

NASDAQ-100 Special Rebalance Contingency Scenarios



Overview

NASDAQ OMX® has announced that the NASDAQ-100 Index® (NASDAQ: NDX) will undergo a Special Rebalance effective prior to market open on Monday, May 2, 2011,¹ to bring the weights of the Index Securities closer in line with their actual market capitalizations. The NASDAQ-100 Special Rebalance will result in a market event on **Friday, April 29, 2011**, similar to the annual Russell Reconstitution. NASDAQ OMX Global Index Group will use the NASDAQ Official Closing Price as determined by the NASDAQ Closing Cross® on **Friday, April 29, 2011**, for the Special Rebalance on May 2nd.

As NASDAQ and the securities industry prepare for the upcoming NASDAQ-100 Special Rebalance, NASDAQ is highly confident that its systems will provide the reliability and capacity required to ensure that the closing prices used for purposes of the Special Rebalance will be determined smoothly and successfully. Nonetheless, as it has done for the past several years in advance of the Russell Reconstitution, NASDAQ has published contingency scenarios in order to prepare the industry for unusual market conditions.

Due to the unpredictability of market events, this document provides only general guidance, and NASDAQ reserves the right to modify its responses to these scenarios as necessary, without advance notification to the industry, in order to address additional unforeseen situations.

Guidelines Governing Contingencies

Because NASDAQ cannot predict every possible scenario that could occur, it will employ the following guidelines in determining how to react to an unusual market condition:

- 1) It is critical that, if at all possible, NASDAQ must determine a way to run the Closing Cross on **Friday, April 29, 2011**, the trading day prior to the NASDAQ-100 Special Rebalance, even if it must occur after the standard 4:00 p.m., Eastern Time (ET), closing time.
- 2) The industry must have advance notice of any change in the normal market hours and available market systems so they can plan for at least 40 minutes of trading in the environment that ultimately determines the closing price for the trading day prior to the Special Rebalance day.
- 3) The industry must be provided with a closing price on the trading date prior to the Special Rebalance and no later.

NASDAQ will provide as much advance notice as possible regarding the trading environment that will be employed to establish the closing price and will provide at least 40 minutes of trading within that environment before the closing price is determined.

Emergency Communications Media

NASDAQ will use the following communications media to inform the market participants of the unusual market conditions, as well as to notify market participants of NASDAQ's actions to address those conditions:

- 1) System Status Alert page on the NASDAQ OMX Trader website
- 2) On April 29, 2011, NASDAQ will hold a market-wide call beginning at 3:00 p.m., ET, and lasting approximately two hours. The call details are:
 - Dial In: +1 866 765 5864
 - Conference ID: 60434203
 - Leader: David Lawn
- 3) NASDAQ will also use Equity Trader Alerts and email notifications as needed.

¹ The Special Rebalance of the NASDAQ-100 Index will be enacted based on Index Securities and shares outstanding as of March 31, 2011, except for Alexion Pharmaceuticals, Inc. (NASDAQ:ALXN), which became a component of the Index on April 4, 2011.

Contingency Scenarios

The following are contingency scenarios for the Closing Cross on Friday, April 29, 2011, for purposes of attaining the NASDAQ Official Closing Price for the NASDAQ-100 Special Rebalance on May 2nd. All times listed are in Eastern Time (ET).

Scenario 1: If there is an internal system problem, but NASDAQ can restore normal market conditions by 3:30 p.m.:

- NASDAQ will follow standard market hours with the market close occurring at 4:00 p.m.
- NASDAQ will operate its Closing Cross on schedule, with a cut-off time of 3:50 p.m. for the entry of Market-on-Close (MOC) and Limit-on-Close (LOC) orders.
- Distribution of imbalance information will commence immediately after the cut-off time.
- The Closing Cross will execute at 4:00 p.m.

Scenario 2: If there is an internal system problem after 3:30 p.m., but NASDAQ can fully recover before 3:45 p.m., NASDAQ will continue with the regular timeline.

Scenario 3: If there is an internal system problem after 3:30 p.m., and NASDAQ cannot fully recover before 3:45 p.m., NASDAQ will extend regular-hours trading via Scenario 4 or Scenario 5.

