Deutsche Bank
Global Markets Equity

Global Market Structure:
Americas Newsletter

Passion to Perform

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Welcome to the Americas Market Structure Monthly Newsletter, which provides news and analysis on trading venues and volumes.

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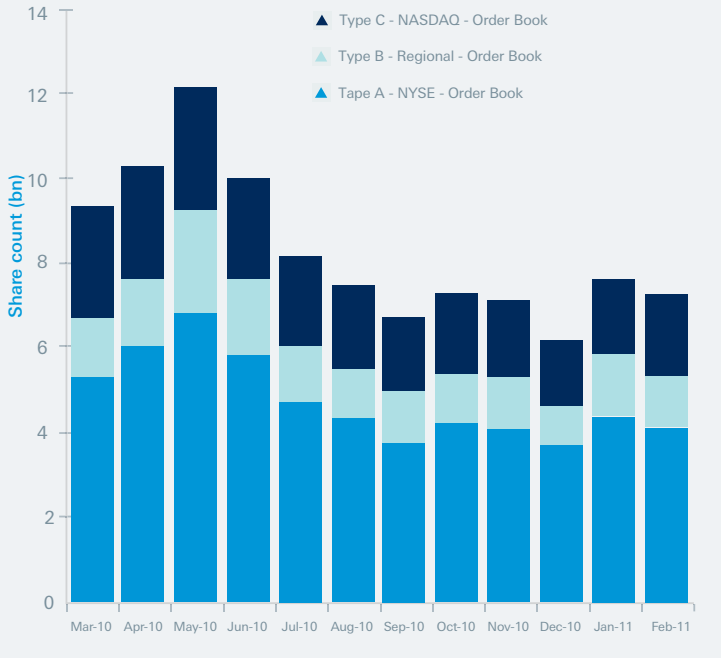
US Liquidity

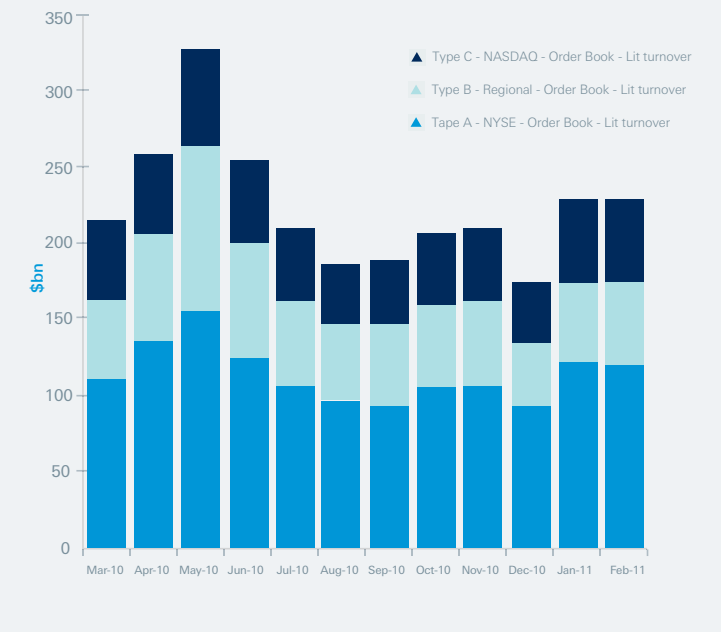
US market monthly average daily volumes decreased slightly to 7.3bn shares (↓-4.0%) (Fig 1). Monthly average daily value traded was maintained at $227bn (↑0.03%)(Fig 2).

