



**W**elcome to the NASDAQ OMX options newsletter, "The Covered Call." Over the past year, NASDAQ OMX has made significant strides to expand into options trading in the U.S. by launching The NASDAQ Options Market in March and completing the purchase of The Philadelphia Stock Exchange in July. As we continue to develop our options markets, we plan to use this newsletter to update members and participants on new initiatives and changes within The NASDAQ Options Market and NASDAQ OMX PHLX.

In 2009, NASDAQ OMX will continue to grow with its members and the industry by constantly evaluating ways to enhance technology, add functionality and offer innovative pricing. You will find new information regarding all three of these areas below.

We hope this newsletter serves as a valuable resource to our options participants. I welcome any feedback you may have pertaining to this newsletter or our options markets in general.

Sincerely,

Adam Nunes  
 Head of NASDAQ OMX U.S. Options  
 +1 212 401 8922  
 Adam.Nunes@nasdaqomx.com

Select Options Trading On  
 The NASDAQ Options Market and PHLX

## MILESTONES

### NASDAQ OMX NAMED FORBES "COMPANY OF THE YEAR"

NASDAQ OMX was named "**Company of the Year**" in the January 12, 2009, edition of *Forbes Magazine*. After a busy year of mergers, acquisitions and organic launches – including The NASDAQ Options Market and NASDAQ OMX PHLX – NASDAQ OMX was recognized as playing the "trading game better than anybody" by *Forbes* writer Daniel Fisher.

Underlying	The NASDAQ Options Market Percentage	NASDAQ OMX PHLX Percentage
SPY	9.24%	10.13%
QQQQ	5.64%	15.52%
GS	2.40%	28.91%
AAPL	5.11%	10.94%
JPM	2.11%	13.83%
GOOG	4.39%	35.78%
RIMM	3.44%	21.40%
XOM	3.26%	18.55%
DIA	4.64%	25.34%
XLE	2.95%	19.38%

## MARKET SHARE CONTINUES TO GROW

NASDAQ OMX PHLX (PHLX) continues to thrive in the options arena, trading 17.16% of U.S. Equity Options volume in February. The NASDAQ Options Market also continues to grow its market share, trading 3.4% of the U.S. Equity Options volume on February 12<sup>th</sup>. Our fast and efficient technology, combined with our expertise in the penny environment, has led to tremendous growth in less than a year of operation. Combined, PHLX and The NASDAQ Options Market captured 19.78% of the U.S. options market share in February 2009.

## FOCUS ON FUNCTIONALITY

### TECHNOLOGY UPGRADE: RE-PLATFORMING NASDAQ OMX PHLX

In April 2009, PHLX plans to launch **XL II**, a new version of the PHLX XL system that will be re-platformed using INET technology, pending SEC approval. XL II will maintain current PHLX XL functionality such as directed order flow, and will include the following enhancements:

- **Opening Process** – The enhanced opening process will provide more robust price discovery and protection by examining the OPRA NBBO before opening an option. PHLX will route to other exchanges, if necessary, when opening an option for trading.
- **Routing** – PHLX XL II will have three routing strategies:
  - FIND will route an order upon receipt (after checking the PHLX book) if the order is marketable.
  - Search (SRCH) will route an order upon receipt if marketable and will also re-route an order if it is locked or crossed by another exchange.
  - Customers will also have the ability to designate an order as Do Not Route (DNR).
- **Improved order and quote handling** – The new system will introduce improved functionality in situations where quotes or an entire side of the market is exhausted in order to better protect customer orders.

PHLX plans to begin the migration from the current system to the XL II system in early April and complete the rollout by the end of June 2009. For more information on the re-platforming effort, refer to the [XL II FAQs](#).

## HYBRID TRADING FOR FLEXIBILITY

In 2008, PHLX launched its Complex Order System, a feature that enhances the electronic execution possibilities for complex orders. The system provides NBBO protection, spread price protection for vertical and time spreads, and the potential for price improvement. This system provides one of the most versatile venues for trading complex orders by combining electronic trading with floor-based trading.

### PRICE IMPROVING ORDERS ON THE NASDAQ OPTIONS MARKET

On The NASDAQ Options Market, Price Improving Orders are orders entered in penny increments for options where the Minimum Price Variation (MPV) is five or ten cents.

These orders receive a higher rebate when they provide liquidity and allow participants to more accurately

reflect their interest. The NASDAQ Options Market's unmatched speed of execution also allows participants to quickly probe the market for a price improved order.

In February, 19.4% of contracts eligible for price improvement received an average of \$2.55 per contract in price improvement.

### EXCHANGE DIRECT ORDERS

The NASDAQ Options Market recently filed with the SEC to offer customers a new order type called Exchange Direct Orders. These orders allow the entering party to direct orders to exchanges other than The NASDAQ Options Market without checking our book first. This will allow customers to access other markets directly and quickly using NASDAQ OMX's advanced routing technology.

### NEW WAIT ORDER DESIGNATION

Participants of The NASDAQ Options Market can mark their orders with a strategy of "WAIT." Once an order is received with the WAIT designation, it will be held for one second before being entered into the trading system. Firms can use the WAIT order designation to help manage the exposure requirements.

