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# NASDAQ OMX Group

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## Table of Contents

- **Introduction**
- **Chapter 1** The Birth of an Electronic Market: NASDAQ's Founding
- **Chapter 2** From Quotation System to Market Innovator: Early Developments (1971-1980s)
- **Chapter 3** Growth and Globalization: The 1980s and 1990s
- **Chapter 4** The Dot-Com Era: NASDAQ and the Technology Boom
- **Chapter 5** Surviving the Crash: NASDAQ and the Post-Dot-Com World
- **Chapter 6** Becoming Public: The Modern NASDAQ IPO and Independence
- **Chapter 7** The Road to OMX: Origins and Expansion of OMX in Europe
- **Chapter 8** Building a Nordic Giant: OMX's Mergers and Acquisitions
- **Chapter 9** The Merger: Creating NASDAQ OMX Group
- **Chapter 10** Nasdaq Nordic: Integrating European Markets
- **Chapter 11** Advancing Technology: INET and the Electronic Advantage
- **Chapter 12** Products and Platforms: Listing, Trading, and Beyond
- **Chapter 13** Index Power: The Development and Impact of NASDAQ Indices
- **Chapter 14** Market Data and Investor Solutions
- **Chapter 15** Financial Technology Leadership: Expanding the Toolkit
- **Chapter 16** Acquisitions as Strategy: Building a Global Powerhouse
- **Chapter 17** The U.S. Exchange Landscape: Boston, Philadelphia, and Competition
- **Chapter 18** Corporate Structure and Executive Leadership
- **Chapter 19** Regulatory Role: Oversight and Market Integrity
- **Chapter 20** Capital Markets and Global Connectivity
- **Chapter 21** Serving Companies and Investors: Corporate Solutions
- **Chapter 22** Navigating Crises: Challenges and Adaptations
- **Chapter 23** Embracing Transformation: From Exchange to Technology Firm
- **Chapter 24** Recent Performance: Growth, Profitability, and Market Trends
- **Chapter 25** The Future of Nasdaq, Inc.: Innovation and Global Impact

## Introduction

The NASDAQ OMX Group, known today as Nasdaq, Inc., represents not just a cornerstone of modern American finance but also a story of continuous transformation, vision, and adaptation. As capital markets evolved rapidly through the late twentieth and early twenty-first centuries, Nasdaq stood at the center of many of these changes, pioneering the move away from traditional, floor-based trading to fully electronic marketplaces and redefining the very nature of how companies and investors interact.

This book endeavors to present a comprehensive history of the NASDAQ OMX Group, chronicling its emergence, growth, and eventual transformation into one of the world's premier global financial technology firms. At its core, this is a story of how a single innovation—a computerized quotation system for securities—sparked waves of change that shaped the entire financial landscape, both in the United States and around the world. From its humble beginnings as the National Association of Securities Dealers Automated Quotations in 1971, through periods of explosive growth, regulatory overhaul, and technological revolution, the tale of Nasdaq is inextricably linked with the development of the modern global economy.

The NASDAQ OMX Group's journey has not been linear. It has faced daunting challenges, including market crashes, regulatory scrutiny, and intense competition both domestically and internationally. Yet, it has continually reimagined its role: from a mere facilitator of stock price quotations to an operator of multiple exchanges, then as a leader in advanced trading technology, and now as an innovator in global financial services and risk management solutions. Each phase has required bold decision-making, strategic acquisitions—such as its transformational merger with OMX—and a willingness to adapt in the face of uncertainty.

Alongside chronicling the milestones that defined Nasdaq's history, this book examines the company's current identity and operational structure. It considers how recent technological advances—such as artificial intelligence, cloud computing, and anti-financial crime platforms—are reshaping the company's offerings and outlook. Moreover, the narrative addresses Nasdaq's critical regulatory functions and its broad impact on fostering transparency, liquidity, and fairness in financial markets, roles that now extend far beyond its original mission.

This book also looks to the future. With a keen eye on emerging trends, global economic uncertainty, and the accelerating pace of innovation, we will explore where Nasdaq, Inc. is headed. Its ascent from national quotation system to global exchange and, ultimately, to a financial technology giant offers essential lessons about

resilience, ingenuity, and the interconnectedness of global markets.

For investors, business leaders, students of financial history, and anyone seeking to understand the engines that drive the world's capital markets, the story of the NASDAQ OMX Group is instructive and inspirational. It serves not only as a chronicle of corporate evolution but also as a mirror reflecting the changing values, technologies, and aspirations of the broader financial world.