Fig 1: US lit market - monthly average daily volume traded



Source: Thomson Reuters, Mar 2011

Fig 2: US lit market - monthly average daily value traded (Tape A, B &C)



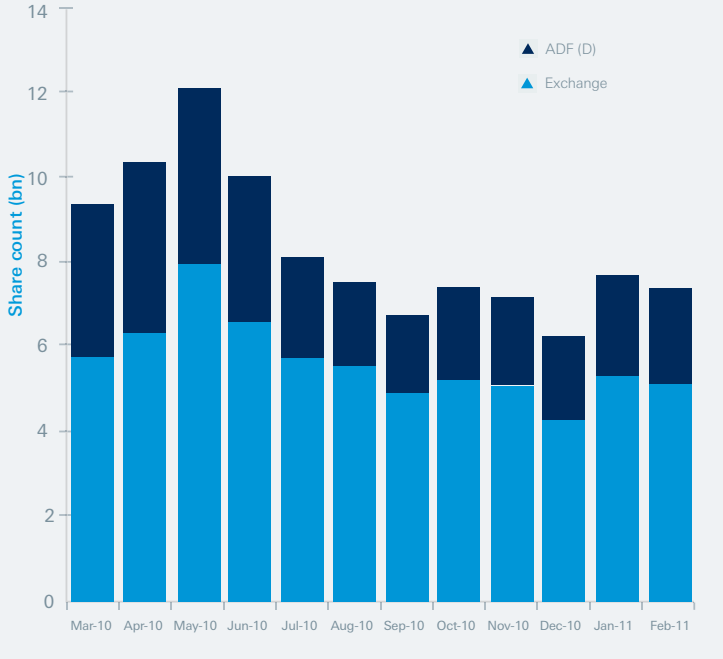
Source: Thomson Reuters, Mar 2011

US Liquidity – continued

Fig 3 shows US market monthly average daily volume broken down by exchange and ADF (Alternative Display Facility) volume. (ADF volume includes internalization, independent and broker sponsored dark pools and ECNs).

- US market monthly average daily volume was 7.3bn shares during Feb 2011 (↓ -4.0% vs. Jan 2011)
- Exchange monthly average daily volume was 5.1bn shares during Feb 2011 (↓ -3.5% vs. Jan 2011)
- ADF monthly average daily volume was 2.2bn shares during Feb 2011 (↓ -5.2% vs Jan 2011)

Fig 3: US lit market - monthly average daily volume traded (Exchange & ADF)

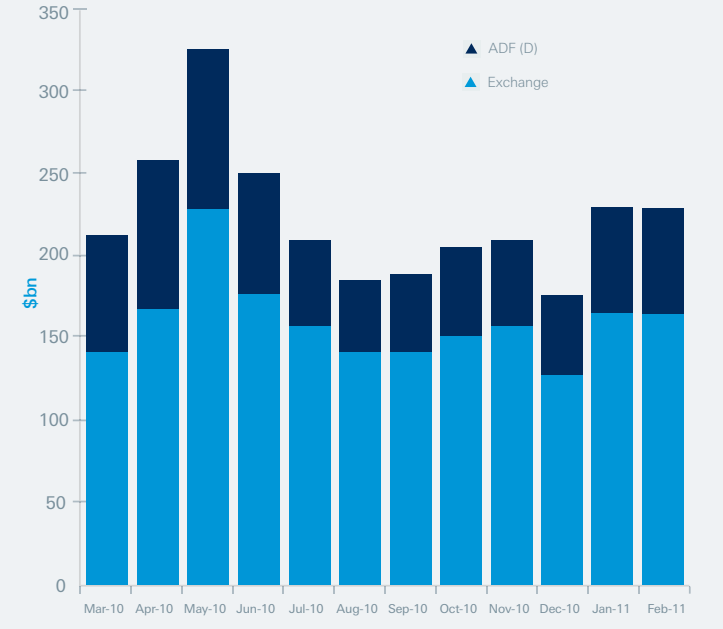


Source: Thomson Reuters, Mar 2011

Fig 4 shows US market monthly average daily value broken down by exchange and ADF (Alternative Display Facility) value.

