



Investor Relations  
Supplementary Disclosure:

## Competitive Developments in U.S. Securities Market

January 2019

## Executive summary and key messages to investors

- **Nasdaq has managed through a very dynamic, competitive environment, demonstrating resilience and innovation** to maintain leading US Equities & Options positioning. Nasdaq continuously innovates across our 6 options and 3 equities exchanges, developing unique ways to serve our clients' complex needs. Our technology is proven as world-leading among exchanges, and provides unparalleled capacity, speed, and resiliency.
- Broker-dealers' **best execution and other regulatory obligations preclude them from simply favoring exchanges where they have ownership** and obvious conflicts of interest.
- Due to **changes in SEC disclosure obligations and scrutiny on broker conflicts**, retail brokers may face **new pressure to move marketable volume to lit exchanges**. If this new exchange is a **catalyst to encouraging retail brokers to direct their clients' flow to lit exchange venues**, Nasdaq stands to gain share from that development.
- **Due to the strong competitive positions** established by Nasdaq's marketplaces, the company believes it will **continue to maintain the high value and strong demand for our data and connectivity services**.

# Announcement of new market entrant

- **On Monday, January 7, a consortium of nine high-frequency trading firms, retail brokers, and banks announced an effort to create a new U.S. securities market, called The Members Exchange (MEMX).**
- **Timeline/logistics:**
  - The MEMX expects to apply to the SEC for an exchange license in early 2019, and would expect to begin trading shortly after receiving regulatory approvals.
    - *WSJ article noted that such a process could take approximately 12 months, in which case launch would be in 2020 (<https://www.wsj.com/articles/wall-street-firms-plan-new-exchange-to-challenge-nyse-nasdaq-11546866121>)*
  - It was not made clear whether MEMX has established a leadership team and no details of their technology platform plans were disclosed.

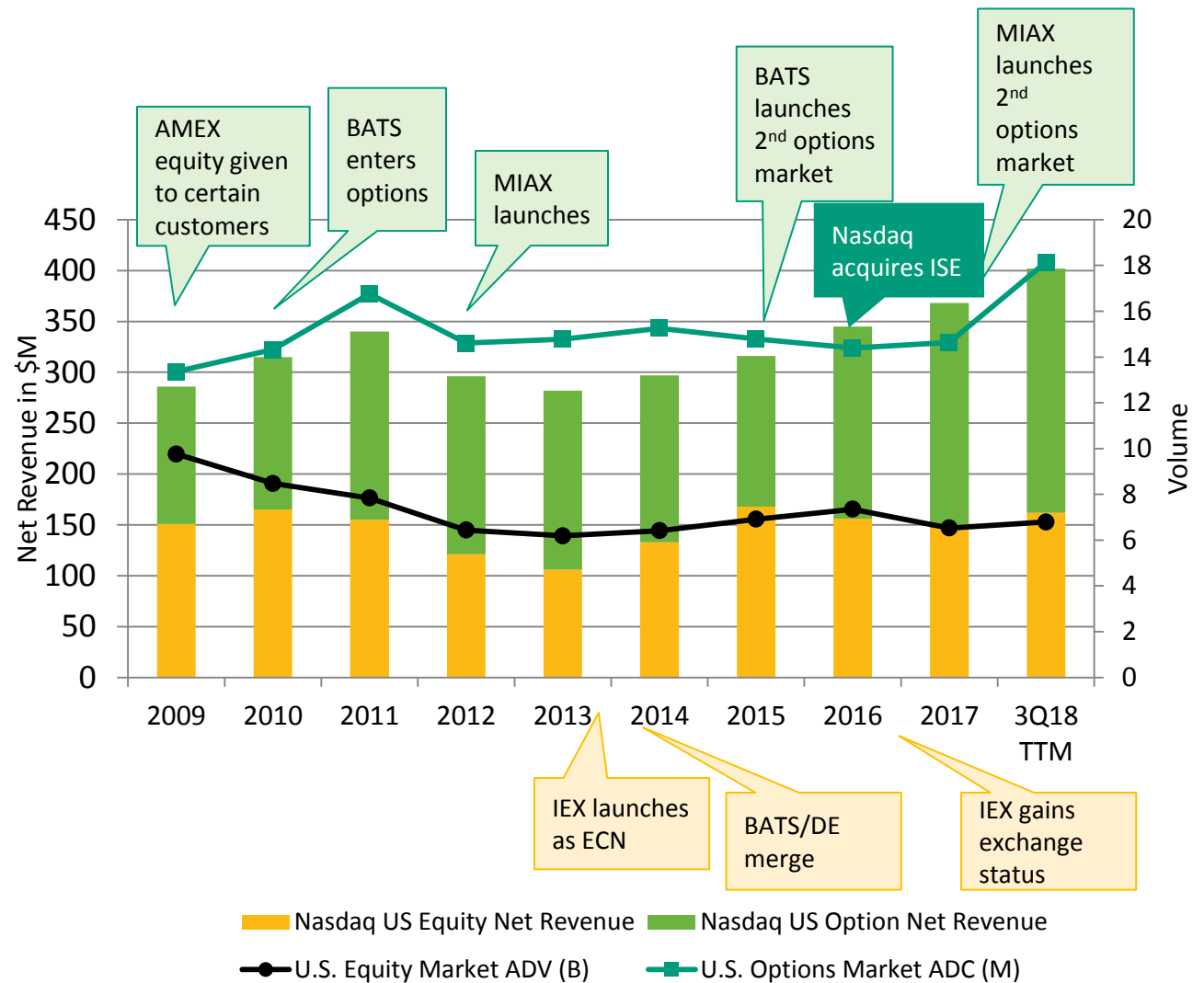
# Nasdaq's unmatched expertise, technology and distribution make us a proven, powerful competitor in US Equities & Options

