NASDAQ OMX REGWATCH

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Contact: Burke Cook, Managing Director, Market Structure Strategy +1 212 231 5333

INTRODUCTION

The NASDAQ OMX REGWATCH newsletter is designed to give our members a brief snapshot of what has been happening in the world of Market Structure and Regulation, including any recent key filings, news summaries, upcoming dates and links to initiatives to help you stay on top of this ever-changing global environment. We hope you find it helpful and always appreciate any feedback.

KEY REGULATORY DEVELOPMENTS AND NASDAQ OMX FILINGS

CAT: The June 30th RFP deadline has been postponed to a date to be determined in the 3rd Quarter 2013.

SEC – Reg SCI: On May 20, 2013, the SEC extended the comment period of Regulation SCI (Systems Compliance and Integrity) from May 24, 2013 until July 8th 2013.

FINRA – Trade Reporting: Effective Monday, November 4, 2013, FINRA firms are required to report over-the-counter transactions in equity securities to FINRA as soon as practicable, but no later than 10 seconds, following execution.

Limit Up Limit Down: Limit Up Limit Down Phase 2 implementation timeframe modification was filed by the Participants on July 17th for immediate effectiveness to implement Phase 2 in two separate stages. Phase 2 is scheduled to go into effect on August 5th, and will include all Tier 1 and Tier 2 names as they roll out in weekly sets. The first stage will have bands in effect from 9:30 a.m. ET – 3:45 p.m. ET. The second stage of Phase 2 will include the last 15 minutes of trading to cover the entire trading day under LULD bands. This second stage is to be completed on or before December 8th.

REGULATORY INITIATIVES

For more information, please visit the Regulatory Initiatives page located on nasdaqomxtrader.com.

+ Market Access Rule	+ Single Stock Circuit Breakers
+ Limit Up/Limit Down	+ Clearly Erroneous Improvements
+ Decimalization	+ Market Structure Concept Release
+ Amendments to Reg SHO	+ Market Wide Circuit Breakers

+ Consolidated Audit Trail	+ Regulation SCI
+ Large Trade Reporting	+ Market Stability Initiatives
+ Market Maker Obligations	

UPCOMING REGULATORY DATES

- **August 5, 2013:** Phase 2 (part 1) LULD begins implementation.
- **3rd Quarter 2013:** CAT RFP responses due.
- **October 5, 2013:** Industry wide BCP planned test.
- **November 1, 2013:** Compliance date for broker-dealers to maintain records, report and monitor large trader activities pursuant to Rule 13h-1.
- **November 4, 2013:** FINRA to require firms to report OTC Transactions in Equity Securities no later than 10 seconds.

REGULATORY NEWS WRAP

Exchanges

June 3, 2013 – NASDAQ OMX closes Thomson Reuters deal. IR Magazine report that NASDAQ OMX has completed the acquisition of Thomson Reuters' IR, PR and multimedia businesses for a reported $390 mn, clinching its ninth – and largest – acquisition of software and information services targeted at corporate clients. The deal, announced last December, brings 7,000 Thomson Reuters clients worldwide and more than 1,000 employees under the NASDAQ OMX umbrella.

June 4, 2013 – Investors approve NYSE sale to ICE. WSJ reported that the shareholder s of NYSE Euronext approved the plan to sell NYSE to ICE. Approximately 99% voted in approval at the special shareholder meeting held Monday.

June 11, 2013 – Exchanges primed for new swaps rules. The Financial Times reported that the world's largest futures exchanges are hoping to take full advantage of the next phase of new US rules tightening up derivatives trading. About 500 large institutional investors will be required to clear more of their over-the-counter derivatives trades under a provision of the Dodd-Frank Act passed three years ago. The rules are part of a global regulatory push to safeguard markets against systemic risk. Some institutions will be required to clear off-exchange trades, such as interest rate and credit default swaps, forcing them to put up more margin and collateral to back their trades. Therefore, Exchanges are seeking to capitalize on the new rules, as investors switch from tailored but expensive swaps to cheaper but standardized listed futures to offset their risk. They have also developed new products such as "swap futures" – hybrid products that promise the economic benefits of swaps but trade on an exchange at a lower cost than their OTC equivalents.

June 12, 2013 – CBOE fined by SEC for systemic oversight. WSJ reported that the SEC fined CBOE with a $6 million fine over their failed attempts to prevent short selling activities. The case dates back to early 2009, when CBOE received a complaint about the possible short-sale violations, according to the SEC's order. CBOE looked into the allegations, but its staff "did not know how to determine" if the rules had been breached, the SEC said. According to the SEC, its probe into optionsXpress later expanded to CBOE. The SEC effectively fined CBOE for what resulted in compliance breakdowns in monitoring short sales. The SEC added that the exchange had an ineffective surveillance program that failed to detect wrongdoing despite numerous red flags. It was reported that its members were engaged in abusive short-selling and also did not live up to regulatory and compliance responsibilities in several other areas over four years.

