

## NASDAQ OMX Announces its Intent to Launch the NASDAQ Clearing Corporation



**Please Route To:** Head Traders; Technical Contacts; Compliance Officers; Clearing Contacts

### What you need to know:

- As announced in [Head Trader Alert #2008-092](#), NASDAQ OMX completed its acquisition of the Boston Stock Exchange on August 29, 2008.
- With this purchase, NASDAQ OMX has obtained the Boston Stock Exchange Clearing Corporation (BSECC), a registered clearing agency, which NASDAQ OMX plans to rename NASDAQ Clearing Corporation (NCC).
- NASDAQ intends to operate NCC as an equities clearing agency in 2009 to guarantee trades, act as a Central Counter-Party (CCP) and to provide Continuous Net Settlement (CNS).

### Who you should contact:

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## How will NASDAQ OMX enter the U.S. Equities Clearing and Settlement space?

NASDAQ OMX<sup>SM</sup> intends to:

- Rename the Boston Stock Exchange Clearing Corporation (BSECC) as the NASDAQ Clearing Corporation (NCC).
- File updated rules with the Securities and Exchange Commission (SEC) to operate NCC as an equities clearing agency in 2009 to:
  - Provide Perpetual Continuous Net Settlement (CNS)
  - Act as a Central Counter-Party (CCP) and guarantee trades
  - Link to DTC and Settling Banks

The NASDAQ Clearing Corporation will be committed to:

- Providing the highest integrity and efficiency in processing
- Exercising the utmost control in the management of risk
- Improving the experience in U.S. equity trading for all participants, from investors to the members.

## Why is NASDAQ OMX entering the clearing business?

NASDAQ OMX believes strongly in the value of competition to the health of securities markets, financial industries and their ancillaries from trading to post trade, reporting and clearing to regulation, reporting and responding.

Regarding the clearing agency space, NASDAQ OMX supports the position presented in the Report of the House Committee on Interstate and Foreign Commerce, Securities Acts Amendments of 1975:

**Report to Accompany H.R. 4111, Report No. 123, 94th Cong., 1st Sess. 51 (1975)**

“It should be made clear that the statutory charge to develop a unified system for the clearance and settlement of securities transactions does not carry with it the call — nor does it grant the authority — to eliminate competition among separate entities in the performance of these functions.

Many of the innovations and improvements in clearance and settlement of the last several years have been the product of vigorous and healthy competition among different service entities. Often new market entrants have been responsible for the most significant advances.

The Committee believes, therefore, that a national system, though fully integrated, must make full allowance for the continuance and future entry of separate service entities.”

**What are NASDAQ OMX’s goals for the NASDAQ Clearing Corporation?**

NASDAQ OMX intends to lower the total cost of trading by driving efficiencies in U.S. equities clearance and settlement.

- Clearing costs impact total cost of trading.
- Today’s single agency model has no competition to drive cost efficiency.
- Competition lowers price, a benefit to all who pay clearing costs, regardless of what CCP they may choose in a competitive environment.
- Savings translate to increased trading power.
- All market centers benefit from reduced cost of trading.

**Will this affect trading prices on The NASDAQ Stock Market and other NASDAQ OMX exchanges?**

No. As a self-regulatory organization (SRO), NCC must offer fair access to all potential participants including brokers, exchanges, associations and other registered clearing agencies.

Membership or market center of execution will not count for or against a participant in regards to consideration for access or pricing. Equal access and functionality will be available to all.

NASDAQ OMX does expect the introduction of competition to make trading U.S. equities less expensive on ALL venues, including NASDAQ OMX exchanges.

**How is NASDAQ OMX positioned to deliver improved clearing to U.S. equities?**

NASDAQ systems process billions of messages everyday. These systems deliver the highest performance measures in the industry, while maintaining the highest dependability and data integrity.

- NASDAQ will apply its INET technology to the task of processing all core functions of NCC’s offering.
- Even today, NASDAQ systems account for approximately 50% of total sides clearing daily in U.S. equity markets.
- NASDAQ has proven its ability to realize cost efficiencies by leveraging fast and flexible technology and supporting infrastructures.

## What value is NASDAQ OMX proposing in NCC's core CCP offering?

NASDAQ will compete in three main areas:

- Pricing
  - Reduced, transparent pricing to allow for accurate forecasting.
  - No incentive for compression.
  - Reduction of complexities in clearing and opportunity to shrink the expense footprint for related operations.
- Service
  - Real-time processing of trades in and contracts out.
  - Real-time fund calculation and timely indication of calls.
- Innovation
  - Application of fees/instructions.
  - Comprehensive credit risk management.

## What is the NCC pricing schedule?

NASDAQ OMX is still considering pricing model options for NCC, but expects the following to be key elements in its schedule:

- Price leadership
- Transparent pricing to allow for accurate forecasting
- No incentive for compression
- Reduction of complexities in clearing and opportunity to shrink the expense footprint for related operations

## What service improvements will NCC offer?

NASDAQ OMX's INET technology will perform Continuous Net Settlement (CNS) calculations **continuously**, as opposed to batch driven calculations.