- The **U.S. securities market is characterized by the highest levels of competition** in the global capital markets, and while these markets are the most effective, efficient and liquid in the world, **we support and share market participant's desire to find ways to improve them** further.
- We also acknowledge that brokers, banks, and liquidity provider **intermediaries have incentives to, and a history of, using their influence on order routing decisions to create new markets**, and monetize this through selling to incumbent exchanges or public shareholders.
- **Nasdaq has the experience, technology and distribution capabilities to respond effectively** to this new, potential competitor and to **continue to lead in a marketplace defined at a fundamental level by intense competition.**

# Nasdaq history of delivering in intensely competitive environments

## Notable competitive developments and events prior to 2009:

- BATS launches as ECN ('06)
- Reg NMS implementation ('07)
- NYSE acquires AMEX ('08)
- NDAQ acquires PHILX ('08)
- Direct Edge re-launched with new sponsors ('08)
- BATS becomes registered exchange ('08)



# Nasdaq leverages strengths to succeed in dynamic, competitive industry

- **The Nasdaq Stock Exchange**, which is the largest single liquidity pool for trading U.S. stocks, builds on **leading market share in the companies listed on our exchange**.
- Nasdaq operates **multiple SEC-approved securities exchange licenses**, to provide **differentiated and especially comprehensive value propositions** within our equity/option market complex.
- **Product innovation** such as Midpoint Extended Liquidity Order, Retail Order Process and enhancements to auctions puts Nasdaq in a **strong position to serve buy-side and retail interests**.
- Nasdaq's **proprietary, leading technology platform** is deployed to very high scale, enabling maximum opportunity to **deliver value to customers at a variety of price points**.
- Nasdaq has developed **strong customer relationships** over many years, as evidenced by Nasdaq's leading share across equities and options, **despite persistent competition over the years from alternative exchanges in which our clients have economic interests**.

*Other incumbent securities exchanges  
don't enjoy Nasdaq's unique combination of attributes*

# Obstacles to favoring markets with broker ownership interests

- **Heightened disclosure requirements**, including enhanced 606 rules and the new ATS transparency rule (ATS-N), as well as **heightened focus on conflicts of interest** in broker routing decisions at SEC.
- Regulation NMS **Order Protection Rule (OPR)**: In the Nasdaq Stock Market, stocks within the S&P500 are quoted at the NBBO over 60% of the time, no other single exchange is over 45%.
- **Broker dealer best-execution obligations** , agency broker dealers have robust best-execution committees representing customer interests that must approve most routing changes.

# New initiative could encourage retail onto lit exchanges

- **Nasdaq is currently UNDERWEIGHT retail order flow.** <1% of the ~20% U.S. equity market share that Nasdaq captures today is directly attributable to retail flow.
- **If this initiative, coupled with new 606 disclosures, result in Retail firms reconsidering how they execute with the objective to “do more on exchange” we welcome the opportunity to compete** on a level-playing field in terms of regulation.
- **We believe our technology platform, product offering and pricing position us well to compete and win business.**
  - *Nasdaq offers a rich set of products and functionality today that will enable Retail to continue to receive price improvement and enhance their experience on exchange should more trading occur on exchange.*
  - *Specific pricing programs for retail firms allow them to capture a rebate for both providing and taking liquidity. I.E. Retail Price Improvement program on BX, Retail focused routing/liquidity features on Nasdaq*
- **As an illustrative example, if Nasdaq captures 20% of today’s off-exchange retail activity, in line with our overall market share, that would drive an incremental upside of 3-4% to the company’s current 20% market share.**



## Nasdaq anticipates minimal impact to ancillary revenue due to the strength and value of our offerings

- **Nasdaq's revenue from shared tape plans** is largely from its on-exchange lit activity, as Tape revenue from off-exchange trade reports through the Trade Reporting Facility are overwhelmingly returned to our broker/dealer clients through a revenue-sharing agreement.
- Nasdaq believes strongly that while market share can fluctuate, if we retain leading lit-exchange market share and provide a leading source of price discovery across all our platforms, then our **proprietary data and connectivity services** will remain high value products with strong client demand and pricing that properly reflects the value of the offerings.
- Our **Nasdaq Basic proprietary data product in particular**, the leading alternative to Level 1 tape feeds, leverages unique product quality/content, Nasdaq's strong brand, multi-faceted commercial partnerships, and a long-term track record of delivering material savings to client organizations.

# Disclaimer

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