



IMPROVING CAPITAL FORMATION FOR
SMALL PUBLIC COMPANIES

May 1, 2013

PRESENTATION BY
MR. ROBERT GREIFELD
TO THE
**SECURITIES AND EXCHANGE COMMISSION ADVISORY
COMMITTEE ON SMALL AND EMERGING COMPANIES**

REDEFINING THE MODERN EXCHANGE

NASDAQ OMX TECHNOLOGY
IS USED TO POWER MORE THAN
70 MARKETPLACES
IN 50 COUNTRIES

OUR GLOBAL PLATFORM
CAN HANDLE MORE THAN
1 MILLION
MESSAGES/SECOND
AT SUB-60 MICROSECOND
AVERAGE SPEEDS

WE OWN AND OPERATE
23 MARKETS
3 CLEARINGHOUSES
AND 5 CENTRAL
SECURITIES
DEPOSITORIES

MORE THAN 5500
STRUCTURED PRODUCTS
ARE TIED TO OUR GLOBAL INDEXES
WITH THE NOTIONAL VALUE OF
AT LEAST \$1 TRILLION

NASDAQ OMX LISTS
3400 GLOBAL COMPANIES WORTH
\$6 TRILLION
IN MARKET CAP REPRESENTING
DIVERSE INDUSTRIES AND
MANY OF THE WORLD'S
MOST WELL-KNOWN AND
INNOVATIVE BRANDS

OUR GLOBAL LISTINGS BUSINESS

**8 LISTING
OPPORTUNITIES**
U.S. – NORDICS – BALTICS

NASDAQ OMX LISTS
**3400
COMPANIES**

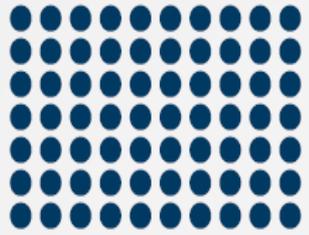
MORE THAN
**\$520
BILLION**
IN MARKET CAP
SWITCHED
TO NASDAQ
SINCE 2005

LISTINGS ARE WORTH
\$6 TRILLION
IN MARKET CAP

ONLY EXCHANGE
TO OWN CORPORATE
SOLUTIONS

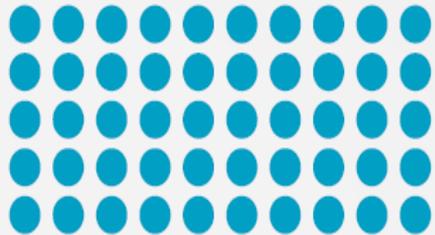
NASDAQ OMX TECHNOLOGY AROUND THE WORLD

- ADX
- ASX
- BVC
- BMS&F BOVESPA
- EGYPTIAN EXCHANGE
- EURO TLX
- FINRA
- HKE
- ICAP
- IDX
- IIROC
- INDIAN ENERGY EXCHANGE
- ISTANBUL STOCK EXCHANGE
- NIGERIAN STOCK EXCHANGE
- OSAKA SECURITIES EXCHANGE
- POLISH POWER EXCHANGE
- SINGAPORE EXCHANGE
- SIX SWISS EXCHANGE
- TADAWUL
- TOCOM



70

EXCHANGES AND
CLEARINGHOUSES IN



50

COUNTRIES



REGULATORS IN



COUNTRIES

WE OPERATE OUR MARKETS WITH THE SAME UNSURPASSED TECHNOLOGY AND THROUGH ONE ACCESS POINT.

RECOMMENDATIONS FOR SMEs

Advisory Committee on Small and Emerging Companies

NASDAQ OMX Supports the Committee Regarding:

- ▶ Trading Spreads for Smaller Exchange-Listed Companies
- ▶ Specialized Disclosure Requirements
- ▶ Disclosure and Other Requirements for Smaller Public Companies
- ▶ A Separate U.S. Equity Market for Securities of Small and Emerging Companies

WHAT IS HURTING THE U.S. PUBLIC MARKETS?

Well-intentioned incremental public policy decisions have accumulated over time, that in their totality, serve as major barricades to getting more IPOs in the U.S.

