This NYSE plan could help retail investors

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By Eric Garcia

The owners of the New York Stock Exchange are trying to win back business.

WASHINGTON (MarketWatch) — A potential move by the owner of the New York Stock Exchange to cut fees on certain trades could be good for retail investors, if it pushes more dealings back to stock exchanges.

However, the plan being floated by the Intercontinental Exchange is far from a done deal, and it’s unclear how competitors would respond to this effort to win back business, making market advocates uncertain about any lasting change.

The NYSE parent is discussing whether to lower the fee for trading stocks to five cents per 100 shares in exchange for banks adopting a “trade-at” rule that mandates banks to trade at exchanges unless other venues offered a better price, according to a report in The Wall Street Journal last week. ICE declined to comment on the report.
The goal is to lure more banks and traders back to the New York Stock Exchange. Trading has become highly fragmented as other exchanges, such as BATS, have launched, and so-called dark pools, which are private trading venues. Only 20% of stock trading now goes through the NYSE, compared with 80% a decade ago.

Critics like Eric Hunsader, the founder of Nanex LLC who tracks high-frequency trading, say the twin developments of dark pools and fragmented trading on exchanges have hurt retail investors. These people say a shift in business back to the NYSE could boost price transparency for investors.

Unlike exchanges, dark pools don’t post buy and sell orders, only reporting trades after they take place. Critics also say the growing number of exchanges, and their efforts to attract business, has helped fuel high-frequency trading, a big part of daily trading and one that relies on getting information and prices microseconds faster than the next trader. Some consider retail investors to be easy prey for high-frequency trading.

The Securities and Exchange Commission has vowed to ratchet up oversight of computer-driven trading and has expressed concerns about the lack of transparency in off-exchange markets such as dark pools.

Of course, it’s unclear how the NYSE’s competitors would respond to lower fees. But Joe Saluzzi, a co-founder of Themis Trading, a brokerage firm that also advocates for market transparency, said the proposed changes, if adopted, would lead to retail investors’ orders being redirected to the more transparent exchanges and to create more liquidity on exchanges.

But Dave Lauer, president and managing partner of KOR Trading Group LLC and an advocate for more transparent markets, focused on the lack of details about how the proposal would actually be implemented.

“It seems obvious that the motivations are critically important,” Lauer said. The proposal would likely benefit institutional investors, but it is hard to tell who would mostly benefit because of the lack of details, he said.

The NYSE plan already has the backing of Credit Suisse Group AG, which operates a big dark pool. Credit Suisse also operates a transparent exchange called Light Pool that Lauer said would benefit from more trading on exchanges.

There has been tension for years between operators of dark pools and exchanges, including between Credit Suisse and the New York Stock Exchange, and it’s far from clear that can change.

But Themis Trading’s Saluzzi said he’s nonetheless excited about the possibility.

“If everybody can come aboard, we’ll broker the truce,” he said.