Scenario 4: If there is an internal system problem, and (a) NASDAQ has determined that normal market conditions cannot be restored by 3:45 p.m.; and (b) NASDAQ has determined that the trading systems can be restored prior to 4:00 p.m.:

- NASDAQ will notify market participants to expect a resumption of trading by 4:00 p.m., and will extend trading until 5:00 p.m.
- NASDAQ will operate its Closing Cross with the following timeline:
 - o NASDAQ will operate regular day trading with full acceptance and automatic execution of market and limit orders between 4:00 p.m. and 5:00 p.m.
 - o NASDAQ will accept MOC and LOC orders up to 4:50 p.m.
 - o At 4:50 p.m., NASDAQ will cease accepting MOC and LOC orders and will commence the distribution of Imbalance data. Market participants can enter limit orders and Imbalance-Only orders to offset the imbalances.
 - o At 5:00 p.m., NASDAQ will execute the Closing Cross in all eligible securities. The Closing Cross executions will be disseminated as regular-way trades and will be used to establish NASDAQ's Official Closing Price for the day. NASDAQ will disseminate its Official Closing Price (.M trade message) over UTDFSM immediately after the Closing Cross.

Time Line for Scenario 4: 4:00–5:00 p.m.	
3:30 p.m.	Latest time to notify market participants that the market will be available at 4:00 p.m.
4:00 p.m.	Market available
4:50 p.m.	Imbalance dissemination starts (every 5 seconds)
5:00 p.m.	Market Close and Closing Cross
5:00 p.m.	M Disseminated
After 5:00 p.m.	Begin after-hours trading session
5:00-8:00 p.m.	Extended Hours Trading
6:45-7:00 p.m.	Mutual Fund Price Release
8:00 p.m.	ACT availability ends

Scenario 5: If there is an internal system problem, and (a) NASDAQ has determined that normal market conditions cannot be restored by 4:00 p.m.; but, (b) NASDAQ can restore its systems before 5:30 p.m.:

- NASDAQ will notify market participants at least 30 minutes in advance to expect a resumption of trading for a 40-minute session in order to complete the Closing Cross.
- The Closing Cross timeline will be as follows:
 - o NASDAQ will operate regular day trading with full acceptance and automatic execution of market and limit orders for the full 40-minute session.
 - o NASDAQ will accept MOC and LOC orders for the first 30 minutes of the trading session.
 - o After 30 minutes, NASDAQ will cease accepting MOC and LOC orders and will commence the distribution of Imbalance data. Market participants can enter limit orders and Imbalance-Only orders to offset the imbalances.
 - o At the end of the 40-minute session, NASDAQ will execute the Closing Cross in all eligible securities. The Closing Cross executions will be disseminated as regular-way trades and will be used to establish NASDAQ's Official Closing Price for the day.
 - o After the cross, NASDAQ will disseminate its Official Closing Price (.M trade message) over UTDF.

Example Time Line for Scenario 5, using a 5:30 p.m. start time for extra session:

3:30 p.m.	Latest time to notify market participants that the market will be available at 4:00 p.m.
5:00 p.m.	Latest time to notify market participants that the Market will be available at 5:30 p.m.
6:00 p.m.	Imbalance dissemination starts (every 5 seconds)
6:10 p.m.	Market Close and Closing Cross
6:10 p.m.	M Disseminated
After 6:10 p.m.	Begin after-hours trading session
6:10-8:00 p.m.	Extended Hours Trading
6:45-7:00 p.m.	Mutual Fund Price Release
8:00 p.m.	ACT availability ends

Scenario 6: If there is an internal systems problem and NASDAQ cannot restore the market by 5:30 p.m.:

- NASDAQ will provide as much advance notice as possible, but no less than 30 minutes notice, that the closing cross will not occur.
- If NASDAQ knows by 2:45 p.m. that it will not recover by 5:30 p.m.:
 - o NASDAQ will notify participants to use alternative market venues for the remaining minutes leading to a close at 4:00 p.m.
 - o In that case, the consolidated last sale will determine the closing price for the NASDAQ-100 Special Rebalance.

Scenario 7: If there is an internal systems problem and NASDAQ cannot restore the market by 5:30 p.m., but the problem does not occur until after 2:45 p.m., or NASDAQ is not able to determine that it cannot recover until after 2:45 p.m.:

- NASDAQ will provide 30 minutes notice that the closing cross will not occur and that firms must use alternative venues such as ACT for an extended 40-minute session.
 - o The session will start no later than 5:30 p.m.
 - o At the end of extended session, the consolidated last sale will determine the closing price for the NASDAQ-100 Special Rebalance.