- US market monthly average daily value was $227bn during Feb 2011 (↑ 0.3% vs. Jan 2011)
- Exchange monthly average daily volume was $167bn during Feb 2011 (↑0.2% vs. Jan 2011)
- ADF monthly average daily volume was $60bn during Feb 2011 (↓ -0.4%% vs Jan 2011)

Fig 4: US lit market - monthly average daily value traded (Exchange & ADF)

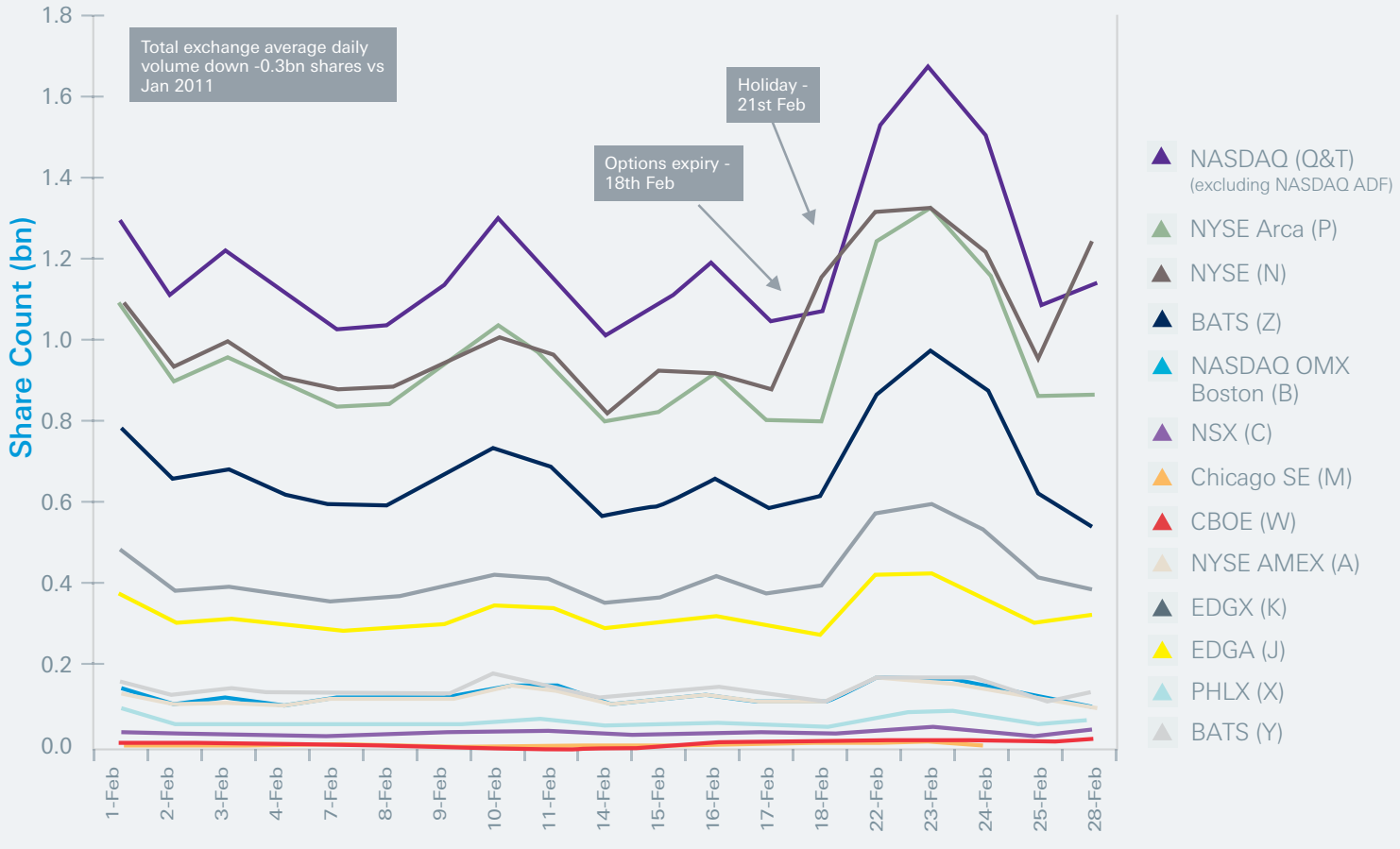


Source: Thomson Reuters, Mar 2011

US Liquidity – continued

The following charts show lit daily volume and value on US trading venues for Feb 2011:

