

# Direct Edge Targets Stock Lending In Quadriserv Partnership

JULY 15, 2009, 3:29 P.M. ET

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Of DOW JONES NEWSWIRES

CHICAGO (Dow Jones)--Direct Edge, which runs one of the largest U.S. equity trading platforms, announced plans to move into stock lending through a new agreement with stock loan platform operator Quadriserv Inc.

The partnership, which looks to more efficiently link cash equities trading to stock loans, marks the first step of Direct Edge's move into other asset classes as it progresses toward becoming an exchange in early 2010.

"A lot of our common customers are doing stock loans and cash market transactions simultaneously, and in relation to one another - you're borrowing to sell short, buying and then lending inventory," said William O'Brien, chief executive of Direct Edge.

The memorandum of understanding between the companies, announced Wednesday, aims to "affect transactions more seamlessly through tighter integration of these two markets," O'Brien said in an interview.

For Quadriserv, a company dedicated to centralizing the stock lending process, it marks another exchange alliance after the options-focused International Securities Exchange invested \$15 million in the company in March.

The ISE, a unit of Deutsche Boerse AG (DB1.XE) also holds a 31.5% stake in Direct Edge.

Quadriserv's AQS platform is designed to connect lenders and borrowers of stock, improving price transparency in a market estimated at \$1.6 trillion.

Stock lending is key to short selling stocks, which has come under scrutiny following the financial crisis. Regulators are weighing a new version of the uptick rule, a repealed regulation that limited short sales, with a decision expected near the summer's end.

Quadriscerv's AQS platform became operational in January and has since added more participants ahead of a broader launch, targeting broker-dealers and hedge funds that borrow securities, along with custodial banks that are lenders.

Over that time, Direct Edge has become the biggest U.S. equities market operator behind NYSE Euronext (NYX) and Nasdaq OMX Group Inc. (NDAQ), though rival electronic market BATS Exchange has narrowed the market share gap this month.

On the heels of BATS' announcement last week that it would launch an options exchange, O'Brien detailed Direct Edge's own plan to diversify into other asset classes through execution services and clearinghouse link-ups.

In the short term, Direct Edge's partnership with Quadriscerv will mean savings for investors looking to integrate securities lending with their stock trading activity, according to O'Brien.

Further out, O'Brien sees potential for new, tradable products structured around stock loan agreements, which he likened to forward contracts.

Besides the ISE, Direct Edge's backers include Knight Capital Group (NITE), Goldman Sachs & Co. (GS), Citadel Group, JP Morgan Chase & Co. (JPM), Bank of America Corp. (BAC), Nomura Securities (NMR) and Sun Trading.

Investors in Quadriscerv include Interactive Brokers Group Inc. (IBKR), SunGard, Bessemer Venture Partners, Renaissance Technologies and Round Table Investment Management.

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