-
- ▶ Our litigious legal environment

 - ▶ Our outdated tax system

 - ▶ Regulation and the constant churning of new regulatory actions

 - ▶ Proxy Advisory Services and other unaccountable standard setters

 - ▶ Congressional Mandates targeting public companies

 - ▶ Immigration Reform and access to human capital for smaller companies
-

CAPITAL FORMATION AND JOB CREATION ARE IN OUR DNA.

- ▶ As NASDAQ grew, around NASDAQ grew an ecosystem of analysts, brokers, investors and entrepreneurs allowing growth companies to raise capital that was not previously available to them.

Apple Computer Set to Go Public Today; Massachusetts Bars Sale of Stock as Risky

By RICHARD E. RUSTIN
And MITCHELL C. LYNCH

Staff Reporters of THE WALL STREET JOURNAL.

Apple Computer Inc. is slated to go public today, amid signs that the current stock market slump may cool some of the investor avidity that had made the offering one of the most eagerly awaited in recent years.

The Cupertino, Calif., maker of microcomputers will sell 4.6 million shares at \$22 through an underwriting syndicate headed by Morgan Stanley & Co. and Hambrecht & Quist. The price indicates some degree of confidence on the syndicate's part because it's on the high side of the \$20 to \$22 range.

Under the Massachusetts ruling, the Apple stock falls short of several provisions aimed at weeding out highfliers that don't have solid earnings foundations. Unless the state later decides otherwise, stockbrokers in Massachusetts won't be able to trade the stock and Massachusetts residents won't be able to buy it.

The Apple offering is registered in 27 states, and an authority on securities law, Prof. Alan Bromberg of Southern Methodist University in Dallas, said that he wouldn't have been surprised to see "a domino effect" with other states following the Massachusetts lead.

WSJ Dec 12, 1980

- ▶ Companies like Apple, Microsoft, Oracle, Google, and Intel, all of which are listed on the NASDAQ Stock Market, use the capital they raised to make the cutting edge products that are now integral to our daily lives. As they grew, these companies have created millions of jobs along the way. It is this heritage that is the foundation of our views today.

