

BUY-SIDE BULLETIN

NASDAQ OMX

Introduction

This issue of the Buy-Side Bulletin marks just over one year since May 6, 2010. In the 12 months since that volatile day in the markets, investor confidence has come a long way on its road to recovery. While NASDAQ OMX is pleased to see confidence returning to the markets, the exchange will continue 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.

Expansion of Current Single Stock Circuit Breakers and Limit Up/Limit Down Proposal

NASDAQ in conjunction with the other U.S. stock exchanges has proposed an expansion to the single stock circuit breakers which were put into effect in June, 2010. Under this plan, stocks and exchange-traded funds priced at or above \$1 that are not currently part of the circuit-breaker program would experience trading halts following moves of 30% or more in a five-minute period. Stocks and exchange-traded funds priced below \$1 would experience trading halts following moves of 50% or more in a five-minute period. This plan is being proposed while the industry reviews the current Limit Up/Limit Down proposal from the SEC.

The "limit up/limit down" system, which would replace the current single stock circuit-breaker plan was proposed on April 5, 2011. This proposal would prevent trading in a stock from occurring outside set price bands. Under the plan, the share prices of stocks currently covered by the circuit-breaker program wouldn't be permitted to move by more than 5% above or below the average share price in the preceding five minutes. To accommodate more fundamental price moves, there would be a five-minute trading pause — similar to the pause triggered by the current circuit breakers — if trading is unable to occur within the price band for more than 15 seconds.

If approved by the Commission, the new limit up-limit down mechanism would replace the existing single stock circuit breakers. The SEC is seeking comments on the proposed plan, which is subject to Commission approval.

Additional Information:

- <http://www.sec.gov/rules/sro/nasdaq/2011/34-64174.pdf>
- <http://www.sec.gov/rules/sro/nasdaq/2011/34-64426.pdf>
- [Limit up/limit down Examples](#)

Alpha Index Options Now Available

In April and May of 2011, NASDAQ OMX launched the first seven [Alpha Index Options](#), which capture single stock performance regardless of whether the broader market is heading up or down.

Here are a few reasons why you don't want to miss out on this new offering:

- Currently, there is no way to trade "alpha" on a stock without incorporating market returns. With Alpha Index Options, accurately selecting a stock that outperforms the market benefits an investor despite a market selloff.
- [Research](#) by Robert E. Whaley and Jacob S. Sagi of Vanderbilt University shows a need for this type of "relative performance index." Whaley is the creator of the CBOE VIX and helped NASDAQ OMX bring the Alpha series to market.

- Alpha Options utilize [standard option margins](#), multipliers and expiration dates and can easily be incorporated into your trading strategy.

NASDAQ Closing Cross

On Friday, April 29, 2011, NASDAQ OMX executed a Special Rebalance for the NASDAQ-100 Index in order to bring the weights of the Index Securities closer in line with their actual market capitalizations. The underlying characteristics of the NASDAQ-100 remain intact and the sector weights remain in the same relative order and magnitude.

The NASDAQ Closing Cross established the NASDAQ Official Closing Prices (NOCP) of the NASDAQ-100 Index (NDX) securities for use in the NDX Special Rebalance. The Closing Cross processed:

- 329.21 million shares
- Within 0.779 seconds
- \$12.7 billion notional value

On June 24, 2011, the award-winning NASDAQ Closing Cross will be utilized by Russell Investments as the preferred price discovery mechanism for the annual Russell Reconstitution. Last year, the NASDAQ Closing Cross set a record for the seventh year as it was used to reconfigure the entire family of U.S. Russell indexes during their annual reconstitution. A record 1.04 billion shares representing \$11.2 billion were executed in the Closing Cross in 0.855 seconds across some 2,065 NASDAQ-listed stocks.

Learn more about the [Russell Reconstitution](#).

Record-breaking month on PSX

April was a record-setting month for [NASDAQ OMX PSX \(PSX\)](#) — the only price/size exchange for trading U.S. equities. The trend has continued with a record 1.32% market share in the first week of May.

