NASDAQ OMX REGWATCH

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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.

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

+ **December 8, 2013:** Deadline for LULD Phase 2(B)(i) full roll-out of all NMS stocks.
+ **December 9, 2013:** FINRA to disseminate odd lot transactions for OTC equity securities to TDDS. Release.
+ **December 31, 2013:** Final rules amending certain broker dealer annual reporting requirements. See SEC rule.
+ **January 1, 2014:** Basis Reporting for Debt Instruments and Options Acquired on or After January 1,

2013 for Non-Complex Instruments. Refer to IRS Notice.

- **February 14, 2014:** NSCC real time trade submission Phase 1 scheduled to begin.
- **February 24, 2014:** Limit up Limit Down Phase 2(B)(ii) adding the last 15 minutes of regular trading to the Plan goes into effect.
- **March 1, 2014:** New Canadian DMA rules to be effective. See IIROC notice.

REGULATORY NEWS WRAP

Exchanges

October 2, 2013 – SEC weighs overhaul of exchanges after glitches and growth in dark pools. WSJ reported on comments made by the SEC Chairman Mary Jo White at the annual Securities Traders Association conference. The SEC chairman said the self-regulatory function of stock and options exchanges "has encountered challenges" in recent years as the trading venues have evolved into for-profit enterprises that compete more directly with brokerages. She added that "the current nature of exchange competition and the self-regulatory model should be fully evaluated in light of the evolving market structure and trading practices." The SEC examination comes as competition between exchanges and Wall Street firms intensifies for a shrinking number of stock orders. Last month, so-called dark pools and other privately run trading venues that are lightly regulated and not required to publicly disclose trading activity traded a record 38% of all shares, cutting into the revenue exchanges gather from executing buy and sell orders.

October 9, 2013 – Nasdaq hopes new testing technology will help glitches. The Washington Post reported that NASDAQ has announced that it will offer a product that starting in early 2014 will allow traders to replay and itneract with historical data so they can test their algorithms in real world conditions. Nasdaq is unveiling its market simulation product, developed by a New Jersey high frequency trading firm called Tradeworx — the same firm that began streaming real-time trade data from the exchanges to SEC headquarters this year.

October 25, 2013 – Citi tick size proposal could influence 'trade-at' debate. The Trade reported on the recent proposed pilot program Citi submitted to the SEC for consideration helping to generate data to help steer the industry away from the major structural changes like the 'trade-at' rule. Under the Citi proposal, participating illiquid and small- and mid-cap stocks would be divided into three categories, or 'buckets', and subject to slightly differing rules. One of these buckets would serve as a proxy for the 'trade-at' rule. "We feel this is a more targeted and nuanced approach to improving current market structure, as opposed to some more draconian measures like a 'trade-at' rule," the letter, authored by Daniel Keegan, head of equities for the Americas, Citigroup Global Markets, read. A 'trade-at' rule would effectively force flow back onto exchanges from alternative trading systems and internal broker matching systems unless such facilities could offer meaningful price improvement compared to lit markets. The three-bucket approach will let the data dictate the regulatory decisions made after such a pilot program ends. The focus is, and should be, on measuring the explicit and implicit costs of trading in these names and crafting rules suitable to activity in those stocks.

November 11, 2013 – Wall Street mulls trading small stocks in Nickels. Dow Jones reported that many securities regulators, exchanges, bankers and investors are detailing plans to to propose changes on how small stocks are currently traded. Plans are being considered to allow for smaller companies to trade in increments of five cents, rather then the current one-cent. The debate will play out through both regulators and lawmakers. Securities and Exchange Commission Chairman Mary Jo White directed her staff to work with exchanges in developing a test program for wider tick sizes. Advocates say that making it easier for big firms to trade the shares will ultimately help retail investors, even if the cost of trading rises slightly.

Dark Pools

October 1, 2013 – Dark pool trading grows darker in September. WSJ reported that in September shares traded on dark venues instead of Exchanges grew to record levels executing about 38% of all shares traded. September was a relatively slow month for trading and volatility averaging 6.1 billion shares per day. Dark trading volumes tend to grow and move away from the exchanges when markets are quiet and volumes are lighter. Exchanges have raised concerns over the shift as trading levels on dark pools and firms' internal networks hit record levels earlier in the year. Executives of the major exchange groups called on regulators to consider rules that would require trades on private platforms to happen at better prices than are available on exchanges – or send the orders on to exchanges to be filled. Banks and brokers argue such a step would reduce competition and leave investors with fewer choices on how to trade.