NASDAQ OMX: THE MARKET FOR GROWTH COMPANIES

1500
COMPANIES
UNDER \$500
MILLION
IN MARKET CAP
LISTED ON NASDAQ

COMPANIES SPANING ALL INDUSTRIES

FINANCIALS - HEALTH CARE - CONSUMER -
TECHNOLOGY - ENERGY - INDUSTRIALS - TELECOM

NASDAQ CAPITAL
MARKET LISTS 505
COMPANIES

TOTAL MARKET VALUE
=

\$52 BILLION

177 IPOs

OFFERING UNDER \$100
MILLION HAVE LISTED ON
NASDAQ SINCE 2010

AVERAGE MARKET CAP
OF A NASDAQ LISTED COMPANY

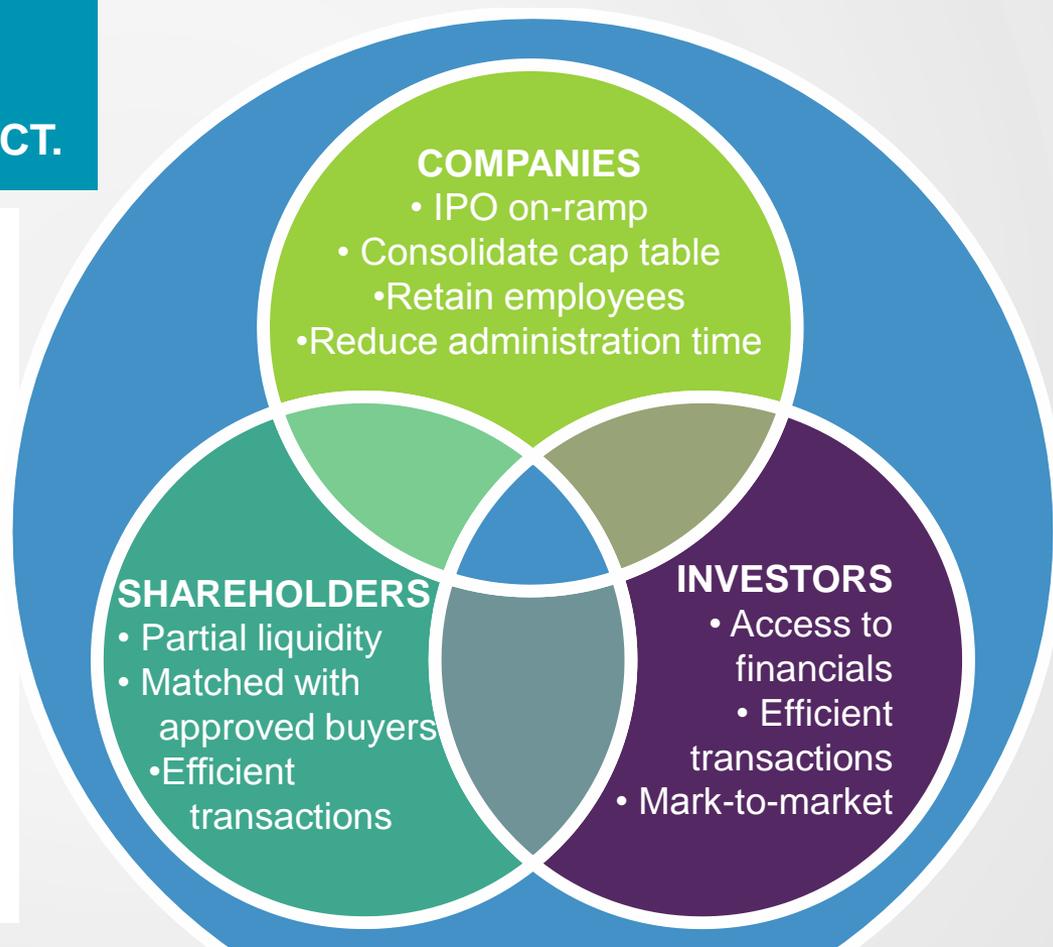
=
\$5 BILLION

ACTION: NASDAQ PRIVATE MARKET

Changes in Regulation and the Economy Have Delayed The Timeframe Before A Company Goes Public and Made It Easier/More Attractive to Remain Private.

THE NASDAQ PRIVATE MARKET WILL SERVE THE GROWING PRIVATE COMPANIES CONTEMPLATED BY THE JOBS ACT.

- Companies get the amount and type of interim liquidity they want & solve for their concerns
- Timing of IPO can be optimized and transition to public markets smoothed
- Shareholders and investors gain access to approved counterparties



ACTION:

