

Direct Edge Hangs On **BATS, NASDAQ BACK OFF PRICE WAR**

BATS Exchange and Nasdaq OMX Group have dampened their pricing assault for exchange traded fund and regional stock rebates, delivering an advantage to **Direct Edge** in the price war. BATS lowered the so-called Tape B rebates from \$0.0030 per share to \$0.0028 per share last week and the Nasdaq lowered its \$0.0031 rebate to the same level for the highest volume tier and chopped it for the lowest tier to \$0.0020. Direct Edge is now the most generous platform with a rebate of \$0.0035.

With more firms trading ETFs, providing rebates is getting more expensive. Last week, Tape B volume surpassed Tape C, or Nasdaq-listed securities, by almost a quarter of a billion shares. Tape B volume doubled in the last year.

“Over the past several quarters we were losing a significant amount of money with the 30-25 spread. The new pricing, which is still inverted, enables us to operate near breakeven while still appealing to customers,” a BATS spokesman said. BATS garnered about 11.39% market share last month. Nasdaq officials said the inverted rate wasn’t sustainable and that the new rebate is consistent with that for Tape A and C.

Direct Edge’s market share in those securities has been going up, and it intends to keep its rebate through the end of the quarter, when it will re-evaluate its position. “Direct Edge is committed to being the most competitive rebate on Tape B,” said **Bryan Harkins**, head of sales and strategy. Lower rebates may drive volumes to a venue with the higher rebate if traders can delay execution, according to

some traders.

The ECN is shifting a money from other programs to support the rebates. The logic of sustaining a high rebate is that with more liquidity, more traders will come to execute on the ECN and pay take fees.

Direct Edge had more than 10% matched market share in Tape B securities on March 5, up 68% since the beginning of the year when its rebate was instituted.

Nasdaq had about 28% Tape B market share on March 5. Nasdaq’s previously high rebate helped the exchange build up its market share, building up its Tape B liquidity. BATS had about 15.3% market share in Tape B securities on March 5; the exchange has also built up its liquidity from having an aggressive pricing schedule. The BATS spokesman said he does not expect liquidity or market share to be impacted and expects continued growth.

Traders are worried about their profit margins in light of smaller rebates. “[Rebates] may drive some of their liquidity toward Direct Edge,” said

Marlon Weems, CastleOak Securities

managing director of equity trading. “Every decimal counts in this kind of market,” said **Greg Treacy**, head of U.S. sales at **Neonet**. Rebate reductions tend to significantly impact high frequency traders who may look to change their routing mechanisms, said Treacy. Any trader posting more than one million shares a day would see about a 10% profit loss as a result of the rebate reduction. —*Alexandra Zendrian*

