

Securities Industry News

Direct Edge Looks Into Initiatives With U.K. Exchange Upstart

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By John Hintze

The Direct Edge electronic communications network (ECN) announced Nov. 19 that it has signed a memorandum of understanding with Plus Markets Group--an upstart exchange for European small- and mid-cap stocks--to explore joint initiatives.

Of the non-binding, non-exclusive agreement, William O'Brien, CEO of Direct Edge, said the ECN prefers to build its business through partnerships rather than acquisitions. "We believe we have an approach the trading community can benefit from, so we're looking for ways to explore beyond our core business," O'Brien said. Although executives from Plus Markets and Direct Edge declined to offer details on how the venues could work together, a jointly issued statement cites stock listings and trading opportunities.

"We are delighted to be exploring transatlantic cooperation opportunities with Direct Edge, who have established themselves rapidly in the highly competitive U.S. equity trading marketplace," said Plus Markets Group CEO Simon Brickles in the statement.

Direct Edge in August signed a deal--expected to close by year-end--to take control of the International Securities Exchange's ISE Stock Exchange. According to O'Brien, Direct Edge will seek exchange licenses for its two platforms--an intention it has voiced since at least late last year, when rival BATS Trading filed its application--after closing the ISE transaction. On Oct. 31, one week after it began operating as an exchange, BATS launched a homegrown multilateral trading facility in London.

Under the deal with ISE, the New York-based options exchange--owned by derivatives market Eurex, a joint venture of Deutsche Borse and SIX Group--will take a 31.5 percent stake in Direct Edge. The transaction will leave the ECN's existing partners--Goldman Sachs, Citadel Derivatives Group and Knight Capital Group--holding 19.9 percent each, the maximum stake a broker-dealer can own in a licensed exchange.

O'Brien said that securing exchange status for its platforms--EDGX offers a traditional pricing model, while EDGA provides no fees or rebates--remains an important long-term goal because it will give the company more control over the venues than if it were to operate them under ISE Stock Exchange's license. But while it awaits approval, controlling an exchange will give Direct Edge immediate access to the National Market System, as well as a seat at the exchange table and more control over its destiny.

Direct Edge's exchange status should also ease any initiatives that would require approval from European regulators. Pointing to the transatlantic pairings of the New York Stock Exchange and Euronext, and Nasdaq Stock Market and OMX, a Plus Markets spokesperson said that "regulators tend to look harder if the parties are coming in a layer below" that of an exchange.

O'Brien would not speculate on what form Direct Edge's cooperation with Plus Markets will take, but he did point to his experience running Nasdaq's new listings service for one and a half years before joining Direct Edge in mid-2007. London-based Plus Markets, which began operating as an exchange in July 2007, enables secondary trading of stocks listed on the London Stock Exchange (LSE) and a small percentage of LSE's Alternative Investment Market (AIM) listings. In September, Plus filed suit in London's High Court, challenging a rule that requires trades conducted on platforms other than AIM be reported to LSE.

Plus Markets has also launched a primary market for AIM-type listings, securities that aren't approved by the U.K.'s Financial Services Authority and are more lightly regulated. In July, Plus announced plans to create a dark pool for small- and mid-cap stocks; transactions would be cleared through LCH.Clearnet.