PSX is trading nearly three times as much volume as it was in October 2010. Since October, the average order size on PSX has grown 16.6% and the average execution size has grown 45.4%.

Driving this growth has been trading of Tape B securities. On May 6, 2011, PSX traded a record 2.61% of all Tape B securities.



PSX is the only venue where orders with the largest displayed size are rewarded with the highest allocation of shares at a given price level. Worried about information leakage? You don't have to send the largest order on the street, just an order that has the most displayed shares on PSX. Make sure your broker and algo providers are connected to this innovative marketplace.

PSX Partnership Program

NASDAQ OMX will soon launch the [PSX Partnership Program](#). As part of this program, NASDAQ OMX will provide visibility opportunities for our PSX Partners — firms that offer the ability to post liquidity on PSX. We want to make sure that anyone who wants to add liquidity to this unique and growing venue knows exactly who can provide them with access.

After six months of operation, NASDAQ OMX PSX (PSX) — the first and only price/size exchange for trading U.S. equities — is consistently trading more than 1% of the U.S. equity market. In fact, PSX traded a record 1.10% U.S. equities for the month of April and a record 1.46% U.S. equities on May 6th.

Both sell-side broker/dealers and buy-side institutions have been integral to the success of this new market. In order to ensure that every firm has access to PSX — and knows where to obtain that access — we are introducing the PSX Partnership Program.

Through this program, NASDAQ OMX will provide visibility benefits to firms that offer the ability to post liquidity on PSX — our “PSX Partners.” These benefits include advertising on the NASDAQ MarketSite tower in Times Square, videos with senior executives, web and trade show visibility as well as co-branded collateral and communications.

NASDAQ Data-On-Demand: Cut Costs, Simplify Analysis with Level 1 Mass Download

Winner of the 2011 IMD Award for Most Innovative Data Project (Vendor)!

[NASDAQ Data-On-Demand](#) provides easy and flexible access to large amounts of high-quality historical Level 1 data for NASDAQ-, NYSE-, OTC Bulletin Board (OTCBB), OTC Markets and other regional-listed securities.

In April, NASDAQ OMX introduced the new [NASDAQ Data-On-Demand Premier](#) subscription level, which allows you to download an unlimited amount of historical Level 1 UTP and CTA data. This helps alleviate the need to monitor usage for firms/users who require large sets of historical stock market prices, stock market quotes or any additional analytics such as VWAP or EOD data.

Premier subscribers also receive complimentary access to Mass Download functionality, allowing for large batch download requests and even recurring nightly reports that automatically download as soon as data is available. With Data-On-Demand, users can:

- Lower their costs of storing and consuming Level 1 data
- Significantly reduce their costs for storing Level 1 data internally as Data-On-Demand acts as an outsourced, back-up solution
- Validate historical data for compliance or legal purposes
- Automate the back-testing of trading algorithms
- Load data in to their database prior to the next trading day for data modeling
- Simplify bulk data and growth impediments to data infrastructure while increasing technical transparency

NASDAQ OMX Creates a Direct Relationship with Firms for Delivery of Index Weightings Data

Effective close of business on **Friday, April 1, 2011**, NASDAQ OMX modified its data delivery and access policies related to index weightings data to conform to industry standards. NASDAQ OMX now requires firms to establish a direct relationship with NASDAQ OMX for the receipt and use of index weightings information.

This helps create a better relationship with firms that are actively using the data. Additionally, this direct contact with firms helps ensure they are part of the index content development process by allowing them to provide direct feedback about the content and delivery of NASDAQ OMX index data.

This change has simplified pricing and reporting requirements while also expanding information available through NASDAQ OMX Global Index Watch (GIW). Customers are charged on a per firm basis, rather than per user, which allows unlimited distribution inside a firm (and affiliated firms) as well as the elimination of per user reporting.

Within the next several years, the industry will see a tremendous increase in the number and type of indexes from NASDAQ OMX. We are committed to delivering the most value to our constituents and help drive that value to our customers through our products.

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.

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