepted and acknowledged at the customer entered limit price. Currently, pegged orders are acknowledged at the first price at which the order is booked on the system.

- Offsets on Market Maker Peg orders will no longer be supported.

Pegging (Primary, Market, Midpoint)

- Non-routable pegged orders will be accepted and acknowledged at the customer entered limit price. Currently, pegged orders are acknowledged at the first price at which the order is booked on the system.

- If there is no available price to which a non-routable pegged order can be pegged, the order will not be posted (i.e. will not be available for execution) on the Nasdaq book and will be (re-) entered once there is an available price. However, if after one second there is still no price to which the order can be pegged, the order will be canceled back to the entering party. Currently, such orders would be either rejected or posted at the pegged order's entered limit price.

- On Nasdaq, non-routable Market On Open (MOO) orders with a pegging instruction received at or after 9:28 a.m. ET will be rejected. Currently, such orders are held and entered into the system after the completion of the Nasdaq Opening Cross.

- On Nasdaq, non-routable Limit On Open (LOO) orders with a pegging instruction received between 9:28 a.m. – 9:29:30 a.m. will be accepted at their limit price, unless its limit price is more aggressive than the 9:28 a.m. reference price or the security's previous day's official closing price, in which case the order will re-price to the more aggressive of the two prices. If received with a non-IOC TIF after 9:29:30 a.m., the order will be treated as Imbalance Only (IO) orders. Currently, such orders received after 9:28 a.m. are held and entered into the system after the completion of the Nasdaq Opening Cross.

Trade Now and Midpoint Trade Now

- Trade Now and Midpoint Trade Now (the latter is currently only available on Nasdaq) will be combined into one (1) Trade Now feature allowing participants to have their resting order execute against contra-side locking or crossing orders (displayed and non-displayed) as a liquidity taker; any remaining shares of the resting order will remain posted, retaining the same order book priority.

- Midpoint orders with the Trade Now feature will be eligible to execute against available M-ELO orders (that have opted into interacting with Continuous Book orders) after the midpoint order has rested on the continuous book for a minimum of 10 milliseconds after the NBBO midpoint falls within the order's limit price.

Discretion

- Upon entry, non-routable discretionary orders will first post onto the book at its entered limit price; thereafter, the discretionary portion of the order becomes active when contra-side shares are available within the discretionary price range and will attempt to execute against such shares on the book (with a size equal to that of the available contra-side shares), with any remaining shares of the discretionary order kept posted on the book. If the discretionary portion of the order is not fully executed after becoming active, the resting portion of the discretionary order will be replaced on the book to its full leaves quantity, receiving a new timestamp.

- Currently, the discretionary order will attempt to execute against any available contra-side shares on the book within its discretionary price range, upon entry; if the discretionary order is not fully executed, any remaining shares of the discretionary order will then post to the book. Once posted, the discretionary portion of the order will become active when shares are available within the discretionary price range, with the whole size of the discretionary order becoming unavailable on the book; any unexecuted shares of the IOC order will then re-post on the book.

What to expect during rollout?

- Nasdaq, BX and PSX will be rolling out each individual feature one-by-one, exchange by exchange, and will notify customers via an Equity Trader Alert when each feature will be migrated to which exchange. Each individual feature rollout may take up to a few weeks to be completely rolled out.

- During the period of time while Nasdaq, BX and PSX is rolling out each individual feature, customers may notice some difference in order handling behavior. For example, PSX is beginning its rollout of pegging (Nasdaq and BX have not started the pegging rollout); one pegged order from Customer A may follow the legacy behavior, while another pegged order from Customer A may follow the new behavior. This is expected until the specific feature has been fully rolled out on the specific exchange.

- Until all rollouts have been completed on a particular exchange (e.g. all individual features have been rolled out), an order entered with more than one of the five order functionality listed above will follow the legacy behavior for each order functionality (e.g. primary pegged order entered with a discretionary price will follow the legacy pegging and discretion order behavior).