October 2, 2013 – FINRA proposes new rules for dark pools. HedgeWorld News reported that FINRA has proposed new rules to monitor transactions in "dark pools" run on ATSs be more transparent. Under the proposal, ATSs would be required to report a weekly volume and the number of trades for each security. Investors could use the information to better determine where to route their orders, said Tom Gira, FINRA's head of market regulation. Under current regulations, dark pools have to disclose their volumes to a so-called trade reporting facility, which combines the data, giving an idea of the amount of trading happening away from exchanges. Last month, that amount was 38 percent. But the data does not show which firms the trades were attributed to, or what types of dark pools were most used.

October 4, 2013 – Proposed dark reporting may yield buy side benefit. The Trade reported that the new FINRA rule proposal to require certain dark pool ATSs to report weekly volumes would benefit buy siders because managers would be able to see if certain pools had a concentration of trading in a specific group of names, of sectors, and also what level of high-frequency trading occurred in dark pools.

October 14, 2013 – Retail ATSs feel brunt of new Canadian Dark Rules. The Trade reported that the new Canadian Dark Pool rules designed to move trading to the exchanges or lit markets is being felt by retail focused alternative trading systems the most. Canada last year implemented amendments to the Universal Market Integrity Rules' (UMIR) dark order definition, limiting the execution of small orders, as it is believed to impair price discovery and unfairly limit interaction for displayed orders. The dark pools that trade larger size order remained relative unscathed by the new rules while those with typically smaller retail type flow saw their orders routed to more expensive lit exchanges.

HFT

October 2, 2013 – More info needed on HFTs and Dark Pools. MarketWatch reported that the Chairman of the SEC said that there needs to be a deeper understanding of high frequency trading and dark trading still. An often overlooked element to making sense of market structure, according to White, is making decisions based on empirical evidence rather than relying on anecdotes. "Data alone, of course will, not reconcile all of the differing and often conflicting views on market structure, but the right data can be used to test hypotheses, identify and eliminate potential problems and narrow and focus the debate on the real issues," she said. As a part of this effort in understanding is a public website designed to share data, research and analysis. Metrics and trends on the site, White said, would be based on analyses of market information and data analysis system (MIDAS) records from the past year.

November 4, 2013 – High speed trading 'aids efficiency'. Financial Times reported that computerized trading makes markets more efficient, according to research published by the European Central Bank that counters some popular criticisms of the new generation of dealers that operate in fractions of seconds. The study is the latest academic investigation into concerns raised about high-frequency trading, which accounts for half the volume of US equity trading and 35 per cent in Europe. A widely cited UK-commissioned "Foresight" report, published a year ago, found high-frequency traders had improved liquidity and cut transaction costs – but called for better controls against sudden swings in markets.

Dodd-Frank

October 2, 2013 – Swap exchanges launch in threat to Wall Street profits. Reuters reported that this week more than a dozen new U.S. exchanges opened their doors to clients starting the regulated trading of derivatives as part of the gradual implementation of Dodd-Frank. The new exchanges - called Swap Execution Facilities (SEFs) - allow clients to trade directly with each other, rather than having to go through the banks. That will open up competition and is expected to lower prices. The SEFs are run by firms that are already large swaps brokers, such as ICAP and GFI, but also by new entrants such as Bloomberg LP and Tradeweb, which is largely owned by Thomson Reuters. Swaps are financial contracts that enable clients to offset risk. One commonly used example is an exchange of fixed interest rate payments for floating payments. Such deals can be highly customized and are often of large value. The new rules put an end to that, even if voice trading will still be allowed, as long as buyers and sellers can prove they have spoken to more than one counterparty. Swaps will need to now be centrally cleared, which takes on the risk if one of the market parties fails to pay. This spreads the risk and means that firms other than cash-rich banks can now also offer these trades.