NASDAQ OMX | FIRST NORTH

- NORDIC STEPPING STONE



APPROXIMATELY
5
COMPANIES
PER YEAR

MOVE ON FROM FIRST NORTH
TO THE MAIN MARKET

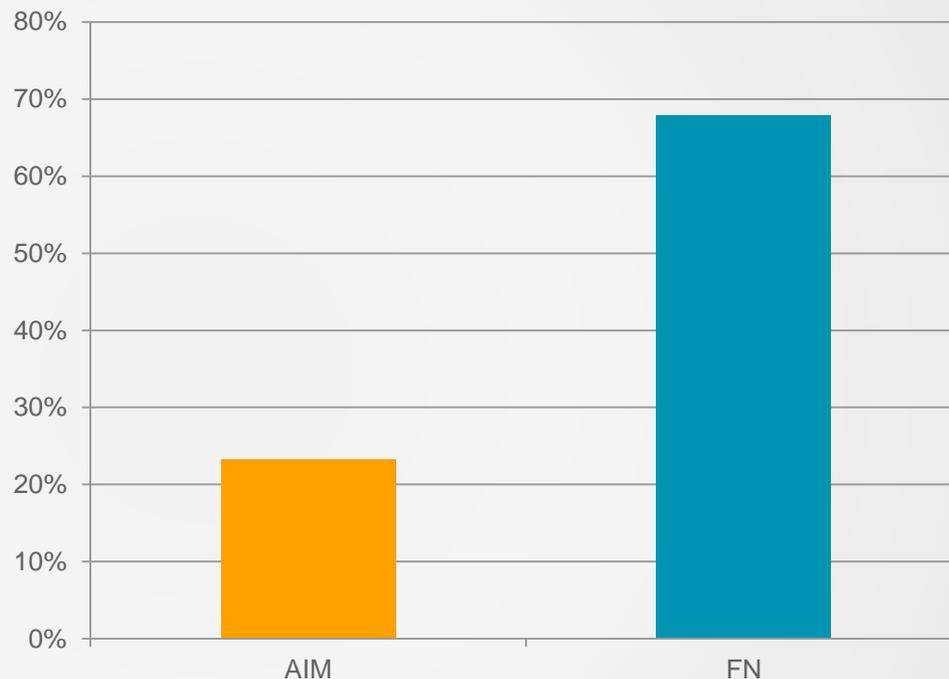
23
COMPANIES

NEWLY LISTED SINCE 2011

FIRST NORTH: BETTER SPREADS BENEFIT INVESTORS

- ▶ Almost 70% of the First North companies have a spread below 5%.
- ▶ Almost 80% of the AIM companies have a spread over 5%.
- ▶ Are investors willing to trade when transaction costs are that high?

Listed companies with a Spread below 5%

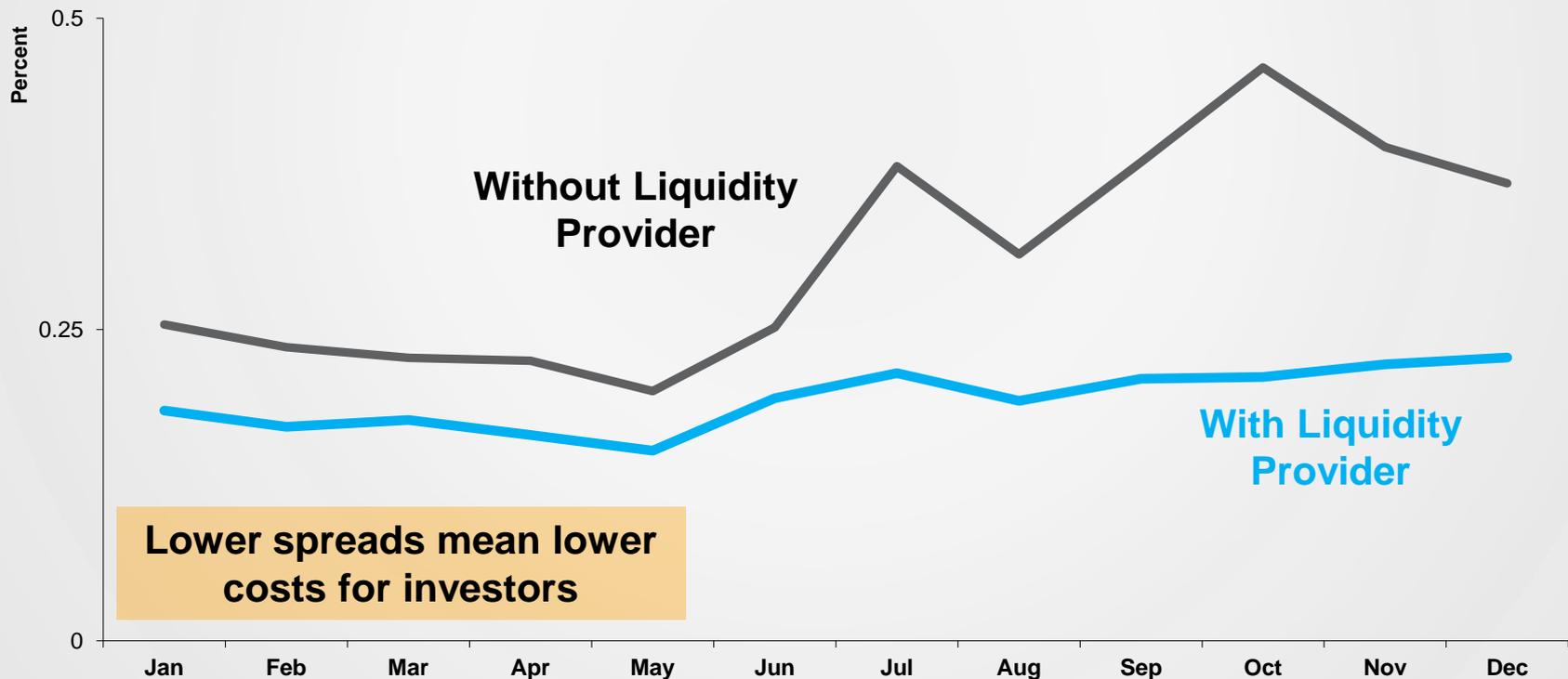


THE NORDIC EXPERIENCE WITH MARKET QUALITY PROGRAM

The NASDAQ OMX Nordic Exchange offers a Liquidity Provider (LP) market quality service to improve liquidity of listed companies.

