

# BUY-SIDE BULLETIN

The logo for NASDAQ OMX, featuring the text "NASDAQ OMX" in a bold, white, sans-serif font against a dark blue background. The background of the entire header image shows a stylized, futuristic market scene with glowing blue and white light effects and abstract shapes.

## Bringing Investor Confidence Back to the Markets

Throughout 2010, NASDAQ OMX implemented a number of initiatives and took significant steps aimed at bringing confidence back to the markets. The exchange's goal has always been to develop market structure while ensuring a fair and transparent market for investors. Throughout NASDAQ's 40-year history, the exchange has served the trading community not only with thought-leadership but also with economic solutions that maintain the regulatory integrity of the market. NASDAQ OMX continues to develop innovative trading tools and platforms while advocating for investors, market participants and issuers in order to continue providing a leading and efficient marketplace. NASDAQ OMX has been an agent of change in the U.S. equity trading landscape, improving current market structure practices while bringing investor confidence back to the markets.

## The Market Access Rule and the Buy-Side, by Donald Bollerman

On July 14, 2011, market participants will be required to comply with the Securities and Exchange Commission's (SEC) [Rule 15c3-5](#), Risk Controls for Brokers and Dealers with Market Access, which covers all securities traded on an exchange or ATS, including equities, options, exchange-traded funds, debt securities and security-based swaps. In brief, this rule requires broker-dealers with market access to create, document and maintain procedures reasonably designed to ensure compliance with regulatory and financial requirements and limits, on a pre-trade, pre-order entry basis via a system under the exclusive control of the member providing access. Members must adhere to these provisions for Principal and Agency order flow, as well as so-called 'Sponsored Access'. These pre-trade requirements are supported by immediate post-trade surveillance and annual certification by the broker-dealer's CEO.

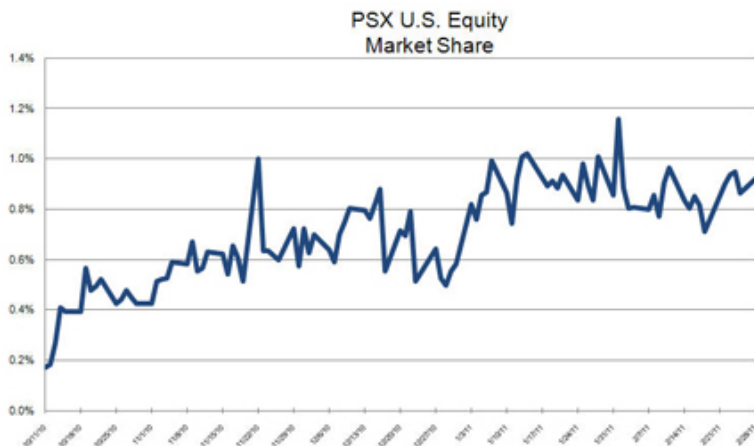
There are a number of reasons an Institution might find this rule and the underpinning concepts of interest. This rule effectively eliminates "naked sponsored access", so any firm accessing the market through the market identifier of a firm other than their own must now expect that order flow to be subject to pre-trade risk systems under the exclusive control of the sponsoring member. Firms who have been accessing the market through such broker risk systems currently can now expect a level playing field in that regard. Also, the work that will go into ensuring compliance with this rule will increase the cognizance and control of broker systems immediately prior to submission of orders into market center systems, increasing the communication of risk protections or trading decisions designed to promote the health of the market, and encourage investor confidence.

Specifically of interest, the Market Access Rule requires that brokers and dealers providing market access perform certain checks, especially around capital, credit and financial risk thresholds, for each customer in aggregate. This arguably increases the discrete visibility of buy-side firms' order flow to the broker systems responsible for submitting them to the market for execution, which may facilitate more meaningful and standardized reporting to the buy-side about their order routing and executions.

This rule, and others currently proposed such as the SEC's Consolidated Audit Trail (CAT) proposal offer opportunities to improve transparencies, controls and security to the institutional market participant. Such benefits will not deliver themselves, however. Firms should consider what aspects of their market participation might realize benefits related to new rule making and be sure to have their voice heard in the rule making process at the SEC, as well as discussing the implementation process with their broker/dealers, vendors, and the exchange community.

## Are You Able to Route to this Unique Model?

[NASDAQ OMX PSX \(PSX\)](#) is the only price/size priority exchange for trading U.S. equities. PSX rewards participants for displaying larger order sizes — no matter who is there first, the order with the most displayed shares at a given price level will get the largest allocation. PSX has been consistently trading at or near 1% in 2011, after trading a record 1.16% consolidated U.S. equity market share on February 1st.



Don't miss out on this new, innovative market model. Contact your broker or market access provider today to make sure they are connected and ensure their functionality allows you to route to the PSX platform. To learn more about how this innovative market model works, check out the [PSX Trade Simulator](#) on the NASDAQ OMX Trader website.