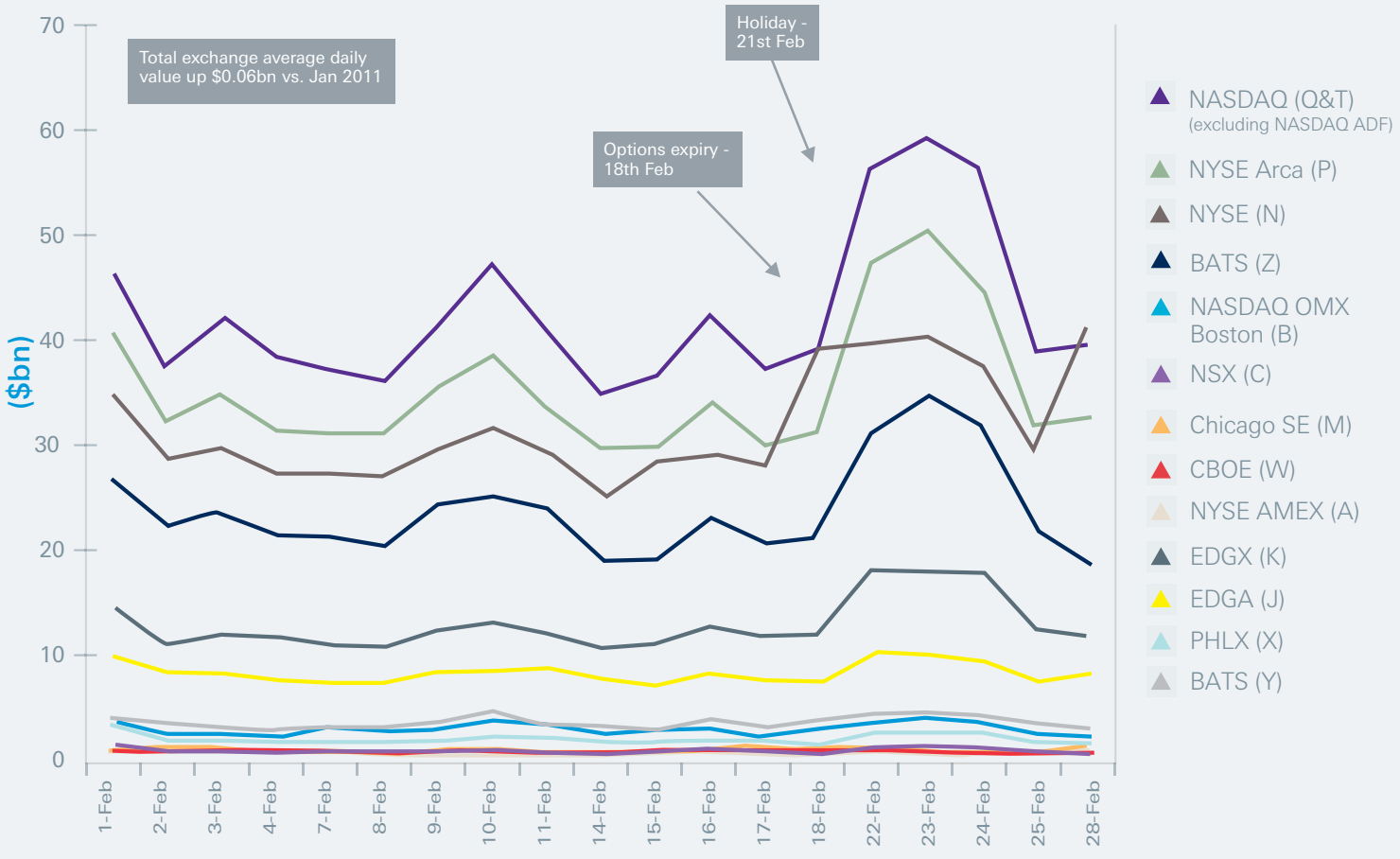
Fig 5: US trading venue lit daily volume - Feb 2011



