Nasdaq Announces First Exchange AI Powered Order Type Approved By the SEC

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As part of Nasdaq's commitment to modernizing the markets, the company continues to leverage emerging technologies, including AI, to enhance the efficiency and performance of our exchange

NEW YORK, Sept. 08, 2023 (GLOBE NEWSWIRE) -- Nasdaq (Nasdaq: NDAQ) today announced it has received SEC approval to launch Dynamic Midpoint Extended Life Order (M-ELO), the first exchange Artificial Intelligence (AI) powered order type.

Nasdaq's M-ELO matches like-minded counterparties with longer-term investing horizons on a broker-neutral SEC-regulated Exchange by requiring each party to a trade to wait a short period of time before trading. Dynamic M-ELO will leverage Artificial Intelligence to provide real-time changes to holding periods for M-ELO participants, which is set to improve fill rates and reduce market impact. The order type applies an AI model with over 140 factors and offers an average combined volume-weighted improvement of over 30% in testing. Dynamic M-ELO simultaneously enhances both liquidity and execution quality improvement outcomes, usually considered mutually exclusive, by adjusting dynamically to real-time market conditions.

The traditional M-ELO order type was originally designed using a static holding period set to common, nonspecific market conditions. Through extensive research and market participant feedback, Nasdaq found that high-quality executions and protection against adverse selection are improved when the holding period is dynamically adjusted to real-time market conditions. Based on that research, Nasdaq developed the first real-time AI order type, Dynamic M-ELO, which has shown a 20.3% increase in fill rates and an 11.4% reduction in mark-outs[1].

"As part of our commitment to modernizing markets, Nasdaq takes a thoughtful long-term approach to technology adoption and advancement to ensure we drive innovation in a responsible manner" said Tal Cohen, President of Market Platforms at Nasdaq. "AI powered Dynamic M-ELO is a purpose built solution that encapsulates our ambition to cultivate the quality of our markets and underscores our commitment to delivering innovative products and tools that benefit all market participants."

"Through decades of investment and experience in underlying technological infrastructure and data standardization, Nasdaq is able to leverage new technology, including AI, to improve price discovery and market efficiency," said Kevin Kennedy, Executive Vice President, North American Trading Services at Nasdaq. "Dynamic M-ELO delivers optimal outcomes to market participants by intelligently adapting to real-time market conditions, which improves overall execution quality and fill rates. As our clients operate in an increasingly dynamic market environment, we look forward to partnering and supporting them with best-in-class markets and innovative solutions."

In addition to the AI powered order type, Nasdaq also implemented predictive AI in its US options markets this year. The initiative was designed to improve overall efficiency and provide strike lists more aligned to market and client demand across all six of Nasdaq's US options exchanges.

With almost 1.5 million individual options symbols listed in the US, Nasdaq recognized a need to improve capabilities in determining new strike listings. Nasdaq's Strike Price Optimization Program analyzes the millions of possible daily symbols and uses predictive AI to estimate their potential demand. The program then determines which strikes are likely to trade and which are not, keeping total strikes listed flat while improving liquidity and internal operational efficiency. All changes suggested by the innovative AI-powered program are reviewed by human eyes daily to ensure accuracy and completeness. The new process streamlines the human power needed to determine new listings, which previously required daily manual analysis of millions of symbols.

Please visit our website for more information on Dynamic M-ELO:
https://www.nasdaq.com/docs/2023/09/07/1781-Q23_Dynamic%20M-ELO%201%20Pager_NAM-vf.pdf

About Nasdaq

Nasdaq (Nasdaq: NDAQ) is a leading global technology company serving corporate clients, investment managers, banks, brokers, and exchange operators as they navigate and interact with the global capital markets and the broader financial system. We aspire to deliver world-leading platforms that improve the liquidity, transparency, and integrity of the global economy. Our diverse offering of data, analytics, software, exchange capabilities, and client-centric services enables clients to optimize and execute their business vision with confidence. To learn more about the company, technology solutions, and career opportunities, visit us on LinkedIn, on Twitter @Nasdaq, or at www.nasdaq.com.

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[1] Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Rules 4702(b)(14) and (b)(15) Concerning Dynamic M-ELO Holding Periods, https://www.sec.gov/files/rules/sro/nasdaq/2023/34-96600.pdf

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