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May 9, 2003

The Honorable William H. Donaldson
Chairman
United States Securities and Exchange Commission
Washington, D.C. 20549

Dear Bill:

Thank you for your letter of March 26 regarding The NASDAQ Stock Market, Inc.'s ("NASDAQ's") corporate governance practices. Enclosed is a report that responds to the questions raised in your letter and in the March 27 letter of Annette Nazareth, Director of the Division of Market Regulation. This report was approved by the NASDAQ Special Board Committee on Corporate Governance comprised of three NASDAQ Public directors: William S. Cohen, John Markese, and Mary Jo White.

NASDAQ is pleased to expand upon this important subject. We agree with you that self-regulatory organizations should be examples of good governance.

As the report demonstrates:

1. NASDAQ's Board of Directors ("Board") and its major committees (executive, audit, nominating and management compensation) have been and are currently balanced with Public and Non-Industry directors that well represent the public interest. Our current public directors are individuals of exceptional distinction who are by every relevant measure independent of NASDAQ. Our rules, By-Laws and practices ensure that this balance is achieved in a clearly defined, reasonable manner. A majority of the directors meet NASDAQ's stringent independence definition.
2. The role of Public and Non-Industry directors is enhanced by the division of the market from regulation through the separate corporate structure of NASDAQ and its regulator, the NASD. NASDAQ and NASD have separate boards, each with stringent balance requirements. Approval of NASDAQ's exchange registration application will facilitate the complete separation of the market from the NASD.

3. NASDAQ is in the process of separating the positions of Board Chairman and CEO. We believe this will benefit NASDAQ and its shareholders.
4. As a public company, NASDAQ is subject to the full panoply of disclosure obligations that ensure transparency and broader public knowledge of our policies, financial practices and operations.
5. As a registered company, NASDAQ is subject to many of the provisions of the Sarbanes-Oxley Act ("SOX"), including the requirement that NASDAQ's CEO and CFO certify the accuracy and completeness of NASDAQ's financial statements. We have vigorously applied these provisions.
6. NASDAQ's Code of Conduct precludes any NASDAQ officer from serving on the board of a NASDAQ listed company without prior written approval of the NASD Audit Committee, whose decision is final. No NASDAQ employee serves as a director of a company listed on NASDAQ or any other exchange.
7. Although not technically subject to our listing standards, we have acted as if we were. For instance, the NASDAQ Board established procedures to ensure that NASDAQ listing requirements regarding Board independence and audit committees are fully implemented. In the same manner, NASDAQ complies with SOX provisions that govern companies listed on NASDAQ.
8. Non-management directors have met regularly in executive session since 2002.
9. NASDAQ's Nominating Committee is fully independent and has a diverse membership with the public interest strongly represented.

Although we believe that NASDAQ had been a vigorous leader in all areas of corporate governance, there are some areas that warrant further examination. First, we believe our process of nominating directors would be strengthened by including independent Board members in the process. For example, the role of the current Nominating Committee, which is populated by individuals who do not currently serve on the Board, could be advisory. A new Nominating Committee of the Board made up solely of independent directors could be established. The process of nominating directors would then be fully consistent with our listing standards, which require independent directors to approve director nominees.

Second, the Commission should reexamine whether the current interpretation of a self-regulatory organization's responsibility to provide "fair representation" of its members on its Board of Directors is outmoded and not reflective of the Commission's policy priorities, especially regarding shareholder representation. Simply put, the application of the traditional concept of "fair representation" disenfranchises shareholders and magnifies the role of the industry on the board of a self-regulatory organization.

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We hope you find this report responsive and helpful. I welcome any questions you or your staff may have concerning its content.

Sincerely,

A handwritten signature in black ink, appearing to be "W. J. W. W.", written in a cursive style.

Enclosure