Source: Thomson Reuters, Mar 2011

US Liquidity – continued

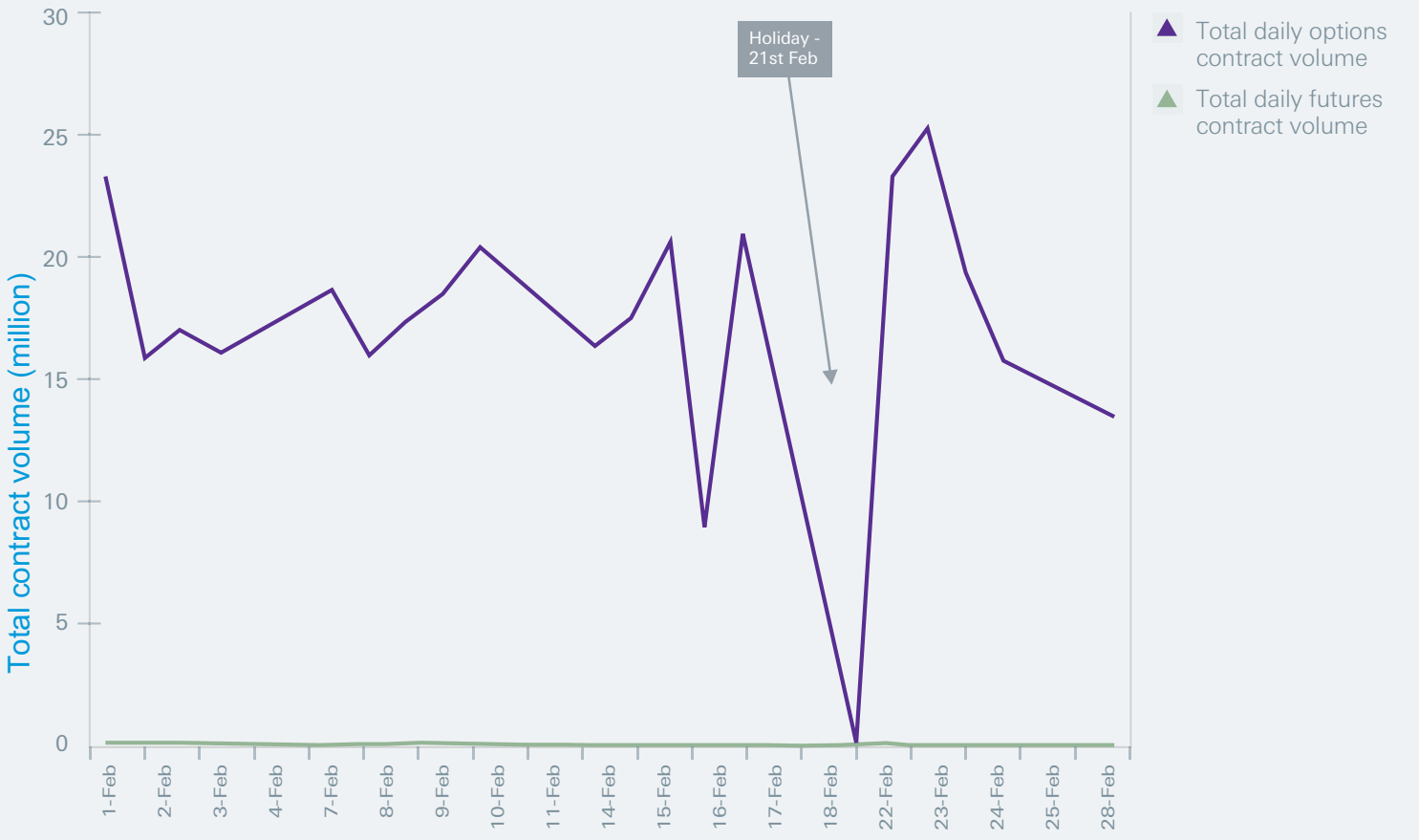
Fig 6: US trading venue lit daily value traded - Feb 2011



