

Dear BATS Subscribers and Members of the Trading Community,

When “Free” isn’t really “Free”, and “Quotes” aren’t really “Quotes” ...

Over the last two years, the retail public has not generally had easy or affordable access to real-time price discovery information for stocks traded in the U.S. That wasn’t always the case, and there was a time when this data was made widely available based on free real-time data provided by the once popular Island ECN. Island ECN, which later became INET ATS, provided several financial websites with real-time market data, but that opportunity disappeared shortly after NASDAQ acquired INET and started charging for it.

Since that time, most of the popular finance web sites have had to revert to displaying 15 or 20 minute delayed data because real-time data became too costly. In a world where professional trading firms can get order acknowledgements back in fractions of a second, 15 minute delayed data isn’t much better than quotes from yesterday’s trading session.

As you have probably heard, BATS announced last week that Yahoo! Finance recently began displaying real-time market data on their site based on **free** real-time market data provided by BATS. This was an important move for the industry and for the retail public, and we are excited that Yahoo! took the initiative to integrate free BATS data into their popular finance web site. Tens of millions of internet users have been clamoring to see free real-time data ever since it was taken away, and BATS and Yahoo! are proud to be the first to bring it back to the masses.

As I understand it, NYSE & NASDAQ have both filed rules that would allow them to sell their “last sale” data to internet distributors for a hefty fee, albeit less costly than their standard pricing schedule. The price schedules I have seen show annual fees reaching annual caps upwards of \$1.8 million for each direct feed recipient. According to some insiders, the exchanges may have felt as though they had been unfairly held up in their filings, and if their filings had moved through the regulatory approval process faster they wouldn’t have been “scooped” by BATS. It should be noted that if they had filed rules to provide their market data for **free**, those filings would likely not have been held up and instead would have been effective upon filing (months ago). It’s only because the exchanges want to charge a fee for their data that they needed to seek approval for their new rules.

It wasn’t our intention to *scoop* our competitors ... we just felt that putting real-time market data into the hands of millions of retail customers was the right thing to do. For BATS, the creation of real-time market data is a natural consequence of running a market center, and we don’t consider there to be a material additional cost to distribute this data, and therefore we see no reason to charge for it. Our revenue model focuses solely on taking a tiny spread on every stock execution, and we have never depended on ancillary fees, like market data charges, to fund the operations.

Following the BATS / Yahoo! press release, NASDAQ filed their own press release. Normally I wouldn't comment on press releases from our competitors, but NASDAQ's press release, in my opinion, was both confusing and misleading, and I feel compelled to set the record straight. In fact, if you look closely at this press release, it's clear that in order for it to be considered truthful and accurate, the reader is required to very narrowly interpret NASDAQ's carefully chosen words.

For example:

The press release headline stated that ...

“NASDAQ is the First U.S. Stock Exchange to Facilitate Free, Universal Access to Real-time Stock Data”.

It might be true that NASDAQ is the first “U.S. Stock Exchange” to do something like this, but INET was providing free real-time data long ago, and BATS followed suit and did the same thing ... before NASDAQ. While we have yet to receive approval to operate as an exchange, we are of sufficient size among the major U.S. “market centers” to qualify as a credible source of market data. We will continue providing our real-time market data for free even after we receive approval to operate as an exchange.

The careful selection of the words “... to facilitate free...” is also a problem, because they aren't actually “providing their data for free”, they are selling their data to distributors who have decided not to pass on the charges to their users. When NASDAQ says they are facilitating free access to their data, they really mean “at a cost not to exceed \$1.8 million each year”. I am encouraged that the early NASDAQ distributors have agreed to eat these charges, and as a result select internet users will see NASDAQ's data for free. That's a good step forward, but the internet distributors are the ones carrying the cost in this story. If those same distributors elect to carry BATS real-time market data, they will be able to do so at no cost. They won't even get an invoice from BATS! That's a much better definition of “free” if you ask me.

The text of the release also stated ...

“NASDAQ becomes the first U.S. stock exchange to facilitate universal, free access to real-time stock quotes -- or the last quoted price ...”

The problem here is that NASDAQ isn't actually providing real-time stock quotes, they are providing last sale only. Anybody in the securities industry knows that in order to determine “the current market for a given stock”, you need the most recent Bid, the most recent Ask, and the Last Sale. All three real-time components are required to determine the current reference price of a stock. Often times the Last Sale can be old, maybe even minutes or hours out of date, and thus becomes irrelevant. By looking at the current Bid and Ask, in addition to the Last Sale, an investor can better determine a probable execution price should they consider making a buy or sell decision in the near future. As part of their new service, NASDAQ is not providing Bids and Asks, only Last Sale.

BATS is providing the full depth of book (all Bids and Asks at all price levels) and Last Sale information, in real-time, for free. This is an important distinction between what BATS has done and what NASDAQ offers. Between BATS, NYSE, and NASDAQ, BATS is the only U.S. market center currently offering free real-time market data, in it's entirety, including Last Sale, all Bids and all Asks. And, we have been doing this since the day we opened our doors.

And finally, NASDAQ implies that their data is the only relevant source of market data by stating:

“NASDAQ OMX is the gold data source for all U.S. equities”

I have a lot of respect for NASDAQ, and it is true that they operate the largest single equities market platform in the U.S. today. According to my calculations, their market share is roughly 29% of all executed volume each day. The NYSE matches about 18%, and NYSE/Arca matches about 16%. With BATS matching 9% - 10% daily, and our exchange application pending, our real-time market data feed has also become credible and relevant to the tens of millions of internet users who have been clamoring for this data for over two years. By way of reference, BATS displays quotations in 7,000 – 8,000 NMS securities each day, and matches trades in over 6,000 of those securities daily. Our liquidity is deep and broad. So while NASDAQ may be the *largest* market center, they aren't the *only* market center, and thanks to competition there are other sources of reliable market data to choose from. Some *say* their data is free ... we really mean it.

Sincerely,

Joe Ratterman
Chairman & CEO, BATS Trading
Making Markets Better