

## **I. Self-Regulatory Organization's Statement of the Terms of the Substance of the Proposed Rule Change**

Nasdaq proposes to list and trade Index LeverAged StockMarkEt Return Securities<sup>SM</sup> linked to the Nasdaq-100® Index ("Notes") issued by Citigroup Global Markets Holdings Inc. ("CGMHI").

## **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, Nasdaq included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Nasdaq has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

### *A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

#### **1. Purpose**

Nasdaq proposes to list and trade Index LeverAged StockmarkEt Return Securities, the return on which is based upon the Nasdaq-100 Index.<sup>3</sup>

<sup>3</sup> The Nasdaq-100 Index is a modified capitalization-weighted index of 100 of the largest non-financial companies listed on The Nasdaq National Market tier of The Nasdaq Stock Market. The Index constitutes a broadly diversified segment of the largest securities listed on The Nasdaq Stock Market and includes companies across a variety of major industry groups. The securities in the Index must, among other things, have an average daily trading volume on Nasdaq of at least 200,000 shares.

In order to limit domination of the Index by a few large stocks, the Index is calculated under a "modified capitalization-weighted" methodology, which is a hybrid between equal weighting and conventional capitalization weighting. Under the methodology employed, on a quarterly basis coinciding with Nasdaq's quarterly scheduled weight adjustment procedures, the Index Securities are categorized as either "Large Stocks" or "Small Stocks" depending on whether their current percentage weights (after taking into account such scheduled weight adjustments due to stock repurchases, secondary offerings, or other corporate actions) are greater than, or less than or equal to, the average percentage weight in the Index (*i.e.*, as a 100-stock index, the average percentage weight in the Index is 1.0%). Such quarterly examination will result in an Index rebalancing if either one or both of the following two weight distribution requirements are not met: (1) The current weight of the single largest market capitalization Index component security must be less than or equal to 24.0%, and (2) the "collective weight" of those Index component securities whose individual current weights are in excess of 4.5%, when added together, must be less than or equal to 48.0%. Index securities are ranked by market value and are evaluated annually to determine which securities will be included in the Index. Moreover, if at any

Under NASD Rule 4420(f), Nasdaq may approve for listing and trading securities which cannot be readily categorized under traditional listing guidelines.<sup>4</sup> Nasdaq proposes to list for trading notes based on the Nasdaq-100 Index under NASD Rule 4420(f).

The Notes, which will be registered under Section 12 of the Act, will initially be subject to Nasdaq's listing criteria for other securities under NASD Rule 4420(f). Specifically, under NASD Rule 4420(f)(1):

(A) The issuer shall have assets in excess of \$100 million and stockholders' equity of at least \$10 million. In the case of an issuer which is unable to satisfy the income criteria set forth in paragraph (a)(1), Nasdaq generally will require the issuer to have the following: (i) assets in excess of \$200 million and stockholders' equity of at least \$10 million; or (ii) assets in excess of \$100 million and stockholders' equity of at least \$20 million;

(B) There must be a minimum of 400 holders of the security, provided, however, that if the instrument is traded in \$1,000 denominations, there must be a minimum of 100 holders;

(C) For equity securities designated pursuant to this paragraph, there must be a minimum public distribution of 1,000,000 trading units;

(D) The aggregate market value/principal amount of the security will be at least \$4 million.

CGMHI and the Notes will satisfy the criteria set forth above. In addition, CGMHI satisfies the listed marketplace requirement set forth in NASD Rule 4420(f)(2).<sup>5</sup> Lastly, pursuant to NASD Rule 4420(f)(3), prior to the commencement of trading of the Notes, Nasdaq will distribute a circular to members providing guidance regarding compliance responsibilities and requirements, including suitability recommendations, and highlighting the

time during the year an Index security is no longer trading on the Nasdaq Stock Market, or is otherwise determined by Nasdaq to become ineligible for continued inclusion in the Index, the security will be replaced with the largest market capitalization security not currently in the Index that meets the Index eligibility criteria.

For a detailed description of the Nasdaq-100 Index, see the prospectus supplement that will be filed by CGMHI with the Commission prior to the issuance of the Notes.

<sup>4</sup> See Securities Exchange Act Release No. 32988 (September 29, 1993); 58 FR 52124 (October 6, 1993).

<sup>5</sup> NASD Rule 4420(f)(2) requires issuers of securities designated pursuant to this paragraph to be listed on The Nasdaq National Market or the New York Stock Exchange ("NYSE") or be an affiliate of a company listed on The Nasdaq National Market or the NYSE; provided, however, that the provisions of NASD Rule 4450 will be applied to sovereign issuers of "other" securities on a case-by-case basis.

special risks and characteristics of the Notes. In particular, Nasdaq will advise members recommending a transaction in the Notes to: (1) Determine that such transaction is suitable for the customer; and (2) have a reasonable basis for believing that the customer can evaluate the special characteristics of, and is able to bear the financial risks of, such transaction.

The Notes will be subject to Nasdaq's continued listing criterion for other securities pursuant to NASD Rule 4450(c). Under this criterion, the aggregate market value or principal amount of publicly-held units must be at least \$1 million. The Notes also must have at least two registered and active market makers as required by NASD Rule 4310(c)(1). Nasdaq will also consider prohibiting the continued listing of the Notes if CGMHI is not able to meet its obligations on the Notes.

The Notes are a series of senior unsecured debt securities that will be issued by CGMHI. Each Index LASERS represents a principal amount of \$10. Index LASERS may be transferred only in units of \$10 and integral multiples of \$10. The Notes will not pay interest and are not subject to redemption by CGMHI or at the option of any beneficial owner before maturity, which is expected on or about one year after the issue date.<sup>6</sup>

At maturity, a beneficial owner will receive an amount in cash equal to \$10 plus an index return amount, which may be positive, zero or negative. Because the index return amount may be negative, the maturity payment could be less than the \$10 principal amount per Index LASERS and could be zero.

The index return amount will be based on the index return of the Nasdaq-100 Index. The index return will equal a fraction, the numerator of which is the Ending Value<sup>7</sup> minus the Starting Value<sup>8</sup> and the denominator of which is the Starting Value, provided that the index return will not in any circumstances be greater than a cap which is expected to be approximately 5% to 6%.<sup>9</sup> How the index return is calculated will depend on whether the index return is positive, zero or negative.

If the index return is positive, the index return amount will equal the

<sup>6</sup> The actual maturity date will be determined on the day the Notes are priced for initial sale to the public.

<sup>7</sup> The Ending Value will be the closing value of the Nasdaq-100 Index on approximately the third index business day before the maturity date of the Notes.

<sup>8</sup> The Starting Value will equal the closing value of the Nasdaq-100 Index on the date the Notes are priced for initial sale to the public.

<sup>9</sup> The actual cap will be determined on the date the Notes are priced for initial sale to the public.