

PREPARED STATEMENT OF TESTIMONY

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MARKET STRUCTURE ROUNDTABLE

BEFORE THE U.S. SECURITIES AND EXCHANGE COMMISSION

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Good afternoon. I'd like to thank the Commission and the Staff for the opportunity to participate today on behalf of Direct Edge, America's newest stock exchange. The health of our nation's markets and the confidence of our nation's investors depend on our efforts here today and going forward.

Direct Edge believes that within a framework that provides clear transparency as to how intermediaries handle orders and provide execution quality, market-based solutions should be allowed to address the competing concerns of order transparency, price discovery and market impact on an investor-by-investor and order-by-order basis. Despite our recent Commission approval as America's newest stock exchange, Direct Edge does not believe that our market structure would be well served by regulations that limit market venue choices and attempt to force all executions back onto purely displayed exchange facilities.

Undisplayed liquidity takes many forms, including various exchange order types, alternative trading system products, and institutional and wholesale market making services. There are many legitimate economic and execution-driven reasons why investors and their intermediaries seek to use these alternatives. Investors and their chosen brokers are best equipped to decide how to balance competing execution priorities and how to bundle execution services with other products that meet their overall financial needs. The use of non-displayed order types and the use of non-exchange execution venues reflect this.

The benefits of greater execution flexibility apply not only to the institutional trader seeking to effect large trades, but also to retail investors seeking guaranteed execution of their orders at the NBBO with meaningful opportunities for price and size improvement. Orders executed through undisplayed order types or on off-exchange facilities should not be viewed as a net reduction from overall market liquidity, but rather liquidity seeking its most efficient form of execution.

The existence of undisplayed liquidity does not raise fairness issues in an environment where investors have a broad-based ability to participate in and reap the benefits of these order types and execution venues through their intermediaries. Restrictions placed on such venues will not eliminate undisplayed orders or off-exchange executions, nor alter the demand for them. Rather, it will just make such executions either more expensive or less accessible to

certain categories of investors. Alternatively, it could cause investors to turn to less-regulated instruments or markets with greater flexibility, whether that is through derivatives transactions or by seeking greater exposure to foreign markets without such requirements.

Investor choice has pushed all execution venues to compete for flow with improved execution quality, product innovation and lower fees. Exchanges continue to play a critical role in providing pre-trade transparency and price discovery, which helps to ensure a baseline level of overall market quality, for which exchanges are fairly compensated. If the level of overall market share among exchanges were to fall precipitously below historical norms, it would be appropriate to examine what further steps would be needed to preserve or transfer the role that displayed exchange liquidity and price discovery plays in our market. But with on-exchange liquidity consistently above 70%, we are simply not near such a point. While use of undisplayed liquidity ebbs and flows over time, it has not approached levels that could undermine overall market quality. To ensure this going forward and allow investors to hold intermediaries accountable for the execution decisions, improvements to existing Rules 605 and 606 can be made to provide more detailed insight to investors.

Once again, I'd like to thank the Commission for the opportunity and I look forward to a great discussion and any questions you may have for me.