## Reg SHO Update

The Securities and Exchange Commission (SEC) [amendments to Regulation SHO](#) became effective on February 28, 2011. Among the rule changes, the SEC is introducing a short sale-related circuit breaker that, when triggered, will impose a restriction on prices at which securities may be sold short.

Included in these amendments is Rule 201, the Alternative Uptick Rule. In accordance with this rule, The NASDAQ Stock Market (NASDAQ), NASDAQ OMX BX (BX) and NASDAQ OMX PSX (PSX) have made changes to systematically prevent the execution or display of a short sale order with respect to a covered security at a price that is less than or equal to the current national best bid if the price of that security decreases by 10% or more, as determined by the listing market for the security, from the security's closing price on the listing market as of the end of regular trading hours on the prior day.

If the Short Sale Price Test is triggered, the Short Sale Price Test shall remain in effect until the close of trading on the next trading day, as provided for in Regulation SHO Rule 201(b)(ii). Once the Securities Information Processor (SIP) indicates that a short sale circuit breaker is in effect, short sale orders that are priced at the national best bid or lower and short sale market orders will be re-priced to one minimum allowable price increment above the national best bid. To reflect changes in the national best bid, our U.S. equities exchanges will continue to re-price a short sale order at the lowest Permitted Price down to the order's original limit price, or if a market order, until the order is filled.

With regards to the open and closing crosses, NASDAQ will use the National Best Bid at the time of the cross to determine eligibility of short sale orders in the cross, while continuing to use the NASDAQ best bid and offer (QBBO) to determine the actual auction price. For resumption of trading after a halt or pause for stocks in a Reg SHO restriction, the last national best bid prior to the trading halt or pause will be used as the reference price. Any short sales entered into the halt cross will be re-priced to one minimum allowable price increment above

this price. If the auction price is at or below the last national best bid prior to the halt, short sale orders will not participate in the cross.

For additional information, please refer to the [Reg SHO page](#) and [Reg SHO FAQs](#) on the NASDAQ OMX Trader website. I also encourage you to sign up to receive short sale circuit breaker alerts by submitting the [enrollment form](#) on our website.

### PHLX Enhances its Complex Order System

On **Tuesday, February 1, 2011**, NASDAQ OMX PHLX (PHLX) implemented enhancements to its Complex Order system, including functionality that allows up to six options legs and stock-tied orders, and the ability to enter a Do Not Auction (DNA) order which bypasses auctions for faster execution. Operating on the high-speed PHLX XL trading platform, the system enhances electronic execution possibilities for Complex Orders, providing spread price protection and the potential for price improvement. Real-time order information on Complex Orders is available via the TOPO Plus Orders data product.

### NASDAQ OMX Introduces New Way to Track Company Performance

In late 2010, NASDAQ OMX launched the NASDAQ OMX Alpha Indexes. This family of innovative, proprietary indexes tracks the relative total return of a selected stock ("Target Component") against a leading ETF ("Benchmark Component"). NASDAQ OMX will announce the availability of Alpha Index Options in 2011, pending SEC approval, which allows you to trade on the relative outperformance or underperformance of the Target Component without being subject to overall market direction.

As an example, the NASDAQ OMX Alpha AAPL vs. SPY Index (AVSPY) tracks Apple Inc.'s performance as it compares to a very common proxy for the market as a whole, the S&P 500 (represented by the ETF "SPY"). To illustrate this example, let's say that in April 2010, an investor believed that AAPL was going to outperform the market over the next few months. To trade on this theory, the investor builds a long position via call options on the AAPL vs. SPY Alpha Index. During the next month, May 2010, the public's confidence in the market wavers due to the events of May 6, and the market as a whole declines including AAPL. However, by June 30, AAPL's decline is much less than that of SPY, and therefore the AAPL vs. SPY Alpha Index has experienced gains over the same time period. The investor has captured alpha – or positive returns on his position - as his prediction — that AAPL would outperform SPY — was correct, despite the fact that the AAPL price itself declined.

NASDAQ OMX is very excited about this new index family and the imminent launch of the index options. Visit the [Alpha Index page](#) on the NASDAQ OMX Trader website to view available pairs and for more information.

### Chief Economist Monthly Report

#### Chief Economist Monthly Report

Frank Hatheway, NASDAQ OMX Chief Economist, recently published a [monthly report](#) highlighting the economic data we believe is driving both positive and challenging trends in our economy. I hope you find this month's installment interesting and helpful.

### Buy-Side Event: San Francisco, March 22nd

#### Do you live in the San Francisco Bay Area?

If so, join us on Tuesday, March 22<sup>nd</sup> for a Buy-Side Only Discussion on  
"The Evolving State of Market Quality"

[View Full Invitation](#)

Contact [Mary McDermott-Holland](#) at +1 212 401 8922 with any questions.

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