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## **CHAPTER ONE: The Birth of an Electronic Market: NASDAQ's Founding**

Before the advent of flashing digital screens and instant trading, the world of securities was a considerably more vocal and chaotic affair. Stockbrokers on exchange floors bellowed orders, and transactions for stocks not listed on major exchanges—known as over-the-counter (OTC) securities—were conducted through a laborious network of telephone calls and physical certificate deliveries. Imagine a bustling bazaar where prices were opaque and securing the best deal depended heavily on who you knew and how quickly you could dial. This analog reality, while perhaps charming in retrospect, was ripe for a technological overhaul.

The catalyst for this change arrived in the early 1960s. The U.S. Securities and Exchange Commission (SEC), concerned by the lack of transparency and efficiency in the burgeoning over-the-counter market, began to push for automation. Their findings highlighted a crucial need for improved regulation and a more systematic approach to how these securities were quoted and traded. The SEC's urgings led to a pivotal decision by the National Association of Securities Dealers (NASD), an organization founded in 1939 to regulate the securities industry. The NASD, now known as the Financial Industry Regulatory Authority (FINRA), was tasked with bringing order to this often-unruly corner of the financial world.

Recognizing the need for a modern solution, the NASD embarked on an ambitious project in 1968. They contracted with the Bunker-Ramo Corporation of Trumbull, Connecticut, a firm known for its computing expertise, to design and build a revolutionary automated system. The vision was clear: create a system where market makers—those who stood ready to buy and sell specific securities—could electronically update their bid and ask quotes. This would move beyond the traditional "ticker tape" that merely showed historical trades and instead offer real-time pricing. The cost for this groundbreaking five-year project was estimated at a then-substantial \$25 million.

The result of this effort was the National Association of Securities Dealers Automated Quotations, an acronym that would forever be etched into financial history: NASDAQ. On February 8, 1971, the NASDAQ Stock Market officially commenced operations, launching as the world's first fully electronic stock market. It was a seminal moment, ushering in an era where computers, not shouting, would define the pace of trading. The initial setup was a marvel of its time, powered by two redundant Univac 1108 computers located at a central system in Connecticut. These mainframes were linked to regional centers in major financial hubs like Atlanta, Chicago, New York, and San Francisco, which then aggregated and disseminated requests. By December 1975, a

staggering 20,000 miles of dedicated telephone lines connected these regional centers to 642 brokerage offices, showcasing the sheer scale of this electronic undertaking.

Initially, NASDAQ functioned primarily as a "quotation system" rather than a direct electronic trading platform. Its core purpose was to display representative quotes for over 2,500 OTC securities, allowing traders to see the current bid and ask prices from various market makers across the country. This was a significant departure from the old ways, where discovering the best price involved a series of time-consuming phone calls. With NASDAQ, a broker could quickly identify where the most favorable price was available and then call that market maker to execute the trade. Market makers, in turn, could use the dedicated NASDAQ terminals—equipped with CRT screens and keyboards—to instantly update their quotations and transmit the latest values.

This innovative system brought unprecedented transparency to the OTC market. Before NASDAQ, there was no central place to obtain fair market quotes, and all activity was handled over the telephone. By providing a continuous stream of electronic quote history, available equally and simultaneously to many users, NASDAQ fundamentally changed the game. This level of accessibility to real-time market data, which today's traders take for granted through systems like the Securities Information Processor (SIP), was revolutionary in 1971.

The NASD's foresight in establishing NASDAQ was not merely about technological advancement; it was also about fulfilling its regulatory mandate to ensure fairness and efficiency in the securities industry. By providing a transparent and automated system for price discovery, NASDAQ helped to standardize a market that had long been fragmented and opaque. This shift toward automation also paved the way for lower bid-ask spreads, making it more efficient for investors to buy and sell securities. While this might have been unpopular with some traditional securities brokers who thrived on wider spreads, it ultimately benefited the broader market and individual investors.

The decision to create NASDAQ was a bold one, representing a fundamental shift away from the traditional, floor-based trading models that had dominated exchanges for centuries. The early data centers, complete with their tape drives and monochrome screens, might seem quaint by today's standards, but they were the cutting edge of financial technology at the time. It was a clear statement that the future of markets would be electronic, driven by data and speed.

One of the early triumphs of NASDAQ was its ability to attract innovative, growth-oriented companies as listing venues. While the New York Stock Exchange had long been the established home for large, blue-chip companies, NASDAQ carved out a niche by offering a platform for emerging businesses. Intel Corporation, a nascent technology company, was among the first major corporations to list its shares on NASDAQ in 1971. This early association with technology would become a defining

characteristic of the exchange, attracting future giants like Apple in 1980 and Microsoft in 1986. Thus, from its very inception, NASDAQ was not only providing technology to markets but also drawing technology companies to its markets, creating a symbiotic relationship that would shape its future.

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