



## Direct Edge Matches One Billion Shares, Edging Closer to Competition

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On Tuesday of this week, [Direct Edge](#) matched over 1 billion shares on its three platforms for the first time, breaking a new volume record for the equity marketplace, which taps dark pools for liquidity.

In an interview today, Direct Edge CEO William O'Brien attributed the mega-growth to product innovation and its Enhanced Liquidity Provider (ELP program), which both aggregates dark pool liquidity and routes out to dark pools. "We are a much more innovative market than our peers that have been emphasizing the next pico-second of latency," said O'Brien. The CEO said that Direct Edge had gone above and beyond its competition in innovative products and offering more customer choice.

Direct Edge's market share is now 8.5 percent of U.S. equity trading flow, up from 4.95 percent last October, amounting to a 70 percent increase over the past three months, noted a spokesman in the interview. Direct Edge ranks as the fourth largest market center after NYSE and NYSE Arca, Nasdaq and BATS for shares matched on its own book.

On the same day, Feb. 10, the New York Stock Exchange floor matched 1.757 billion shares, by comparison, noted an email sent by Direct Edge to the media. The electronic equity market also had a record for handled volume — 1.781 billion shares passed through its platforms and of that, 1 billion shares were on EDGX alone. (The two other platforms are EDGA and the ISE Stock Exchange).

Today, Direct Edge has 25 dark liquidity providers, running the gamut from the independently owned Liquidnet H2O to the broker owned Interactive Brokers, which are two that he's allowed to disclose. In addition, firms that run automated trading centers are part of the ELP program though they don't label themselves as dark pools. O'Brien said that Direct Edge is doing 150-250 million shares a day in this program. In January of 2008, Direct Edge was executing about 30 million shares a day in the ELP program and as of January of 2009, it was doing 162 million shares, representing a five-fold increase year-over-year, said O'Brien.

When it launched the ELP program in 2006, Direct Edge was ahead of the curve, said O'Brien. "We never tried to build a dark pool that was competing with the broker-owned dark pools. We decided that to take an integrated approach, integrating the dark pools operators in our program," he explained. This allowed Direct Edge to give customers access to dark liquidity and made sense to the dark pool aggregators, he said.

However, recently other competitors, including exchanges such as BATS, Nasdaq and NYSE Arca, have begun routing to dark pools. For instance, BATS has a dark pool routing strategy (Dark Anonymous Routing) and also scans dark pools for price improvement and reduced access fees, according to its Web site. But O'Brien pointed out, that none of its competitors will reveal how much volume they're doing.

Configurability is what has enabled Direct Edge to stay a generation ahead, said O'Brien. Since not all dark pools are the same, and they have different technological capabilities and business models, some like IOIs (indications of interest) and some like IOCs, (immediate or cancel) Direct Edge decided to integrate both techniques. "With IOIs, you're flashing an order to dark pools and asking them to provide liquidity and with IOCs, you're sending an order outbound and routing to them and seeking an execution from them," said O'Brien.

Since some customers are time sensitive vs. others who are not, and some customers are concerned about information leakage, it lets them configure how long their order is exposed to dark pools. "We allow them to select sub segments of our dark pool universe," said O'Brien, noting they can remove dark pools that use IOIs.

In fact, Direct Edge began as an ECN owned by Knight Capital Group but then took in strategy equity investments from Citadel in July of 2007 and Goldman Sachs in September of 2007 to become an independent market center. Then this past December it closed on a transaction to buy the ISE Stock Exchange. Direct Edge is now awaiting regulatory approval to operate EDGA and EDGX as two separate exchanges.

According to recent market structure analysis from Rosenblatt Securities, Direct Edge's ELP Program volume was 270 percent higher in December 2008 than in January of 2008. Of the 18 venues that Rosenblatt tracked, dark pools accounted for 8.9 percent of consolidated equity volume at the end of December, up from 8.6 percent in November.

Though December was a tough month for most pools, Direct Edge's ELP Program was one of only three dark pools — the other two being GETCO Execution Services and Knight Link — that were largely responsible for the overall market share gain, according to Rosenblatt's analysis.

