



FREQUENTLY ASKED QUESTIONS NASDAQ MARKET QUALITY PROGRAM

Q: What is the Nasdaq Market Quality Program?

A: The Nasdaq Market Quality Program (MQP) is the newest market structure innovation at Nasdaq. The MQP is an optional listing and market incentive program allowing Sponsors of Exchange Traded Funds (ETFs) to provide funds to Nasdaq that may be used to award Market Makers that improve the liquidity and the quality of the market in MQP funds.

Q: How does the Market Quality Program work?

A: In the MQP, an ETF Sponsor pays Nasdaq an annual MQP Fee of \$35,000 to \$70,000 per ETF in addition to standard Listing Fees, and chooses which funds will be in the MQP. On a quarterly basis, the Exchange will pass the MQP Fee only to those Market Makers that meet liquidity and market quality standards.

Q: I am a Market Maker. How can I participate?

A: The MQP is available to all registered Market Makers that have applied to be in the MQP. You must qualify to be eligible for MQP Payments. Multiple Market Makers may qualify for each MQP Security.

Q: How do I qualify to receive payments?

A: Market Makers must meet the following three requirements to be eligible for distribution of the MQP Payments:

- Be at or better than the National Bid and Best Offer (NBBO) for 25% of the trading day for 500 shares;
- Post a market with a bid no less than 2% away from the NBB and an offer that is no greater than 2% away from the NBO 90% of the trading day; and
- Provide an aggregate of 2,500 shares of displayed liquidity on the bid side and an aggregate of 2,500 shares of displayed liquidity on the offer side. Shares must be within the 2% spread threshold and 90% time threshold detailed in the above bullet point.
- Market Makers' performance will be measured daily and averaged monthly.

Q: I am an ETF fund. How can I participate?

A: On behalf of ETF funds that have applied to be in the MQP, Sponsors pay the annual MQP Basic Listing Fee of \$35,000 per security with an option to enhance the Basic Fee with a \$35,000 Supplemental Fee (\$70,000 fee cap).

- To be eligible to participate in the MQP, funds must have an average daily consolidated trading volume of less than 1 million shares.
- The total MQP Fee (Basic Fee plus any Supplemental Fee) is divided: 50% to fund a Trade Share Payment and 50% to fund a Quote Share Payment.
- There is no limit to the number of products a Sponsor can elect to participate in the MQP.

Q: How do Market Makers get compensated?

A: Trade and Quote Payments will be distributed pro-rata to qualified Market Makers. Trade Payment distribution will be based upon liquidity-adding executions. Quote Payment distribution will be based equally upon average time at NBBO and average size at NBBO. Trade and Quote Payments will only be made if a Market Maker(s) meets the qualifications above. Trade and Quote Payments will be calculated monthly and distributed quarterly.

Q: Why is Nasdaq creating the MQP?

A: Nasdaq believes the Market Quality Program will help increase liquidity and enhance the quality of the markets being made in the Exchange Traded Fund marketplace by decreasing the quoted spread and increasing the shares quoted at the NBBO. Additionally, Nasdaq believes that the MQP will increase competition and broaden the pool of liquidity providing firms engaged in market making in ETFs.

Q: When will the MQP be available?

A: Nasdaq has received regulatory approval from the Securities and Exchange Commission and plans to officially launch in the second quarter of 2013.

Q: How do I receive more information?

A: Contact:

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