

# Bloomberg

## Direct Edge Overhauls Trading System as Exchange Status Nears

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By Edgar Ortega

March 10 (Bloomberg) -- Direct Edge Holdings LLC will overhaul its trading platform for the first time as the 3-year-old U.S. equity market seeks to become an officially recognized securities exchange.

The new system will be introduced shortly after the Securities and Exchange Commission's approval of Direct Edge's applications for exchange status, Chief Executive Officer William O'Brien said in an interview. The overhaul will let the Jersey City, New Jersey-based company reduce its costs and make it easier for customers to execute trades quickly.

"The regulatory and technology timeframes synch up, and by the end of the year we expect to be operational as an exchange," O'Brien said. "While we are running profitably now, this is going to be a quantum leap."

Direct Edge, the fourth-largest U.S. equity market by volume, will generate revenue of \$500 million to \$600 million this year, O'Brien said. The closely held company has increased its market share by 68 percent in the past four months, narrowing the gap with No. 3 ranked Bats Exchange Inc.

In February, Direct Edge matched 8.3 percent of the shares traded, while Kansas City, Missouri-based Bats Exchange matched 11 percent, according to data from the two companies. Nasdaq OMX Group Inc. had a market share of about 27 percent, while NYSE Euronext matched 33 percent of the volume traded last month.

Direct Edge may benefit from a decision by Nasdaq and Bats to lower some trading rebates they pay to customers, O'Brien said. The New York Stock Exchange also raised some fees this month.

### 'Lot of Opportunities'

"Despite the growth rate we've seen in the past 4 months, there are a lot of opportunities still," O'Brien said. "A 10 percent matched market share is within reach."

Direct Edge sold a 31.5 percent stake in December to Deutsche Boerse AG's International Securities Exchange and gained control of the ISE's stock trading platform. The new system will integrate features of the ISE platform into Direct Edge, helping lower technology costs. The company is also owned by Goldman Sachs Group Inc., Knight Capital Group Inc. and Citadel Investment Group LLC.

Direct Edge will also move its entire infrastructure from Jersey City to a telecommunications hub operated by Equinix Inc. in Secaucus, New Jersey, which will make it easier to house its computers together with those of clients, shaving off milliseconds from the time it takes to process an order.

Direct Edge is seeking official SEC exchange status for its two trading platform, which target specific kinds of brokerages with different fees and order types. Gaining approval may let Direct Edge lower its costs of clearing transactions, and would make the company responsible for policing trading by customers.

The Chicago Board Options Exchange last month filed an application for a second SEC license. Bats Exchange gained its license in August, nine months after making its official filing with the SEC.

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