



Joan C. Conley
Senior Vice President and
Corporate Secretary
805 King Farm Blvd, Suite 100
Rockville, MD 20850 / USA
[REDACTED]
[REDACTED]
www.business.nasdaq.com

July 30, 2015

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: SEC Equity Market Structure Advisory Committee (File No. 265-29)

Dear Mr. Fields:

The NASDAQ OMX Group, Inc. (“Nasdaq”) thanks the newly-formed Equity Market Structure Advisory Committee (the “Committee”) to the Securities and Exchange Commission (“SEC” or “Commission”) for providing Nasdaq the opportunity to provide its views on Equity Market Structure. On May 13, 2015, Thomas Wittman, Executive Vice President, Nasdaq, joined other panelists in providing the Committee with his thoughts on Regulation NMS Rule 611, and equity market structure in general.

At that meeting, there were some comments by members of the Committee and certain panelists concerning the amendments made by Canada to its Universal Market Integrity Rules,¹ which provided a framework for addressing so-called “dark liquidity” (the “Dark Rule Amendments”).² Nasdaq takes this opportunity to discuss this issue further in light of the May 7, 2015 Investment

¹ Available at: <http://www.iiroc.ca/industry/rulebook/Pages/UMIR-Marketplace-Rules.aspx>.

² The Dark Rule Amendments principally made three changes to the Universal Market Integrity Rules: (1) defined “better price” to mean a minimum of one trading increment except, when the difference between the best ask price and the best bid price is one trading increment, the amount shall be a minimum of one-half of one trading increment; (2) provided that an order entered on a marketplace must trade with visible orders on that marketplace at the same price before trading with a Dark Order at the same price on that marketplace; and (3) required, subject to certain exceptions, an order entered on a marketplace that trades with an order that has not been displayed in a consolidated market display to either (i) receive a better price, or (ii) be for more than 50 standard trading units or have a value of more than \$100,000.

Industry Regulatory Organization of Canada (“IIROC”) report on the impact of the Dark Rule Amendments (“IIROC Report”),³ which we have attached hereto.

At the May 13, 2015 Committee meeting, certain commenters voiced their belief that the Dark Rule Amendments have been harmful to retail investors. Nasdaq notes that such statements are not supported by findings in the IIROC Report, in which the IIROC concluded:

“On balance we believe that the regulatory objectives of the dark rule amendments are accomplished. We see a reduction in dark volume in the absence of meaningful price improvement with minimal market-wide impacts as most measures of market quality showed no deterioration.” See IIROC Report at 26.

As such, the study found that retail investor market quality on balance was unaffected, with a negative impact on those retail investor orders actively taking liquidity being offset by positive impact for other retail investor orders, including retail investor orders seeking passively to provide liquidity.⁴ Nasdaq notes that this result is consistent with the objectives of the U.S. Order Handling Rules, which were designed to promote provision of displayed liquidity – in other words, to reward liquidity makers. Moreover, IIROC found that the Dark Pool Amendments resulted in essentially no net impact to retail order flow. In this regard, IIROC noted:

“While we find active retail flow experiences moderately significant increased transaction costs (as measured by effective spreads) in the post period, the total retail flow, active and passive combined, does not show increased costs.” See IIROC Report at 5.

Thus, those that criticize the Dark Pool Amendments as being harmful to retail investors tend to focus on the portion of the retail market which actively takes liquidity, while critically omitting the beneficial effects the Dark Pool Amendments have had, such as improving liquidity provision from retail passive orders.

Consequently, we believe that there is significant evidence that the Dark Pool Amendments have had an overall positive effect on retail orders if one considers all retail order flow – both marketable and limit priced – while also placing transparency as a paramount consideration. We highlight this for the Committee not only to clarify the discussion concerning the Dark Pool Amendments, but to also act as a catalyst for continued consideration of the Canadian regulatory

³ Available at: http://www.iiroc.ca/Documents/2015/d215afed-a01e-453d-8f24-bd8ed2b948bf_en.pdf.

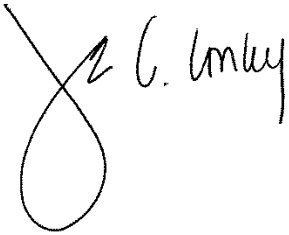
⁴ Although IIROC found higher retail effective spreads after implementation of the Dark Pool Amendments, it noted:

“Arguably the beneficial aspects of the pre-rule market structure (lower effective spreads for retail) were less to do with dark trading and more the result of market structure that allows for effective segregation of active retail flows, trades within the spread in tick-constrained stocks, and a liquidity provider’s control over who they trade with.” See IIROC Report at 6.

experience with efforts to improve its market structure and any lessons learned therefrom, which may help the Committee with its deliberations.

Nasdaq welcomes the opportunity to further discuss with the Committee the IIROC findings and U.S. equity market structure, generally. If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact me.

Respectfully,

A handwritten signature in black ink, consisting of a large, stylized loop followed by the text "Joan C. Conley" written in a cursive script.

Joan C. Conley