



Direct Edge set to become 4th U.S. stock exchange

Fri, Mar 12 2010

By Phil Wahba

NEW YORK (Reuters) - Direct Edge said on Friday it has received approval from the U.S. Securities and Exchange Commission to operate two stock exchanges, in a decision that will make it the fourth U.S. equities exchange operator and likely boost its trading revenue and speed.

Direct Edge, based in Jersey City, New Jersey, said it expects its EDGA and EDGX trading systems to begin functioning as exchanges this spring. It currently runs as an electronic communication network, or ECN, that matches equity trades.

Becoming a full-fledged exchange will give Direct Edge a bigger cut of the market data fees trading venues collect from market participants and lower some of its costs, an analyst said.

"It helps their economics," said Larry Tabb, chief executive of research and consultancy firm TABB Group. "It's a way for them to make more revenue, which they might then use to lower the fees they charge."

It will also reduce their clearing costs since they can clear trades on their system directly, Tabb said.

Gaining exchange status will also add to the speed of trading on its systems because Direct Edge will no longer have to go through a stock exchange to quote the bid and ask prices on a trade, Tabb said.

"Being America's newest stock exchange puts us on equal footing with our competitors in the battle for market and for mind share," Direct Edge Chief Executive William O'Brien told Reuters in an interview.

Direct Edge, the third largest U.S. equities trading venue in terms of overall volume, competes with three other U.S. equities exchange operators, New York Stock Exchange parent NYSE Euronext <NYSE.N>, Nasdaq Stock Market parent Nasdaq OMX <NASDAQ.O> and BATS Exchange, which is privately owned.

The company has said in the past it would consider going public eventually and O'Brien said becoming an exchange was a step on the way to a potential IPO, though he stressed there were no current plans for one.

"A stock exchange is something that any investor can identify with, so to the extent that an IPO is our future, this milestone can only facilitate that."

Direct Edge, which is owned by Goldman Sachs Group Inc <GS.N>, JPMorgan Chase & Co <JPM.N>, Knight Capital Group Inc <NITE.O>, hedge fund Citadel and the International Securities Exchange, an options market owned by Deutsche Boerse's <DB1Gn.DE> Eurex, had applied for exchange status last May.

BATS won exchange status in 2008 and is set to enter the listings business later this year.

(Reporting by Phil Wahba. Editing by Robert MacMillan and Gunna Dickson)