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 PHLX ('08)
- Direct Edge re-launched with new sponsors ('08)
- BATS becomes registered exchange ('08)

![Graph showing net revenue and volume trends from 2009 to 3Q18 TTM](image_url)
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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Information set forth in this communication contains forward-looking statements that involve a number of risks and uncertainties. Nasdaq cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Such forward-looking statements include, but are not limited to (i) projections relating to our future financial results, market share, trading volumes, business strategy, products and services, (ii) projections about the competitive and regulatory environment relevant to our cash equity, options and other exchanges and related businesses, (iii) statements about strategic developments in industries in which we compete and (v) other statements that are not historical facts. Forward-looking statements involve a number of risks, uncertainties or other factors beyond Nasdaq’s control. These factors include, but are not limited to, Nasdaq’s ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, U.S. and global competition, and other factors detailed in Nasdaq’s filings with the U.S. Securities and Exchange Commission, including its annual reports on Form 10-K and quarterly reports on Form 10-Q which are available on Nasdaq’s investor relations website at http://ir.nasdaq.com and the SEC’s website at www.sec.gov. Nasdaq undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Website Disclosure

Nasdaq intends to use its website, ir.nasdaq.com, as a means for disclosing material non-public information and for complying with SEC Regulation FD and other disclosure obligations. These disclosures will be included on Nasdaq’s website under “Investor Relations.”