Stocks in the program generally outperform their peers. Most notably during times of extreme market stress.

Quoted Spreads for Swedish Main List Stocks During 2008 Financial Crisis



NASDAQ OMX IS WORKING TO IMPROVE THE MARKET STRUCTURE FOR SMALL PUBLIC COMPANIES

A Supportive Ecosystem is Critical for these Job Creation Dynamamos.

While the issues for small companies go beyond market structure, the JOBS Act does not go far enough.

The JOBS Act recognized the importance of special rules for small entrepreneurial emerging companies. However, Congress did not go far enough and consider how these companies were treated once they actually go public.

- Regulation NMS subjects all stocks to a one-size-fits-all market structure that was designed for large cap stocks. Small companies are impacted more severely by a fragmented liquidity pool and dark trading.
- When limited order volume is fragmented over many, disparate trading venues, investors have difficulty entering and exiting their position in small companies. This increases the cost of investing in small companies.
- Smaller stocks do not perform well in the fragmented marketplace no matter their listing venue. This can compromise the momentum for smaller public companies and capital formation within this class of stocks.

There are innovative ideas to empower small companies to help their stocks trade more efficiently:

- **MARKET-MAKER SUPPORT PILOT PROGRAMS:** Allow the company to join a program to provide economic support for more aggressive quoting and trading in their stocks. These programs, common around the world, allow exchanges to coordinate between issuers and brokers to improve the trading of a stock.
- **LIQUIDITY CONCENTRATION PILOT PROGRAM:** Allow smaller companies to opt into a trading regime that is less fragmented than for larger companies. Outside the U.S., fragmented trading is generally limited to large index securities.

PROPOSAL: MARKET QUALITY PROGRAM FOR EQUITIES

The NASDAQ Market Quality Program (MQP) is the first market structure and incentive program that allows Exchange-Traded Fund (ETF) issuers to contribute funds to the exchange to pay Market Makers.

Issuers

- Access to a broader pool of liquidity providers for securities in the Market Quality Program.
- Encourages more competitive trading.
- Encourages the quality of markets by:
 - tightening quoted spreads,
 - increasing depth of liquidity, and
 - reducing execution costs for investors.

Market Makers

- Receive rebate payments in compensation for a commitment to enhance the quality of markets in registered securities.
- Compete for a larger dedicated pool of funds.

DETAILS: MARKET QUALITY PROGRAM FOR EQUITIES

Issuers

- Pay a listing fee that is divided into two pools.
- 50% to fund a trade share payment, rewarding liquidity provided to investors in the issuer's stock.
- 50% to fund a quote share payment, rewarding quality quotes in the issuer's stock.

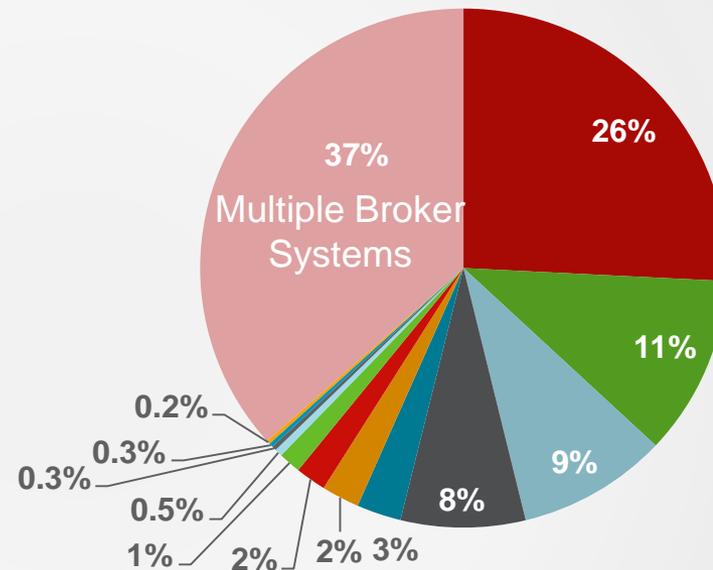
Market Makers

- To qualify for the program, market makers must meet minimum performance requirements.
- Market makers must maintain quotes at competitive prices for much of the trading day with a significant number of shares available.
- Market makers compete to receive a proportion of the trade and quote payments, creating an additional incentive to narrow spreads and provide liquidity for investors.

