

## People in the Trade: William O'Brien

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US equity trading venue Direct Edge's pursuit of exchange status for its two trading platforms, EDGA and EDGX, will put it on the same regulatory footing as its three biggest rivals – the New York Stock Exchange (NYSE), Nasdaq and BATS Exchange.

All three are now transatlantic operations: NYSE through its merger with European exchange group Euronext, Nasdaq through its acquisition of Nordic exchange provider OMX and subsequent launch of the Nasdaq OMX Europe multilateral trading facility (MTF), and BATS through the introduction of its BATS Europe MTF.

Direct Edge, however, is in no rush to follow suit, particularly in light of the recent fall in trading volumes in Europe.

“When you see announcements about new European MTFs every day, it is very easy to develop a lemming-like mentality,” says CEO William O'Brien. “We resisted because we didn't believe Direct Edge could add a lot of value by being the 10th or 11th MTF to throw its hat into the ring. You see now, especially with the decline of the notional value traded in Europe, a lot of challenges for operators of MTFs that aren't adding any value.”

Direct Edge will continue to examine overseas opportunities in 2009, but O'Brien says the firm will only expand if it can differentiate itself from the competition. “We are not going to look to engage in new areas where we are a me-too player,” he says.

The bulk of Direct Edge's efforts in 2009 will be spent securing exchange licences for EDGA and EDGX from the US Securities and Exchange Commission and establishing the two platforms as exchanges running on a new technology platform. The firm plans to complete this process by Q4 this year. EDGX employs maker-taker pricing, while there is no charge for posting or removing liquidity on EDGA.

“We are probably a few weeks away from formally filing our Form 1 with the SEC,” says O'Brien.

O'Brien contends that exchange status and Direct Edge's acquisition of the ISE Stock Exchange, finalised on 23 December, will bring a number of benefits to Direct Edge's existing customers and help the firm grow market share by attracting new ones.

First, Direct Edge expects to pass on the economic benefits to customers in the form of rebates. As an ECN, Direct Edge has had to disseminate quotations through, and share market data revenues with, a registered exchange – in its case the ISE Stock Exchange. Now it owns the exchange, however, Direct Edge receives 100% of the market data revenues.

Exchange status will also cut Direct Edge's clearing costs. ECNs act as counterparty to both the buyer and seller so Direct Edge clears all its trades through Merrill Lynch's Broadcort unit. But because buyers and sellers are counterparties to one another on an exchange, Direct Edge will only need to provide clearing for trades it routes to other venues, once it gains regulatory approval.

Second, the new trading platform – a combination of Direct Edge and ISE technology – will be able to handle 2.5 billion transactions per day per platform, a capacity increase of nearly 10 times.

Exchange status could also help Direct Edge broaden its product portfolio, as some asset classes, such as options, are rarely traded on ECNs. "We also think it will give customers greater confidence that Direct Edge is an enduring company that they can entrust their business to every day over the long term," says O'Brien.

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