

### Nasdaq – Early Look MOC

It was only a year ago when Nasdaq moved its auction cut-off from 15:50 to 15:55. On **November 4<sup>th</sup>**, they will move it back to 15:50 – but with a twist:

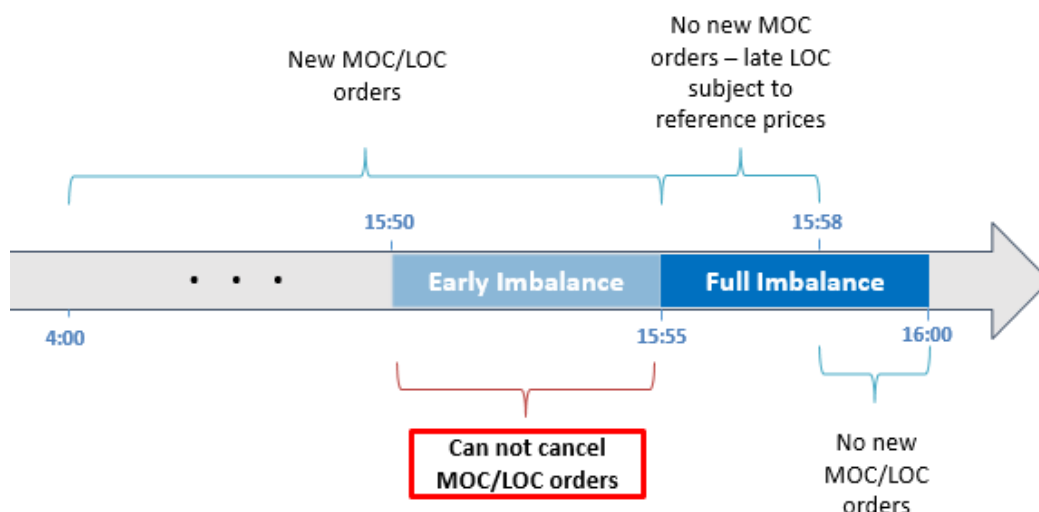
There will now be an early imbalance window where new MOC/LOC orders can be entered.

Currently at Nasdaq:

- The imbalance feed begins to publish information after 15:55 and updates every second
- Participants can send & cancel MOC/LOC orders up until 15:55
- Late LOC orders are limited by the 15:55 reference price and are not accepted after 15:58

After Nov 4<sup>th</sup>:

- The Imbalance feed will begin sharing information at 15:50 and update every 10 seconds
- Except for near and far price information – all other elements of the feed will be published
- Participants can continue to send MOC/LOC orders until 15:55, but they **can't cancel** after 15:50
- Late LOC orders will behave the same, but will be limited by the more aggressive of the 15:50 or 15:55 reference price
- After 15:55 all else will remain the same for both the imbalance feed and new orders



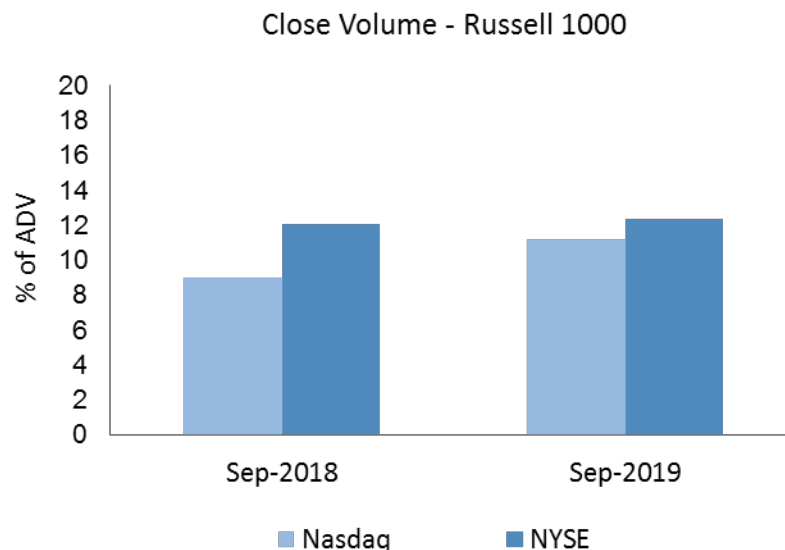
## Motivation

Nasdaq realizes a [substantial](#) portion of their trading revenue on the close, but it faces increasing competition from brokers and venues trying to syphon volume. NYSE has been relatively successful increasing usage of their close auction by offering D-Quotes to react to imbalances. However, Nasdaq does not offer similar functionality – limiting the ability of algorithms to engage.

The new approach arms participants with more information, while providing a higher certainty of execution through MOC or LOC orders. On the whole we believe these changes will be beneficial, especially for traders seeking liquidity. Even through the early imbalance feed could be volatile, we believe this increased transparency is an improvement over being blind heading into the auction. The lower uncertainty should boost size and broaden the situations in which traders or algorithms avail themselves to it.

### Practical Implications

- The imbalance on Nasdaq will be able to flip between 15:50 & 15:55
- There is a higher probability of price and volume fluctuations at and between 15:50 & 15:55
- Since orders reacting to the imbalance can't be cancelled – immediate price action on Nasdaq names should continue to be more sensitive than NYSE names
- The limited use of late LOC orders will shrink further now that participants can iron out large imbalances earlier with less restrictions
- Change could help Nasdaq continue to lower the gap with NYSE for close usage, especially if more natural counterparties engage



Source: RBC & TAQ data

## Algorithmic Considerations

Clients that require the flexibility to cancel their orders in the last 10 minutes should avoid the Nasdaq close. To limit confusion, RBC will continue to reject any late LOC orders that would be re-priced to Nasdaq's reference. Once we have studied enough data, our algorithms will calibrate:

- Smart offset – we'll allow Nasdaq names (like NYSE) to opportunistically offset large early imbalances
- Timing – earlier auction submission for clients looking to use the close to attract size, while later for those sensitive to impact
- Sizing – our close volume prediction will be enhanced to include the early imbalance feed

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