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What Makes Markets

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A Better Way to Start the Day: Why the NASDAQ Opening Cross Is Good News for Investors

This week's launch of the NASDAQ Opening Cross, a new process for pre-market open trading and price discovery, marks another significant step in the evolution of the securities market toward a fairer playing field for all participants.

At a time when the Securities Exchange Commission and other global securities players are debating what the future structure of the markets should look like, this innovation shows how the combination of market forces and leading-edge technology can lead to optimal outcomes for investors—without any need for new regulation.

Building on the success of the April introduction of the Closing Cross, the Opening Cross gives both retail and institutional investors access to better information, more accurate prices and enhanced execution quality. With more than 15,000 messages processed per second, NASDAQ's market opening is one of the busiest points in the trading day.

Until now, the opening price of any given stock was driven by whatever trade happened to be executed first that day. But the Opening Cross changes that by creating an efficient electronic opening process that generates a single price reflecting the true state of supply and demand for a particular stock at the start of each trading day. As a result, all investors, big or small, now enjoy a much more open and transparent flow of information and an enhanced set of execution choices—ultimately translating into greater fairness.

An equally important benefit to the new opening process is the enabling of market forces to play a much bigger role in determining prices, which in turn helps maximize volume. And, because the Opening Cross provides a more orderly process for matching sellers and buyers for large orders, it is particularly valuable on days when index futures and options are set to expire.

But the new approach is perhaps most significant for

retail investors, who typically research stocks and place their online trading orders when the market is closed. In the past, these retail orders were held overnight and executed after the market opened at 9:30 a.m. ET. Now they contribute to determining the market-opening price.

Competition and transparency are the keys to ensuring fair prices. To ensure the Opening Cross is competitive, NASDAQ accepts on-open orders from all partic-

ipants, with entry starting at 7:30 a.m. In addition, investors can provide offsetting liquidity through imbalance-only orders.

In the last two minutes prior to the market's opening, NASDAQ disseminates information, with increasing frequency, about any imbalance that exists among orders on the opening book, plus an indicative opening price. In the opening process, the opening book and the NASDAQ

Market Center continuous book are brought together to create a single NASDAQ Opening Cross at 9:30 a.m.

Designing and testing the Opening and Closing Crosses represented a huge technological undertaking—one that was in the works for more than five years. To ensure the results met industry needs, NASDAQ sought input from buy-side and sell-side players as well as from "Dr. Auction"—Professor Bob Schwartz of Baruch College. This collaboration proved enormously helpful, resulting in a concept that emphasized competition, transparency, predictability and familiarity.

The Opening Cross is yet another illustration of how technology—which gives all participants fair, fast and equal access to the same information—is becoming the driving force behind the functioning of markets.

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