June 28, 2013 – CME Group shelves update to rules barring wash trades. Reuters reported that the CME Group put off a plan to update its rules prohibiting wash trades after the CFTC expressed concerns about oversight and enforcement around the new provisions. The rules shelved by CME drew a clearer line between intentional and unintentional self-trading. The distinction is a key point for high-frequency traders who say that some self-dealing is inevitable given the speed and volume of their transactions.

Dark Pools

June 4, 2013 – Stock exchanges seek to curb dark pools. Bloomberg reported that three stock exchange senior officials from NASDAQ, NYSE and BATS have met in Washington with the SEC and lawmakers over the past months to appeal to them around too much trading becoming hidden on private market venues that create more costs and volatility on the public markets. The exchanges are pressing the SEC and others to make restructuring the existing landscape a priority according to Bloomberg.

June 6, 2013 – Regulators ask for details on dark trading. According to the WSJ, FINRA in May sent 15 examination letters to operators of 'dark pools' amidst rising concerns from regulators and some investors as more activity is shifting from exchanges. FINRA is seeking details about how the venues operate, what they disclose to clients and whether they adequately police trades. Dark pools do not disclose traders' buy or sell orders and only publish trade data after transactions occur. One form of suspicious dark pool activity regulators are monitoring is whether firms are placing orders in the public market with the goal of manipulating prices in dark pools. High-speed traders can benefit by knowing the public price before it hits a dark pool. FINRA Chief Executive Richard Ketchum in January told The Wall Street Journal that the regulator is broadening dark-pool oversight, with an eye on whether orders placed on public exchanges are "trying to move prices or encourage sellers that may advance their trading in the dark market."

June 14, 2013 – Australia's dark pool volumes down after new regulations. The Trade reported that a recent cash market report from the Australian Securities Exchange (ASX) appears to show a sharp decline in dark pool volumes following new rules on price improvement introduced at the end of May by the Australian Securities and Investments Commission (ASIC). The cash report states that during the week ended 24 May 2013 there was a $1,448.3 million of off-market recorded volume, compared to a $999 million in the week ended 7 June 2013. In the week preceding the rule changes, 11.9% of that business was done on ASX and 1.7% via Chi-X's mid-pegged order type. Those percentages went up to 15.9% and 2.4% respectively in the week ending 7 June 2013. The new rules demand price improvement for orders below block size so that trades must be crossed at the mid-point or improve by a full tick. This excluded many dark trades that were previously permitted to be executed at the NBBO (best bid or offer), leading to predictions that some dark pools would witness a drop in volume, with a simultaneous shift of equity market liquidity to lit venues and mid-point crossing services.

July 13, 2013 – FINRA plans to require trading in dark pools disclosed. According to the WSJ, U.S. stock market regulators approved a plan for new rules requiring private trading venues such as "dark pools" to disclose and detail trading activity on their platforms. The move would give market authorities a clearer view into private markets that claim a growing slice of daily stock dealing and would help police potentially abusive trading practices, according to regulators. FINRA is expected to propose the new regulations in the coming weeks, and the SEC will then need to approve them.

Derivatives

June 3, 2013 – ISDA will begin to offer CDS insurance policy. The Financial Times report that ISDA will begin effort to stiffen rule covering credit default swaps. This has been prompted by an EU moveunder the Recovery and

Resolution Directive to empower governments to seize bonds in the event of a bank default – the bail-in option, whereby bondholders are made to share the pain in the event of a bank collapse.The ISDA rules would mean that anyone who buys insurance on a bond issued by a bank that had failed would make an insurance claim in the CDS market in full. You can buy CDS protection on banks today, but these proposals will provide more certainty in circumstances where a government bails in or writes off or converts to equity the holdings of bondholders. Under current ISDA rules, an auction takes place to determine the recovery value of the bonds underlying the CDS. This proposal would effectively tighten up the credit derivatives definition for banks so that a government bail-in would automatically trigger the CDS payout, and CDS holders would get paid the full value of their contract.

July11, 2013 – Europe and US come to derivatives deal. According to the WSJ, the EU's executive arm and CFTC struck a deal in which they agreed that the CFTC will allow US banks operating in the EU to comply with some local rules and delay applying others. That will allow firms to avoid the burden of complying with two different sets of regulations. The agreement loosens proposed US rules in some respects, by allowing firms to choose which jurisdiction's rules to apply when trading swaps that are too complex or unique for a clearing house. For swaps that must be routed through a clearing house, the agreement said the stricter rule would apply, but didn't indicate a timeline.

Dodd-Frank

June 6, 2013 – Buyside expects 20% increase in costs from OTC regulations. According to The Trade, clearing and collateralisation costs are set to insrease by up to 20% as a result of regulation according to a research consultency Celent. The study found that the regulatory delays are also squeezing buy-side firms and many are worried about the potential to lose more than they gain from changes that are part of the Dodd-Frank Act and European market infrastructure regulation (EMIR). Celent's research among buy-side businesses found that 35% believe the cost of clearing will increase by between 10-20% over the next 12 months. Another 30% are forecasting that costs will increase by up to 10%, while some expect increased clearing costs of up to 40%. Delays in setting out rules and implementation guidelines mean many firms operating across the market have been committing resources to regulatory work that is still far from being completed. They have also set to see legal regulatory compliance costs rise as they begin implementing changes.