November 15, 2013 – Pre-trade uncertainty for electronic swap trading. The Trade reported that the new US pre-trade rules are pushing many market participants back to voice trading of swaps, despite regulators' aims to increase electronic trading on swap execution facilities (SEFs). This is because there is a lack of pre-trade certainty. When trading swaps on a SEF, counterparties need to be sure that a trade can clear before it is executed and this means rapid credit checking of counterparties is required.

November 15, 2013 – CFTC passes collateral rule to backstop Treasuries in swap trade. The CFTC approved a rule aimed at ensuring that Treasuries pledged as collateral for swaps and futures trades can be instantly converted to cash. The 2008 crisis developed so rapidly that the Fed had to give out more than $2 trillion in emergency aid. Fed officials have told banks and exchanges that the CFTC's new collateral rule means U.S. debt must be covered by credit lines. The goal is to align U.S. clearinghouses with international rules.

November 27, 2013 – Regulators push forward with Volcker vote. FT reported that the five regulators involved in voting on the implemention of the Volcker Rule are now making aggressive steps to vote on the new rule. The FDIC plans to meet on December 10 to consider the rule aimed at banning proprietary trading, which involves banks trading from their own accounts. The CFTC has tentatively marked the same day to vote on Volcker, but that could be delayed depending on whether the rule is finalised by then. The Securities and Exchange Commission had been considering December 18 for a vote on Volcker. The scheduling shows that they are committed to completing this vote before the end of the year. The officials are in the process of adding their comments and suggested changes to come up with a finalised version.

Market Stability & Volatility Controls

October 17, 2013 – Knight fined $12 million penalty. WSJ reported on the SEC imposed fine against Knight Capital Group for overlooking red flags before it mistakenly sent millions of order last year. The SEC move was the first enforcement action under the agency's so-called "market access rule," enacted in 2010. The rule requires broker-dealers to maintain systems and supervision to prevent erroneous or excessively risky orders. In settling the charges, Knight neither admitted nor denied the SEC's findings. "This case was about the failure to adopt a reasonably designed set of risk controls to manage the risks associated with market access at this firm," said Daniel Hawke, head of the SEC's market abuse unit, speaking on the conference call.

Octover 18, 2013 – NASDAQ, NYSE Plans to back up their data streams. WSJ reported that the consolidated data feeds run by NASDAQ and NYSE are close to an agreement plan to back one another up according to sources of the Journal. The collaboration would strengthen one of the stock market's common points of failure. The committees, which together include members of all U.S. exchanges, are also discussing other ideas that could stabilize the infrastructure of the financial exchanges. Nasdaq and NYSE each operate a data feed called a securities information processor, or SIP, which includes all price quotes, including bids and asking prices, and final transaction prices, for all the exchanges. The securities trade on multiple exchanges and platforms. U.S. exchanges issued a joint statement Nov. 12, saying they had reached a broad agreement on ways they can work together to make markets more stable.

October 22, 2013 – Data shows US markets safer despite glitches. The Trade reported that US equity markets have shown resilience in combating market errors, with data showing the number of clearly erroneous trades has significantly dropped. "We've seen an 89% drop in the number of clearly erroneous trades since the first half of 2008 and a 55% drop since the flash crash," FINRA's Tom Gira said, citing unpublished data compiled by FINRA. The Trade said that but, despite the possibility of such high-impact market errors, US equity trading volumes suggest investors have continued faith in market infrastructure as they hunt for alpha. Market complexity, and the need for exchanges to compete with the growth of alternative trading venues, has also intensified the need to alter technology underpinning trading systems.

November 12, 2013 – Exchanges issue response to regulator's call for better markets. Bloomberg reported that both the U.S. equities and options exchanges say that that they have devleoped a framework for preventing breakdowns and responding to failures in a better fashion. The exchanges "have come to general agreement on certain recommendations and preliminary implementation timetables," according to a statement today, which didn't provide specifics. The companies said they will reveal more information in rule filings with the U.S. Securities and Exchange Commission. The statement was a response to SEC Chairman Mary Jo White's Sept. 12 demand that exchanges collaborate on fixing their infrastructure, made during a meeting with bourse officials in Washington. The exchanges also developed recommendations to improve "critical infrastructure items" such as communication about trading halts and initial public offerings. Among other things the Exchanges said they agreed to "core principles" for halting stock and options markets, established plans to reconcile procedures for canceling trades, and continued to develop a "kill switch" to stop markets.