LIQUIDITY IS FRAGMENTED ACROSS MANY MARKETS

- ▶ Changes to the structure of US equities markets over the past decade have increased the speed and reduced the cost of trading.
- ▶ At the same time, the primary listing market ceased to be the locus of trading for the stocks they list.

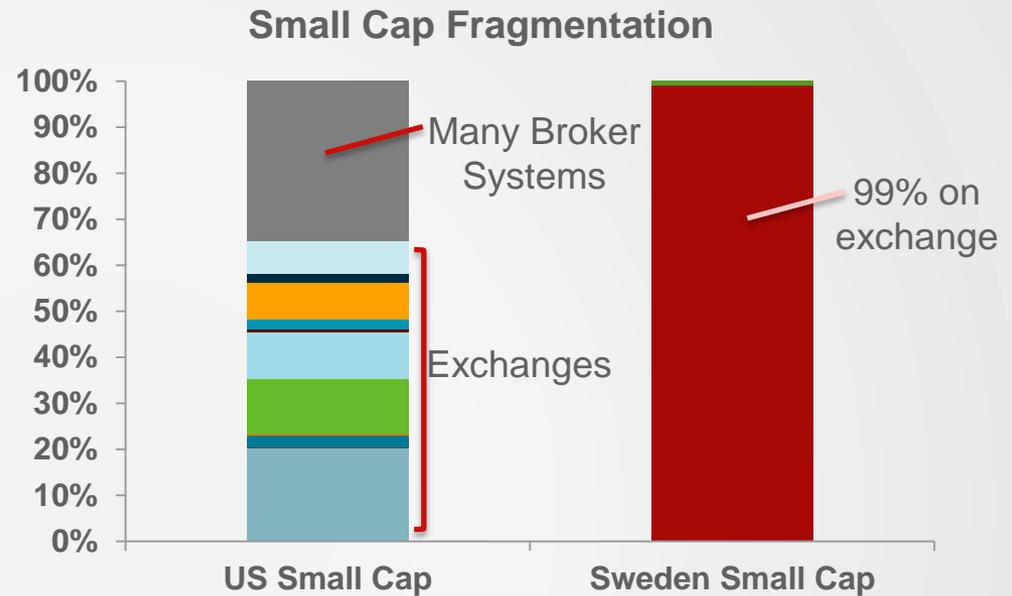
NASDAQ 100 Fragmentation



- ▶ Weaknesses in this structure became apparent on May 6, 2010.
- ▶ Brokers that ordinarily provided liquidity by matching exchange prices opted to route large quantities of unmatched sell orders to exchange markets that lacked sufficient liquidity to support executions at reasonable prices.

SMALL STOCKS ARE AS FRAGMENTED AS LARGE STOCKS

- ▶ Small stocks, where liquidity is all the more precious, are as fragmented as large stocks.
- ▶ The situation is different in Europe where trading in small stocks is much more concentrated.



- ▶ When available liquidity is spread across a bewildering array of trading venues, the difficulty of locating liquidity in a rapidly moving market is acute.
- ▶ The problems associated with fragmentation are especially acute for smaller companies, since trading interest in smaller companies is naturally thinner. This translates into greater volatility for these stocks, and may unduly limit investors' willingness to invest in them.

PROPOSAL: LIQUIDITY CONCENTRATION PROGRAM

The NASDAQ Liquidity Concentration Program would allow small and emerging growth companies the ability to influence the market structure in which their stock trades. The following options should be under consideration

- ▶ An emerging growth company under the JOBS Act should be able to determine the period of time, following its initial public offering, during which its stock will not be subject to unlisted trading privileges and will trade only on its listing market
- ▶ Additionally, an emerging growth company under the JOBS Act should also be able to designate a period of time following their initial public offering during which trading otherwise than on an exchange would be limited.

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