MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
WASHINGTON, DC | NEW YORK

July 3, 2012

Via Electronic Mail

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Nasdaq Market Quality Program; Rel. No. 34-66765

Dear Ms. Murphy:

Managed Funds Association[1] ("MFA") appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or the "Commission") on The NASDAQ Stock Market's ("NASDAQ") proposal to establish a Market Quality Program ("MQP") through new Rule 5950 ("MQP Proposal").[2]

NASDAQ states that the MQP is meant to promote market quality in certain listed securities by allowing "market makers that voluntarily commit to and do in fact enhance the market quality (quoted spread and liquidity) of certain securities listed on the Exchange to qualify for a fee credit pursuant to [NASDAQ's] Market Quality Program, and to exempt the Market Quality Program from Rule 2460 (Payment for Market Making)."[3] A security must be listed on NASDAQ as an exchange traded fund ("ETF"), linked security ("LS"), or trust issued receipt ("TIR") to be eligible for the MQP;[4] and

[1] The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and all other regions where MFA members are market participants.

[2] SEC Rel. No. 34-66765 (April 6, 2012); File No. SR-NASDAQ-2012-043.

[3] *Id.*

[4] Proposed rule 5950(b)(1)(B).

have an average NASDAQ daily trading volume of less than two million shares.[5] The MQP set forth in proposed Rule 5950 would be effective for a one-year pilot period.[6]

MFA appreciates that liquid markets instill confidence in all investors and support capital formation. In this respect, the U.S. markets for large-cap securities have been very successful. The markets for small-cap securities, however, are often faced with limited liquidity and limited trading volumes; which make such securities more risky and difficult to trade for investors. We applaud NASDAQ in its efforts to develop innovative solutions to enhance market quality and liquidity for small-cap securities.

We believe the experience of the Scandinavian and European exchanges, and the findings of the academic studies on payment for market making programs are promising and lend support for the trial of such a program in the United States.[7] In reviewing NASDAQ's proposal, we support limiting the scope of the MQP to ETFs, LSs and TIRs. We would have reservations were the MQP to apply to single-name securities, as we believe that payment by corporate issuers for market-making could change the market dynamics. We generally believe that permanent rules should be empirically-based; thus, we believe that a pilot program is appropriate as it allows both the Commission and NASDAQ to study and test the program. Accordingly, we are interested in the adoption of the MQP for certain listed-securities on a pilot program.

We would be pleased to further discuss our comments and views with the Commission or its staff. Please feel free to contact the undersigned or Jennifer Han at (202) 730-2600.

Respectfully submitted,

/s/ Stuart J. Kaswell

Stuart J. Kaswell
Executive Vice President & Managing
Director, General Counsel

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[5] *See* Proposed rule 5950(d)(1)(A). An MQP security will terminate the MQP when it sustains an average NASDAQ daily trading volume of two million shares or more for three consecutive months.

[6] MQP Proposal at 2.

[7] *See, e.g.,* Johannes A. Skjeltorp and Bernt Arne Odegaard, *Why do listed firms pay for market making in their own stock?*, June 2011, *available at:* http://www1.uis.no/ansatt/odegaard/uis_wps_econ_fin/uis_wps_2010_3_skjeltorp_odegaard.pdf; Amber Anand *et. al.*, CREATES Research Paper 2007-4, *Paying for Market Quality, available at:* ftp://ftp.econ.au.dk/creates/rp/07/rp07_04.pdf; Albert J. Menkveld and Ting Wang, *How Do Designated Market Makers Create Value for Small-Caps?*, January 28, 2009, *available at:* http://www.idei.fr/doc/conf/fbf/menkveld.pdf; *and* Jördis Hengelbrock, *Designated Sponsors and Bid-Ask Spreads on Xetra*, October 31, 2008, *available at:* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1046961.