

NASDAQ Plans to Become Operational as an Exchange in Two Phases



Please Route To: Head Traders; Technical Contacts; Compliance Officers; Vendor Technical Contacts; Vendor Admin Contacts; Buy-Side Contacts

What you need to know:

- NASDAQ plans to become operational as an exchange in two phases, subject to approval by the Securities and Exchange Commission (SEC).
 - Phase 1: Operational as an exchange in all NASDAQ-listed securities. The target operational effective date is June 1, 2006. NASDAQ has been working closely with the SEC and NASD to prepare for a smooth transition to exchange operation, recognizing that approval or action is still needed on several conditions.
 - Phase 2: Operational as an exchange in securities listed on the NYSE, Amex and regional exchanges. The target effective date is mid-June, also subject to SEC approval

Who you should contact: [NASDAQ Market Sales](#) at 800.846.0477

When will NASDAQ become operational as an exchange?

As announced in [Head Trader Alert #2006-034](#), the SEC has approved NASDAQ's application to become a National Securities Exchange. NASDAQ[®] plans to become operational in two phases, subject to SEC approval.

- In **Phase 1**, NASDAQ plans to become operational as an exchange in all NASDAQ-listed securities — expected June 1, 2006.
- In **Phase 2**, NASDAQ plans to become operational as an exchange in securities listed on the NYSE, Amex and regional exchanges — expected in mid-June.

The phased implementation is subject to SEC approval, and the dates of each phase may change, based on the timing of SEC action on related rule filings. NASDAQ has been working closely with the SEC and NASD to prepare for a smooth transition to exchange operation, recognizing that approval or action is still needed on several conditions.

What will happen in Phase 1?

- All NASDAQ Market Center[®], Brut and INET trades in NASDAQ-listed securities will be considered exchange trades.
- The following NASDAQ Market Center functionality will be retired:
 - Orders preferenced to individual market makers
 - The AIQ option to preference yourself first (the option to not execute against your own quote will continue to be available)
 - Paired orders
- For NASDAQ-listed securities, NASDAQ's exchange functions will be separate from NASD's over-the-counter functions. As a result, subject to SEC approval, the reporting of any over-the-counter transactions in NASDAQ-listed securities will be offered through the Trade Reporting Facility (TRF), a new limited liability company operated by NASDAQ and subject to NASD's regulatory license and oversight.
- **If the TRF is approved, firms will be able to continue to report trades to the TRF in the same way that they currently report to NASDAQ's Trade Reporting Service (ACTSM).** However, effective with Phase 1 of exchange

operation, NASDAQ-listed trades reported to the TRF will be reported and disseminated over the UTP Trade Report Data FeedSM (UTDFSM) but differentiated by the market center identifier "D" and sub-market identifier "Q", as described in [UTP Vendor Alert #2006-004](#). NASDAQ Market Center, INET and Brut trades in NASDAQ-listed securities will continue to be reported under the "Q" market center identifier, as they are today.

- NASDAQ will be responsible for [Section 31](#) obligations to the SEC. To fund this obligation, NASDAQ will charge members a transaction fee related to activity on the exchange. In Phase 1, NASDAQ will facilitate collection of fees for NASDAQ-listed transactions only in the NASDAQ Market Center, Brut and INET via direct debit of Clearing Firms' settlement accounts through the National Securities Clearing Corporation (NSCC). Collection for NYSE-, Amex- and regional-listed transactions in the NASDAQ Market Center, Brut and INET will continue to be handled as they are today. A support file will be available to Clearing Firms on a monthly basis.

What will happen in Phase 2?

- All NASDAQ Market Center, Brut and INET trades in both NASDAQ-listed securities and securities listed on the NYSE, Amex and regional exchanges will be exchange trades.
- NASDAQ's trades and quotes in NYSE-, Amex- and regional-listed securities will continue to be disseminated with the market center identifier "T" on the Consolidated Quotation System (CQS) data feed. NYSE- and Amex-listed securities' attributable quote information and order information will be disseminated via the NASDAQ OpenView BasicSM and OpenView+SM data feeds. These feeds provide lower latency and greater depth of market to support the electronic trading of NYSE- and Amex-listed securities. For more information, please refer to [NASDAQ Vendor Alert #2006-015](#).
- At the same time, NASDAQ expects to [integrate](#) the trading of NYSE-, Amex- and regional-listed securities into a Single Book.
- To fund NASDAQ's [Section 31](#) obligations, in Phase 2, NASDAQ will charge members a transaction fee related to **all** activity on the exchange. As described above, NASDAQ will facilitate collection of all transaction fees via direct debit of Clearing Firms' settlement accounts through the NSCC.

Will there be testing opportunities for these changes?

NASDAQ plans to offer a User Acceptance Test (UAT) on Saturday, May 13, 2006, for firms to test the changes associated with Exchange Registration. Further information will be communicated as it becomes available.

What do I need to do?

If you haven't already, please complete and submit the [membership forms](#), including a signed NASDAQ Services Agreement, **as soon as possible** to ensure completion of the NASDAQ membership review process prior to June 1, 2006. NASD members must submit their applications by **May 9, 2006**, in order to guarantee that their application will be processed in time for participation in the NASDAQ Stock Market LLC on the operational date.

Where can I go for more information?

- Contact [NASDAQ Market Sales](#) at 800.846.0477.
- Refer to the [NASDAQ Operational Issues Frequently Asked Questions \(FAQs\) \(PDF\)](#) on the NASDAQ Trader[®] website.
- Visit the [Exchange Registration page](#) on NASDAQ Trader.

- Visit the [NASDAQ Systems Integration page](#) on NASDAQ Trader.
- Refer to [Head Trader Alert #2006-034](#).

NASDAQ is the largest U.S. electronic stock market. With approximately 3,200 companies, it lists more companies and, on average, trades more shares per day than any other U.S. market. It is home to companies that are leaders across all areas of business including technology, retail, communications, financial services, transportation, media and biotechnology. NASDAQ is the primary market for trading NASDAQ-listed stocks. For more information about NASDAQ, visit the NASDAQ Trader website at www.NASDAQTrader.com.