



Regulation NMS continues to create many challenges for the trading industry ... NASDAQ is leading the way in helping firms fulfill their obligations.

CONNECTING TO ALL MARKET CENTERS

Because NASDAQ® uses direct linkages to access the major liquidity pools, we offer connection to any market center that has a Reg NMS quote offering better speed and fill rates.

With NASDAQ Execution Services, NASDAQ's broker-dealer, we have all the necessary member trading privileges, allowing for instantaneous routing and executions. By taking advantage of our exchange memberships, customers can save on membership fees, routing costs and connectivity fees — and you can access all market centers through your existing NASDAQ connections.

CHOOSE NASDAQ'S ROUTER: THE MOST EFFICIENT WAY TO SWEEP

When you use NASDAQ's router to sweep, you can feel comfortable that you are getting best execution for your customer orders.

- Orders are executed, posted or routed to all major market centers immediately.
- With NASDAQ's broker-dealer, NASDAQ Execution Services, NASDAQ has all necessary member trading privileges, allowing for instantaneous routing and executions.
- With customer orders, firms need to be more conscious of the routing decisions they make — NASDAQ's router was created with best ex obligations in mind.

SEC REG NMS PHASED-IN TIMELINE

The published Securities and Exchange Commission (SEC) compliance dates for Rules 610 and 611 consist of five milestones:

- ✓ **October 16, 2006:** Publication of trading system technical specifications for trading centers that intend to utilize trade-through protection under Rule 611 during the Pilot Stocks Phase (July 9-August 20, 2007) and the All Stocks Phase (August 20-October 8, 2007).
- ✓ **March 5, 2007:** Full operation of trading centers that intend to utilize trade-through protection under Rule 611 during the Pilot Stocks Phase (July 9-August 20, 2007) and the All Stocks Phase (August 20-October 8, 2007).
- ✓ **July 9, 2007:** Start of full industry compliance with Rules 610 and 611 beginning with 250 National Market System (NMS) stocks (100 New York Stock Exchange stocks, 100 NASDAQ stocks and 50 American Stock Exchange stocks).
- ✓ **August 20, 2007:** Start of full industry compliance with Rules 610 and 611 for remaining NMS stocks.
- ✓ **October 8, 2007:** Completion of phased-in compliance for Rules 610 and 611.

REGULATION NMS PREPAREDNESS

NASDAQ ORDER TYPES AND ROUTING STRATEGIES

All of our routing strategies (such as STGY and SCAN) and order types are Reg NMS compliant. NASDAQ has created new order types to help customers trade in a post-Reg NMS world:

InterMarket Sweep Order (ISO)

This order indicates that the order has already checked all other protected quotes before coming to NASDAQ. It trades on NASDAQ and does not route out to external markets.

NASDAQ-Only Order (Price-to-Comply Order)

This order complies with the Reg NMS Order Protection Rule and Locked and Crossed Market Rule by re-pricing and converting into a non-displayed order. Buy orders are priced at the inside offer and sell orders are priced at the inside bid. If the market moves, the order is re-priced to the new inside. In addition, if the market moves such that the display of the original entered price would not result in a locked market, the order is displayed at its original entered price.¹

MOPP Order

This order routes to all protected quotes for display size only. Depending on the time in force on the order, the remaining shares will be posted to the NASDAQ book or canceled back to the entering party. Firms can use the MOPP Order to sweep all protected quotes prior to trade reporting to the FINRA/NASDAQ Trade Reporting Facility™ (TRF).

PROVIDING FUNCTIONALITY TO HELP FIRMS WITH COMPLIANCE

NASDAQ provides functionality to assist firms remain in compliance when reporting trades to the FINRA/NASDAQ Trade Reporting Facility (TRF). For example, NASDAQ offers Directed ISO orders that route directly to another market center without checking the NASDAQ book. It can be directed to any protected quote so that firms have access to all protected quotes prior to trade reporting.

KEEP YOUR CURRENT CONNECTIVITY

The NASDAQ execution system supports all of the following protocols : OUCH, RASHport, CTCL, QIX and all versions of FIX, i.e., NASDAQ, INET and Brut. NASDAQ also supports the following front-end interfaces: the NASDAQ Workstation, WeblinkACT 2.0 and NASDAQ VTE.

Even though all these connectivity options and protocols are supported, customers receive the shortest latency by connecting directly to the INET (integrated) system, including all natively implemented NASDAQ protocols.

¹ Orders entered via OUCH will be re-priced upon entry if necessary, but will not continue to re-price as the market moves. However, firms may configure their OUCH ports such that if an order would be re-priced more aggressively, it will be canceled back to the firm.

