

Technology Weeds Out Players

By Karla L. Yeh, Chicago Correspondent

Technology innovation in electronic order books will realign U.S. equities market structure as market makers are poised to take market share volume from "less adaptive players," according to a report by Boston-based research and consulting firm Celent.

The most successful electronic order books collectively control more than 53 percent of market share volume, and the firm expects the group to gain up to 65 percent of total U.S. share volume by 2012. But the major electronic order book houses will find themselves competing with the rising liquidity providers that are "filling the gaps created by the departure by the market turmoil," Celent said.

The firm noted that Citadel Derivatives and Getco, both Chicago-based firms, currently control approximately 5 percent of average daily share volume, which could increase to 10 percent in three years.

In addition, firms that control the smallest amount of market share volume, including market makers, have increased market share from 6 percent to 11 percent after Reg-NMS. The small market making firms will continue to "thrive" as they focus more on technology improvements, the report said.

"While we expect the competition to continue to be vibrant, I would point out that we are the increased competition--electronic order books in general and Direct Edge in particular," said William O'Brien, chief executive officer of Direct Edge, in response to Celent's note that Direct Edge became "a new challenger and growth story."

O'Brien also told Markets Media: "As to how we plan to stay competitive, we are going to continue to innovate. That's what has fueled our spectacular growth--innovation. As you are aware, we have a bifurcated market structure. That innovation has allowed us to offer different pricing models that appeal to different segments of the trading community. Innovation at scale delivers value to our customers, and that's what will continue to drive up our market share."

Citadel Derivatives, Getco and BATS, which were highlighted in the report, declined to comment.

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