

Direct Edge's exchange status to spawn new products

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The US Securities and Exchange Commission's approval of equities trading venue Direct Edge's application to become an exchange will allow the company to launch new products, according to William O'Brien, the platform's CEO.

Direct Edge received approval to convert its two ECN trading platforms, EDGX and EDGA, into national securities exchanges on 12 March, having submitted its application to the SEC in May last year. The firm expects to be trading its first stock under exchange status in mid-May, with full launch in early June. The group's third platform, the ISE Stock Exchange, which it acquired in December 2008, will be discontinued and its functions merged with EDGX and EDGA.

"Over the weeks and months after our exchange launch you will see us launch a variety of new products as we continue to do what Direct Edge does best, which is innovate," O'Brien told theTRADEnews.com.

O'Brien said development of new services would begin "right out of the gate". One of the first moves will be to migrate ISE Stock Exchange's MidPoint Match service to the EDGX platform. "We are still running MidPoint Match on the Old ISE Stock Exchange platform today and getting a small amount of volume on it," he said. "It is a product we have great hopes for as it is integrated into the EDGX exchange platform, which is a lot higher-volume. We think in this era, where customers are looking for on-exchange ways to get price improvement, they will find a great deal of value in that product."

While O'Brien acknowledges that exchange status would give Direct Edge an opportunity to branch out into options trading, as many of its closes rivals have done, he is not keen to simply follow trends set by competitors. "We have not typically seen a lot of value in following the herd," said O'Brien. "There is a proliferation of options trading venues. Direct Edge always looks for ways to be a bit different than our competitors."

A number of large US equities exchanges now offer options. Both NYSE Euronext and Nasdaq, the country's two biggest equities exchanges, run two options platforms each. BATS Exchange, Direct Edge's closest rival, which itself converted from ECN to exchange status in November 2008, launched an options exchange in February.

Instead, Direct Edge will focus more on convergence of asset classes generally than any specific instrument. "So many of our customers are trading a variety of asset classes, whether it is options, currencies, commodities, fixed income, stock loans in conjunction with trading stocks," said O'Brien. "Our initial area of focus is going to be: how do we make our stock exchange more reflective of that reality because most exchanges are not providing products and services to do that."

As part of the exchange migration, Direct Edge will move to a new technology platform, which O'Brien said would improve on the speed, consistency and functionality of its legacy system, which the firm has used since it was known as Attain ECN. The firm will also migrate to a new Equinix data centre in Secaucus, New Jersey.

As well as improving technology and ability to launch new products, the migration will also allow Direct Edge to cut its clearing fees, as it will be able to clear trades through the NSCC, the equities clearing division of the Depository Trust & Clearing Corporation, the US post-trade utility. ECNs act as counterparties to both buyer and seller on their platforms, and so need to clear through a third party. O'Brien also believes that the shift to exchange status will be a boost for Direct Edge's brand.

In February 2010, Direct Edge had a matched market share of 9.64% of US equities trading, making it the fourth-largest US equities trading venue, just behind BATS Exchange, with 10.7%.

"We are excited to be America's newest stock exchange," said O'Brien. "Our market share has remained solid but we feel like the best days of the company are ahead."