This real-time processing will allow for fundamental modernizations to the clearing of U.S. Equities including:

- Perpetual CNS
- Real-time contract sheets
- Real-time risk and fund calculations, and timely indication of required deposit calls
- Real-time break monitoring with execution drop copies
- Dynamic reports

## What innovations will NCC offer?

NASDAQ OMX will seek innovations to service a reduction in frictional costs of trading related to post-trade facilitation of shares and monies at the fulcrum of the clearing and settlement process, including:

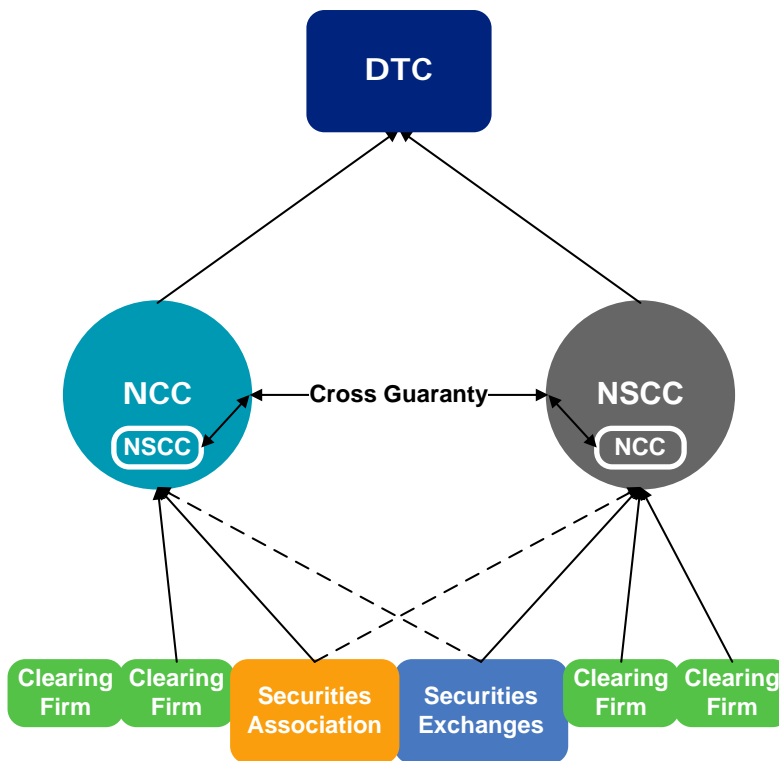
- Novation no later than midnight of trade date
- Updated fund deposit requirements and calculations
- Comprehensive U.S. equity credit risk management for participants and their corresponding executing brokers.
- Robust allowance for the application and transfer of fees and instructions between participants and their correspondents, and their counter-parties.

NASDAQ OMX will pursue inter-operability between NASDAQ OMX markets, systems for trading, trade reporting and clearing and with other SROs to provide opportunities for efficiencies, improved value and increased utility.

## How will the NCC impact clearance and settlement in U.S. Equities?

The NCC will create another choice for CNS processing for firms clearing trades in U.S. equities.

- Clearing firms may maintain membership at multiple clearing agencies without great cost or obligation or restriction.
- Clearing Firms decide where they will engage in CNS.
- Clearing Firms receive their contracts, reports, fund calls, tools, services and invoices from their chosen clearing corporation, regardless of external conditions.
  - There is no dependence on the market in which a firm executes a trade.
  - There is no dependence on the CCP to which a market or participant submits trades.
  - There is no dependence on the CCP at which a counter-party does its CNS.
- Registered Clearing Agencies manage the facilitation of CNS for counter-parties that do not clear at the same CCP through a cross-guaranty.



## What will the experience be like for firms choosing to participate directly in NCC?

NASDAQ OMX intends to offer as near a facsimile of firms' current experience as possible for key clearing functions in order to pursue the lowest switching costs. Message layouts will be the same for input and output, reports, separate contract sheet connections and even timing cycle, if required for essential functions and interfaces.

NASDAQ OMX also intends to offer a brand new NCC experience — robust record layout on native protocols, real-time processing, dynamic reports and improved user tools.

### **Is NASDAQ membership required to participate?**

Firms will be required to be members of the NCC to participate. NCC membership is separate from memberships in NASDAQ OMX exchanges. Information about membership requirements and processes, and existing BSECC memberships will be forthcoming.

### **What does NASDAQ have to accomplish before the launch of the NCC?**

- SEC approval of the updated rule set
- Build, test and launch the clearing and risk systems
- Secure minimum critical participation levels for a viable launch

### **When is the expected launch date?**

NASDAQ OMX expects to launch by mid-2009.

### **Will testing be available?**

Yes, NASDAQ OMX expects testing to begin in the first quarter of 2009. Further information and testing dates will be communicated at a later date.

### **What can my firm do to help or contribute to the launch of the NCC?**

Firms should stay informed — there will be much more information available in the coming weeks and months, especially once the NCC filing is submitted to the SEC. NASDAQ OMX will continue to announce updates via the NASDAQ Trader website.

NASDAQ OMX invites firms to participate in any discourse on our rule proposal once filed and available on the Federal Register through the comment process.

NASDAQ OMX also encourages firms to participate through discussion about NCC in industry associations and market-wide calls.

We are extremely interested in firms' input on current CNS processing and potential elements and functionality in a mature vision. Firms interested in being involved in early phases of design or testing, or with any other questions or contributions, please contact us directly at [ncc@nasdaqomx.com](mailto:ncc@nasdaqomx.com).

### **Where can I get additional information?**

- Contact [NASDAQ Market Sales](#) at +1 800 846 0477, email [NASDAQ Clearing Corporation](#), [Donald Bollerman](#) at +1 212 401-8780 or [Karen Peterson](#) at +1 212 401-8795
- Information will be presented as it becomes available, including:
  - NCC Rule Filing
  - NCC Message Specifications
  - NCC Product Suite Offering

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