

BATS Expects Exchange Approval to Boost Market Share

By Nina Mehta

BATS is betting on its market share increasing once it becomes an exchange. Industry observers expect BATS to win approval as an exchange from the Securities and Exchange Commission within the next few weeks.

"We'll participate directly in the National Market System by disseminating quotes and prints directly to the securities information processors," said Joe Ratterman, president and CEO of BATS. That, he said, will lead to more firms being able to see BATS's quote directly, which will encourage them to route orders to BATS "with higher priority." BATS declined to comment on the SEC's timetable, but said it will begin operating as an exchange 60 days after it's approved.

Exchange status will put BATS on a more level playing field with its bigger rivals, according to Ratterman. "The strong reputation BATS has as a technology leader will yield appropriate prioritization in those tables and will do so for first time once we're an exchange," he said.

BATS is the fourth-largest U.S. equities market center, after Nasdaq, the New York Stock Exchange and NYSE Arca. In July, its consolidated market share was 10.1 percent. Ratterman said BATS, which currently has 335 subscribers, is shooting for 500 by year-end.

Being an ECN quoting its best prices on an exchange is limiting, Ratterman told Traders. "Until you're an exchange, you're a second-class participant," he said. Some broker-dealer routers route mainly to the top few exchanges, which have a lot of liquidity on their books. That means, Ratterman noted, that the ISE Stock Exchange and the National Stock Exchange, where BATS has been quoting as an ECN, are not typically as high on routing lists as the bigger markets. While BATS is grateful for the continued support of the two exchanges, he said, "with BATS as a direct participant [in the SIPs], more broker-dealers will route to us directly at a higher priority."

As an exchange, the exec added, BATS is also likely to see its market data feed taken in by more broker-dealers. The majority of BATS's subscribers already take the venue's data feed. Increasing the number of direct-feed subscribers is often seen as a step toward competing more aggressively for flow with other market centers.

Once approved, BATS will be the first new self-regulatory organization authorized since 2000, when the International Securities Exchange won SEC approval. Since then, the ISE and Chicago Board Options Exchange opened new equities exchanges, but both exchange operators already held SRO licenses and operated options markets.

BATS Holdings, which owns BATS, is a 70-person company headquartered in Kansas City, Missouri. The company is owned by a consortium that includes 11 broker-dealers. BATS, which has also recently built out its European operation, plans for a November launch of its BATS Europe multilateral trading facility, regulated by the U.K.'s Financial Services Authority.