REG RECON – NASDAQ’S REGULATION NMS COMPLIANCE TOOL

Reg Recon is a real-time surveillance alert and report module that assists firms with compliance. This module is available as an add-on to the NASDAQ Workstation® and WeblinkACT 2.0. Reg Recon provides real-time warnings that notify firms of:

- Potential FINRA/NASDAQ TRF trade-through violations
- Percentage of potential trade-throughs marked as ISOs
- Potential Clearly Erroneous Trades executed on the NASDAQ Exchange

Using the Reg Recon Clearly Erroneous Trade Viewer, firms can see if they have any trades which they would like to send for review. And users now have the ability to electronically file requests with NASDAQ MarketWatch.

Symbol	Side	Price	Qty	Quotes	TRS	Modifier	TT Exempt	Time	Control #	I112
ZVZ2T	S	\$51.0000	100	3 sec TRS	U	@	N	10:24:00	0999019693	10F2
ZVZ2T	S	\$51.0000	100	3 sec TRS	U	@F	Y	10:24:00	099901950F	10F2
ZVZ2T	S	\$51.0000	100	3 sec TRS	U	@	N	10:24:00	099901951B	10F2
ZVZ2T	S	\$311.0000	100	3 sec TRS	U	@4Z	Y	10:19:00	0999017D96	10F2
ZVZ2T	S	\$311.0000	100	3 sec TRS	U	@Z	N	10:19:00	0995017C82	10F2
ZVZ2T	S	\$314.0000	100	3 sec TRS	U	@	N	10:19:00	0997017870	10F2

▶ Potential trade throughs marked “Trade Through Exempt” are highlighted in green.

▶ Potential trade throughs NOT marked “Trade Through Exempt” are highlighted in red.

Warning section of Reg Recon Window on the NASDAQ Workstation

Reg NMS Warnings

- Warnings for FINRA/NASDAQ TRF trades that are potential trade-throughs.
 - Alerts of potential trade-through violations across all NASDAQ systems regardless of which system was used to enter the trades.
 - All warnings include a Time and Sales pop-up to show firms which quotes they potentially traded through.
- NASDAQ Self-Help declarations/revocations.
- Enhanced T+1 Reports
 - Reg Recon conducts an after-hours replay of the day that compares the FINRA/NASDAQ TRF trades against the SIP NBBOs to show customers any adds/deletes that resulted from those trades. Replay is shown in the “Update” column.

Pricing

Reg Recon is available as an add-on product to the NASDAQ Workstation or WeblinkACT 2.0 for \$1,000 per month, per MPID.

More Information

For more information please contact Stacie Swanstrom at 301.978.8101 or to order please contact Subscriber Services at 212.231.5180.

THE FINRA/NASDAQ TRADE REPORTING FACILITY (TRF)

Firms already connected to ACT technology do not need to do anything to connect to the FINRA/NASDAQ TRF.

Therefore, there are no new technology costs, regulatory build-out costs or data capture costs. Customers can enter, update or cancel internalized trades the way they always have, without spending an extra penny.

Under Reg NMS, firms will need to comply with Rule 611, the trade-through rule, and report trades in accordance with FINRA rules and guidance. NASDAQ has enhanced its ACT technology to offer firms the flexibility they need to accurately reflect any eligible Reg NMS trade-through exemptions in compliance with FINRA trade reporting rules and guidance on broker obligation under Reg NMS.

IMPORTANT DATES FOR THE ACT SYSTEM AND THE FINRA/NASDAQ TRF

- ✓ March 5, 2007: NASDAQ's Reg NMS message formats and functionality became available in production for the CTCL protocol for trade reporting to the FINRA/NASDAQ TRF. NASDAQ continues to support pre-Reg NMS message formats and functionality.
- ✓ May 7, 2007: NASDAQ discontinued support of the pre-Reg NMS message formats and functionality.
- ✓ July 9, 2007: Brokers' obligation to observe Rule 611 begins.

MORE INFORMATION

- To learn more about NASDAQ or Regulation NMS, please contact NASDAQ Market Sales at 800.846.0477 or sales@nasdaqomx.com.
- For questions on trade reporting, please contact NASDAQ Market Operations at 212.231.5100.
- To learn more about Reg Recon, contact Stacie Swanstrom at 301.978.8101 or stacie.swanstrom@nasdaqomx.com, or visit www.NASDAQTrader/nnw.
- Refer to the Reg NMS Page on the NASDAQ Trader[®] website at www.NASDAQTrader.com/regnms.
- Visit the Reg NMS FAQs on the SEC website regarding Rules 610 and 611 at <http://www.sec.gov/divisions/marketreg/nmsfaq2.htm>.

Please Note: Some aspects of NASDAQ assume that firms are complying with their own obligations under Regulation NMS. If you have questions regarding those obligations, please contact the SEC directly.