NASDAQ OMX®

FREQUENTLY ASKED QUESTIONS

Introduction of Market Maker Peg Order and Discontinuation of Automated Quote Refresh (AQR)

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MARKET MAKER PEG QUESTIONS

What is the Market Maker Peg Order type?
The Market Maker Peg Order is an order type that helps NASDAQ market makers meet their quoting obligations in their registered securities. The Market Maker Peg Order is a one-sided, attributable limit order whose price is automatically adjusted in order to comply with the Exchange's rules regarding market maker quotation requirements and obligations.

Who is eligible to use the Market Maker Peg Order?
All attributable orders, including Market Maker Peg Orders, can only be entered by Market Makers in their registered securities.

Which order entry protocols support the Market Maker Peg Order?
Market Maker Peg Orders are currently supported by the RASH, FIX and QIX order entry protocols. Order entry specifications are available.

At what time can firms enter Market Maker Peg Orders?
Market Maker Peg Orders can be entered beginning at 7:00 a.m., ET.

Will NASDAQ automatically enter a Market Maker Peg Order on my firm's behalf?
No. NASDAQ will not automatically generate Market Maker Peg Orders on behalf of its market makers at any time, including the start of market hours or if a posted Market Maker Peg Order is executed or cancelled.

How is the Market Maker Peg Order priced?
The Market Maker Peg Order is priced to be compliant with the market maker quoting requirements under Rule 4613, and is continuously updated in a similar fashion to the Automated Quote Refresh (AQR) feature currently available to Market Makers. Specifically:

Upon entry and at any time the order exceeds either the Defined Limit* or moves a specified number of percentage points towards the then current National Best Bid or National Best Offer (NBBO), the Market Maker Peg Order will be priced at the Designated Percentage* away from the then current NBBO, or, if no NBBO is available, to the Designated Percentage away from the last reported sale.

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*Refer to NASDAQ Rule 4613(a) for details on Market Maker quoting obligations, including the definitions of "Designated Percentage" and "Defined Limit".

What happens if my Market Maker Peg Order's limit price is less aggressive than the price determined by the Market Maker Peg Order logic?

If a Market Maker Peg Order would be priced by the system at a level that exceeds the order's limit, the Market Maker Peg Order will be cancelled back to the member.

How does the optional "custom offset" work?

Market makers can optionally designate an offset more aggressive (i.e., smaller) than the Designated Percentage for any given Market Maker Peg Order. This functionality will allow a market maker to quote at price levels that are closer to the NBBO if it elects to do so.

Unlike the default Market Maker Peg Order, a Market Maker Peg Order with a custom offset will have its price automatically adjusted on a tick-by-tick basis by the System to maintain the custom offset from the NBBO until the order is executed or cancelled.

Can I enter Market Maker Peg Orders while a security is halted?

If a Market Maker Peg Order would be priced by the system at a level that exceeds the order's limit, the Market Maker Peg Order will be cancelled back to the member.

Will Market Maker Peg Orders entered prior to a security being halted be automatically canceled during the halt?

No, Market Maker Peg Orders already booked prior to the halt will remain on the book and be live when trading resumes in the security. Members may cancel these orders during the halt if they wish. Orders resting on the book during a halt will be eligible for execution in the halt cross at the last pegged price. If unexecuted they would be re-priced if necessary after the re-opening of the security.

Can I enter Market Maker Peg Orders in an IPO security before it opens?

No, Market Maker Peg Orders entered in IPO securities will be rejected until the opening print, including the fifteen minute quoting period. Once the security opens for trading Market Maker Peg Orders will be accepted. Customers wishing to enter attributable interest prior to the opening of an IPO may do so during the quoting period by sending a non- Market Maker Peg Order attributable order.

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What will happen if a Market Maker Peg Order is entered in a security without a last sale or current quote activity?
In the absence of both a consolidated last sale and a NBBO, e.g. for a newly issued spin-off, the system will reject Market Maker Peg Orders.   Like any other order for a new IPO listing on another exchange, Market Maker Peg Orders will be rejected until the first print on the primary exchange.

Can the previous day's price be used as the last sale in the absence of an NBBO?
Yes, if there is no NBBO and the security has not traded on the current day, the Market Maker Peg Order will be priced using the consolidated close (Tape A and B) or NASDAQ Official Closing price (Tape C) as the last sale.