## NEW WAIT ORDER DESIGNATION (CONTINUED)

Firms must expose customer orders for one second before trading against them, as described in The NASDAQ Stock Market rules. Firms can use the new WAIT order type to facilitate this exposure period. The firm can enter both the customer order and the firm/market maker order separately and simultaneously and mark the firm/market maker order as a WAIT order. The system will hold the firm/market maker order for one second before sending it to the matching engine. If the customer order is not already executed and there are no other orders with higher priority, the firm/market maker order will execute against the customer order.

## RESERVE ON THE NASDAQ OPTIONS MARKET

Reserve orders display a portion of the order and post the remaining portion as non-displayed interest on the limit order book. The display size is designated by the entering party.

## ROUTING ON THE NASDAQ OPTIONS MARKET

The NASDAQ Options Market participants can designate orders to route if NASDAQ does not have the best price available. If, upon entry, the order is not completely filled, it will be posted on the order limit book. Once posted, the order will not route again. If a firm does not want an order to be routed, to the firm should designate the order as “Do Not Route.”

## MINIMUM ACCEPTABLE QUANTITY (MAQ) ON THE NASDAQ OPTIONS MARKET

The Minimum Acceptable Quantity order allows users to designate a minimum execution size on the order. If less than the specified size would be executed, the order is cancelled back to the entering party without executing (can only be used with a Time-In-Force of Immediate or Cancel).

## TAKE ADVANTAGE OF COMPETITIVE PRICING

### THE NASDAQ OPTIONS MARKET INCENTIVE PRICING

The NASDAQ Options Market has changed pricing to encourage customer orders to access liquidity. In options on **13 underlying securities** – QQQQ, DIA, SPY, IWM, AAPL, BAC, C, GS, JPM, RIMM, XLE, XLF and XOM – The NASDAQ Options Market no longer charges a fee to access liquidity for Customer orders. Customers will still be rebated \$0.30 per executed contract for liquidity provided in these and all other options, with a rebate of \$0.35 when the liquidity is provided using a price-improving order. Participants accessing liquidity on The NASDAQ Options Market are also eligible to receive price improvement.

Based on February volume, the rate of price improvement for eligible contract volume on these options was:

Option	Percentage Improved
AAPL	22%
BAC	20%
C	23%
DIA	22%
GS	39%
IWM	12%
JPM	22%
RIMM	24%
SPY	25%
XLE	8%
XLF	16%
XOM	18%

### CUSTOMERS PAY NO PREMIUM PRODUCT FEES ON ETF AND HOLDRS OPTIONS TRADED ON PHLX

When trading on PHLX, customers can benefit from free options trading in ETFs and HOLDRS. Customer orders are not charged a transaction fee for any ETF or HOLDRS options traded on PHLX. While other exchanges refer to these same products as “premium” and charge customer orders up to \$0.18/contract, PHLX helps customers save money, which could have a tremendous impact on your bottom line.

## TRADE FOR FREE ON THE PHLX COMPLEX ORDER BOOK

PHLX continues to charge customers no fees for participation in the Complex Order Book. Some other exchanges charge for certain customer complex executions.

## NEW OPTION PRODUCTS

### TRACK THE GOVERNMENT'S INVESTMENTS WITH QVG

On January 26<sup>th</sup>, The NASDAQ OMX Group began options trading on the NASDAQ OMX Government Relief Index (QGRI). The NASDAQ OMX Government Relief Index Option (QVG) is now trading on PHLX to allow investors to track the performance of U.S.-listed securities that are participating in U.S. government relief programs such as the Troubled Asset Relief Program (TARP) or other direct government investments.

### TOP-OF-PHLX-OPTIONS DATA FEED

In conjunction with the PHLX re-platforming, NASDAQ OMX plans to offer several data feeds. Top-Of-PHLX-Options is the first proposed data feed for the PHLX XL II system. The feed will include the same Best Bid and Offer (BBO) and last sale information currently sent to the Options Price Reporting Authority (OPRA). Sent directly to subscribers, this Top-Of-PHLX-Options feed will give firms a competitive advantage by offering minimal latencies.

## REGULATION AND COMPLIANCE

### EXPOSURE PERIOD REDUCED TO ONE SECOND

The NASDAQ Options Market received approval from the SEC to reduce the order exposure period from three seconds to one second. Per The NASDAQ Options Market rules, a customer order must be exposed to the market before a firm can execute against that customer order. The time that a firm must wait before executing against a customer order is now reduced to one second.

### IMPROVED OBVIOUS ERROR RULES

In December 2008, NASDAQ OMX filed with the SEC for immediate approval to modify the **Clearly Erroneous Policy** for execution on The NASDAQ Options Market. This rule change is consistent with other market centers by extending the time period for a participant to file a clearly erroneous report from 15 minutes to 20 minutes. The change also added a provision for Catastrophic Errors, which have an even longer filing period.

### COMPARE MARKET PERFORMANCE WITH UNIFORM QUALITY OF EXECUTION REPORTS

The NASDAQ Options Market and PHLX have worked in conjunction with the SIFMA Options Committee and all the other exchanges to adopt a uniform Quality of Execution report. Reports for PHLX are available for the last quarter of 2008 on the **NASDAQ OMX Trader website**. Reports for The NASDAQ Options Market will be coming soon.

## MORE INFORMATION

---

For more information about The NASDAQ Options Market or NASDAQ OMX PHLX, visit the **NASDAQ OMX Trader website** or contact **U.S. Transaction Services Market Sales** at +1 800 846 0477.