DirectEdge

Prepared Statement of Testimony

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Opening Statement Before the Joint

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Good afternoon. I'd like to thank the Committee for the opportunity to participate today on behalf of Direct Edge, America's newest stock exchange. The preservation of investor confidence is an important component of any properly-functioning market, and the Committee should be commended for its efforts to advance our understanding of the events of May 6th.

While is difficult to categorize anything from that day as "normal", from a systems and operational standpoint Direct Edge operated normally throughout the day on May 6th, including during the critical time between 2:40 and 3:00 PM when the severe market downturn occurred. On that day Direct Edge handled record order and transaction volume with no material issues, and experienced no difficulties in routing orders to other market centers. We operated as we always do – attempting to provide our customers with best execution by integrating our own market with all other electronically-available liquidity.

Despite our performance that day, how our market operated on May 6th is a cause for embarrassment for us and our entire industry. Investors simply deserve better. In a time where the standards for assessing market fairness are being hotly debated, Direct Edge has argued that fairness exists where there is a reasonable expectation that our market structure will provide investors with a baseline level of quality every time they trade. What happened on May 6th called that expectation into question, and we must work to understand its causes and create workable solutions to mitigate the risk of reoccurrence in the future.

While Direct Edge continues to cooperate with the appropriate regulators examining the data surrounding that day's trading activity, we can offer two general observations regarding the causes of this market event. First, an environment of widespread investor nervousness existed throughout the trading community that day. From the significant recent decline in the Euro, growing awareness of the scope of the environmental disaster in the Gulf of Mexico, to televised deadly riots on the streets of Athens, investors had many reasons to sell first, and analyze the data later.
Second, when panic conditions occurred that day, our market structure left every market participant to fend for themselves. Every exchange made their own decision as to whether to trade normally, modify their operations, or cease trading altogether. Each broker and investor had to decide individually whether to withdraw from the market or continue to provide liquidity. And when the dust settled, no guiding principles existed as to how to address the aftermath of the situation in an orderly manner.

Sharp market declines are as old as markets themselves. In these situations, there must be consistency regarding how the markets work, and how market participants conduct themselves, to prevent market turbulence from turning into market tragedy. Regardless of the efforts to determine ultimate catalysts for the events of May 6th, all market participants must work swiftly to rectify this weakness in our market structure to prevent a potential reoccurrence.

Once again, I'd like to thank the Committee for the opportunity to be here today and I am happy to answer any questions you may have for me.