



EXCHANGE REGISTRATION FACT SHEET

Why is exchange registration important to NASDAQ?

NASDAQ's exchange registration will benefit the public by:

- Removing even the hint of a possible conflict of interest in the application of regulation by fully converting NASDAQ into an exchange with voluntary membership separate from the NASD and its compulsory membership requirements. Fully separating NASDAQ from the NASD will help NASDAQ maintain the integrity of its market and ensure investor confidence in its market, which has been the primary rationale for exchange registration.
- Enhancing the ability of NASDAQ to compete with foreign exchanges that enjoy the benefits of being fully independent public company exchanges. For example, the exchanges in London, Frankfurt and Paris are all independent, public company exchanges that are increasingly focused on competing with the U.S. markets.
- Streamlining the governance of NASDAQ to eliminate the need to obtain the approval of two organizations and two boards for decisions that improve the market and deal with exigencies, such as market disruptions.
- Recognizing that NASDAQ no longer functions as an "over-the-counter" market that is somehow distinct from the "listed" market. These are antiquated notions that will be clarified by exchange registration.

How does NASDAQ operate today if it is not an exchange?

- NASDAQ operates as a "facility" of a registered national securities association, the NASD. As such, it has Securities and Exchange Commission (SEC)-approved delegated authority from the NASD to perform many of the functions of a self-regulatory organization. However, until NASDAQ becomes an exchange, the NASD maintains control of NASDAQ through the exercise of a "super-share" of NASDAQ stock.

What will change for NASDAQ once it begins to operate as an exchange?

- NASDAQ will be independent of the NASD. NASDAQ will separate from NASD and become a Self Regulatory Organization (SRO). NASDAQ will have its own rules regarding trading, listing, membership and regulation. NASDAQ will have its own members and will be represented separately in the National Market System plans.
- The existing NASDAQ entity, The Nasdaq Stock Market, Inc., will become a holding company, and a recently formed subsidiary, The NASDAQ Stock Market LLC, will operate as the exchange.
- Following exchange registration, NASDAQ will separate its transaction execution facilities from its trade reporting facility, and its execution facilities will be operated in accordance with principles of price/time priority.
- NASDAQ's transaction execution facilities, such as the NASDAQ Market Center, Brut and INET, will be operated under NASDAQ's exchange license.
- NASDAQ plans to continue to support over-the-counter trade reporting by creating a Trade Reporting Facility (TRF) with the NASD. The TRF will be a new company operated by NASDAQ that will continue to be subject to NASD's regulatory license and oversight. The TRF proposal is still being reviewed by the SEC.

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Will NASDAQ still be subject to the same level of rigorous regulatory oversight?

- NASDAQ will continue to be subject to SEC oversight.
- NASDAQ will be an SRO, responsible for member and market regulation related to NASDAQ members. Rules regarding member regulation for NASDAQ members were approved by the SEC as a part of NASDAQ's exchange application. NASDAQ membership rules are similar or even identical to existing NASD membership rules.
- NASDAQ has contracted with NASD Regulation to provide both member and market regulation capabilities on behalf of NASDAQ. Because NASDAQ will be an SRO, NASDAQ will be ultimately responsible for making sure that NASDAQ members comply with the federal securities laws and NASDAQ trading and membership rules. However, the similarity between current rules and the rules for the exchange will minimize regulatory burdens on NASDAQ members.
- NASDAQ's market regulation rules are virtually identical to NASD rules governing NASDAQ's market operations today.

When did NASDAQ begin the exchange application process?

- NASDAQ filed its original application, the Form 1, on November 11, 2000 and March 15, 2001. The SEC published the Form 1 on June 13, 2001. The comment period was held open until August 31, 2001. NASDAQ filed its response to all comments on November 30, 2001.
- Since then, NASDAQ has had extensive discussions with the SEC staff.
- An amended Form 1, reflecting all recent SEC staff comments and the public comments previously received, was filed with the Commission on August 15, 2005.
- The SEC published the amended Form 1 in the *Federal Register* on October 11, 2005.
- NASDAQ subsequently filed additional amendments, and the SEC approved exchange registration on January 13, 2006.

What are the major elements of the Form 1?

- The NASDAQ rule manual, incorporating almost entirely the same rules that govern NASDAQ trading today and comments by the SEC staff. The approved rules for the exchange are available at <http://www.nasdaqtrader.com/trader/er/rules/rules.stm>.
- A description of NASDAQ's corporate structure and that of its affiliates, and descriptions of its systems and how they operate.
- Copies of forms that broker-dealers will be required to complete to become members in NASDAQ, and that issuers will be required to complete to list securities on NASDAQ.

When will NASDAQ begin to operate as an exchange?

- The SEC approval order contained several conditions that must be satisfied before NASDAQ begins to operate as an exchange. We hope to complete these conditions shortly, but cannot predict at this time when all conditions will be satisfied.