June 28, 2013 – CFTC delays CDS reporting requirements. The Trade reported that the CFTC has extened its relief on obligation to report swaps data on CDSs until the end of the year. A letter published by the CFTC has extended the relief for swap dealers (SDs) and major swap participants (MSPs) from its original 30 June expiry date. The relief is subject to certain conditions. Firstly, the clearing counterparty must be a clearing member of a DCO eligible to clear CDS indicies and must participate in that DCO's CDS settlement price process. Secondly, the relief will only apply to CDS clearing-related swaps arising from, or entered into pursuant to, a DCOs settlement price process.

July 8, 2013 – Volcker Rule stirs confusions among banks. According to the WSJ, a provision of the Volcker Rule designed to curb risks that banks take has a provision relating to employee participation in bank-run investments. The employee-participation provision is designed to avoid a situation where banks, in the event of a crisis, rush to rescue heavily employee-invested funds. However, banks are now getting very different views on what the employee-participation measure in the Rule means. Banks are now trying to figure out which of their employees are providing services or are directly associated to the funds before restricting them while others are just making blanket restrictions firmwide.

Clearing

July 17, 2013 – EuroCCP and EMCF sign deal. According to Bloomberg, EuroCCP, the European unit of Depository Trust & Clearing Corp., and European Multilateral Clearing Facility NV agreed to merge with an eye to creating a pan-European clearing house for stocks. The combined company, which will be called EuroCCP NV, will be based in Amsterdam, with offices in London and Stockholm. The new clearinghouse will be owned equally by four shareholders. NASDAQ OMX Group Inc. and ABN Amro Clearing Bank, both shareholders in EMCF, will own half and New York-based DTCC and Bats Chi-X Europe will hold the rest.

July 24, 2013 – DTCC buys Thomson Reuters stake in Omgeo. According to Financial Times, DTCC is set to buy out the 50% stake it does not already own in Omgeo from Thomson Reuters. The venture was intended to automate post-trade processes, such as trade confirmations, that pass between investment managers, broker-dealers and custodian banks.

Market Stability & Volatility Controls

June 11, 2013 –Fewer erroneous trades and safer trading. Reuters reported on the trading environment overall post flash crash in 2010. FINRA said, according to Reuters, that the number of reports of "clearly erroneous" trades it received was down 84 percent in the last six months of 2012 compared with the first six months of 2009. "We have seen a dramatic reduction," Richard Ketchum, chairman and chief executive of FINRA, told the Reuters Global Wealth Management Summit. There are signs of greater stability in our system according to the report and this may help bring some smaller investors back into the market.

July 18, 2013 – HFT safeguards come under FINRA scrutiny. According to WSJ, FINRA is conducting a probe of high-speed firms' trading algorithms and the controls surrounding their trading technology, according to an examination letter sent to about 10 firms this week. Responses to the letters could prompt additional probes or result in marching orders for the industry to improve risk-management, said Thomas Gira, head of market regulation at Finra. "We're trying to make sure that firms are aware of how their 'algos' are constructed and how they're operating," Mr. Gira said in an interview according to WSJ. Finra also is asking questions about how firms handle malfunctions, including whether they use so-called kill switches that automatically stop trading as well as who is responsible for the automatic shut off or kill switch.

July 23, 2013 – Exchanges delay Limit Up/Limit Down. According to Bloomberg, U.S. exchanges will postpone full implementation of the Limit Up/Limit Down system of volatility curbs after alerting securities regulators to readiness about how it will work at the close of trading. Since it was implemented in April, Limit Up/Limit Down has been in effect from 9:45 a.m. to 3:30 p.m., ET, avoiding the trading periods when volume is greatest. Exchange officials are concerned that enabling it in the last 15 minutes will make an orderly close difficult by preventing some stocks from reopening after they are paused. Under the updated plans, Limit Up/Limit Down will be extended to cover trading from 9:30 a.m. to 3:45 p.m., ET. In the statement on its website, NASDAQ OMX said Limit Up/Limit Down will be extended to 4:00 p.m. before December 8th. It added the extension to 9:30 a.m. and 3:45 p.m., ET, will take place on Monday, August5th.

Transaction Tax

June 3, 2013 – Trade associations join together to battle European FTT. Financial Times reported that 18 trade associations and exchanges have united to push back against the European FTT. The group aims to produce a report on the impact of the FTT, which will be sent to ministries of finance in the EU, regulators and members of the European Parliament. It will be based on reports already published by the trade associations but may include new recommendations. PricewaterhouseCoopers and Clifford Chance will help compile it according to FT.