Can I submit a Market Maker Peg Order before the open with instructions to go live at the opening cross and remain open during market hours?
Yes.   Orders submitted prior to the opening cross with an instruction of CrossTradeFlag = 0 (tag 9355) and TIF=DAY will go live in the opening cross and remain open for the duration of the trading day.   Note that orders submitted in this fashion will be priced the designated percentage away from the inside at the time of entry, eligible for execution in the opening cross, and will not be re-priced again until after the opening cross occurs.

Is there any advantage in pricing my Market Maker Peg Order very aggressively?
Firms must realize that in certain low volume stocks, an aggressively priced order could result in an unexpected change to the NBBO.   Consequently, a Market Maker Peg Order with an aggressive limit price will be re-priced from the new NBBO.   Firms should be aware of the prevailing/relevant prices for these symbols and adjust their Market Maker Peg Order limit prices accordingly.

DISCONTINUATION OF AUTOMATED QUOTE REFRESH (AQR) FUNCTIONALITY

When is AQR expected to be discontinued?
NASDAQ plans to discontinue the Automated Quote Refresh (AQR) feature on February 25, 2013.

Why is AQR being discontinued?
Although it has been successful in allowing Exchange market makers to meet their quoting obligations, AQR presents difficulties to market makers in meeting their obligations under

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Rule 15c3-5 under the Act (the "Market Access Rule") and Regulation SHO. Discontinuing AQR will ensure that market makers are solely responsible for entering orders into the exchange and for marking offers in a manner consistent with their obligations under Reg SHO.

The Market Maker Peg Order, because it requires the market maker to enter all orders and mark offers long/short/exempt, is designed to be consistent with Rule 15c3-5 and Reg SHO.

Can my firm begin to transition off of AQR and manage our own quotes?
Yes. Using AQR is no longer mandatory for market makers, and firms can begin to manage their own quotes immediately. Firms can manage their own quotes through the use of Market Maker Peg Orders, other attributable orders, or a combination of the two.

MEETING MARKET MAKER REQUIREMENTS

What are the quoting requirements for Market Makers?
For each NMS security in which an exchange member is registered as a market maker, the member is required to maintain a continuous two-sided trading interest during regular market hours at prices within certain parameters expressed as a percentage reference from the NBBO as applicable (the "Designated Percentage").

Refer to NASDAQ Rule 4613 for details on Market Maker requirements, including the quoting obligations.

Does using the Market Maker Peg Order ensure that my firm has met its Market Maker quoting obligations?
Market Maker Peg Orders are designed to assist firms in complying with their obligations, but a Market Maker is solely responsible for entering, monitoring, and resubmitting, as applicable, quotations that meet the requirements of Rule 4613 and all other Exchange rules and applicable securities laws.

Does my firm have to use the Market Maker Peg Order type to meet its Market Maker quoting requirements?
No. Market makers may use any attributable order type to meet their quoting requirements. The Market Maker Peg Order is designed to assist firms with compliance, but some firms

may opt to meet their quoting obligations by entering and managing attributable quotes using their own systems.

Will NASDAQ generate a Market Maker Peg Order on my firm's behalf to meet our Market Maker obligations?

No. NASDAQ will not automatically generate Market Maker Peg Orders on behalf of its market makers at any time, including the start of market hours or if a posted Market Maker Peg Order is executed or cancelled.

What happens if my Market Maker Peg Order is executed?

If a Market Maker Peg Order is executed, it is the market maker's responsibility to enter another attributable order to re-establish their two-sided quote.

Can my firm meet its Market Maker Obligations using attributable orders submitted via OUCH?

Yes. Any attributable order type, including those sent via the OUCH protocol, can be used by a market maker to meet their market maker quoting obligation.

What trading protocols will a firm be able to use to manage its market maker obligations if they opt not to use the new order type?

Firms can use any NASDAQ protocol to enter attributable interest that satisfies the market maker obligations. This includes continuing to use the quoting functionality through the QIX protocol. Please note that if a firm chooses to not use the new order functionality, but instead opts to use QIX quotes, it must open its quotes every morning and NASDAQ will not provide any additional functionality to help the firm meet its obligations.

Where can I find additional information?

- [Refer to the following NASDAQ rule filings:

    http://nasdaq.cchwallstreet.com/NASDAQ/pdf/nasdaq-filings/2012/SR-NASDAQ-2012-009.pdf

    http://nasdaq.cchwallstreet.com/NASDAQ/pdf/nasdaq-filings/2012/SR-NASDAQ-2012-066_Replacement_Filing_1.pdf

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http://nasdaq.cchwallstreet.com/NASDAQ/pdf/nasdaq-filings/2012/SR-NASDAQ-2012-066_Amendment_1.pdf

- Contact Transaction Services U.S. Market Sales at +1 800 846 0477.