Source: Thomson Reuters, Mar 2011

US Liquidity – continued

Fig 7: OCC total daily contract volume - Feb 2011



Source: OCC, Mar 2011

Figs 8 & 9 below show the % US market share for February 2011 for lit turnover. Arrows on the adjacent data tables show whether each venue's market share has increased or decreased vs. the preceding month together with the corresponding % point change.

Fig 8: US lit market share - Feb 2011

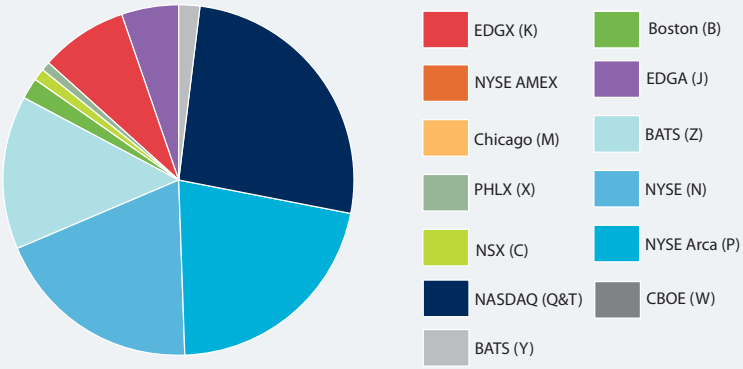


Fig 9: US lit market share - Feb 2011

Venue	Total	Month-on-month % point difference
NASDAQ (Q&T) (excluding NASDAQ ADF)	25.55%	0.94% ▲
NYSE Arca (P)	21.28%	-0.54% ▼
NYSE (N)	19.20%	-0.23% ▼
BATS (Z)	14.23%	0.18% ▲
Boston (B)	1.86%	0.22% ▲
Chicago (M)	0.31%	0.02% ▲
NSX (C)	0.65%	-0.13% ▼
CBOE (W)	0.23%	0.00% ▲
AMEX (A)	0.44%	0.04% ▲
PHLX (X)	1.18%	0.07% ▲
EDGX (K)	7.74%	-0.38% ▼
EDGA (J)	5.17%	-0.62% ▼
BATS (Y)	2.17%	0.42% ▲

Source: Thomson Reuters, Mar 2011

US Venue News

Trading venue news

Trading venue consolidation

This month has seen unprecedented merger activity amongst trading venues, as key players consolidate in an effort to secure sufficient market share. Following the global decrease in volumes, as well as the proliferation of venues in Europe post-MiFID, there has been fierce competition to attract liquidity and this period of consolidation has been expected.

- London Stock Exchange Group and TMX Group
  - All-share merger agreed between London Stock Exchange Group and TMX Group, operator of the Toronto Stock Exchange
  - Requisite approvals required including approval from Canadian provincial and federal authorities due to restrictions preventing an entity owning more than 10% of an exchange
  - Deal will create the largest platform for mining stocks
  - In a separate deal, London Stock Exchange Group will acquire TMX Group's 19.9% stake in EDX London Limited for £3.9m in preparation for the launch of 'Turquoise Derivatives'
- NYSE Euronext and Deutsche Börse
  - Merger announced between NYSE Euronext and Deutsche Börse
  - Requisite approvals required
  - Deal will create the largest trading venue in the world by revenues and EBITDA
- Chi-X Europe and BATS Europe
  - BATS Global Markets has reached definitive agreement to acquire Chi-X Europe.
  - Requisite approvals required; deal is expected to close Q2 2011
  - Deal will create the largest pan-European trading centre by market share and notional value traded

The below diagram (not to scale) shows how the North American and European trading landscape might look if all the currently proposed alliances are approved:

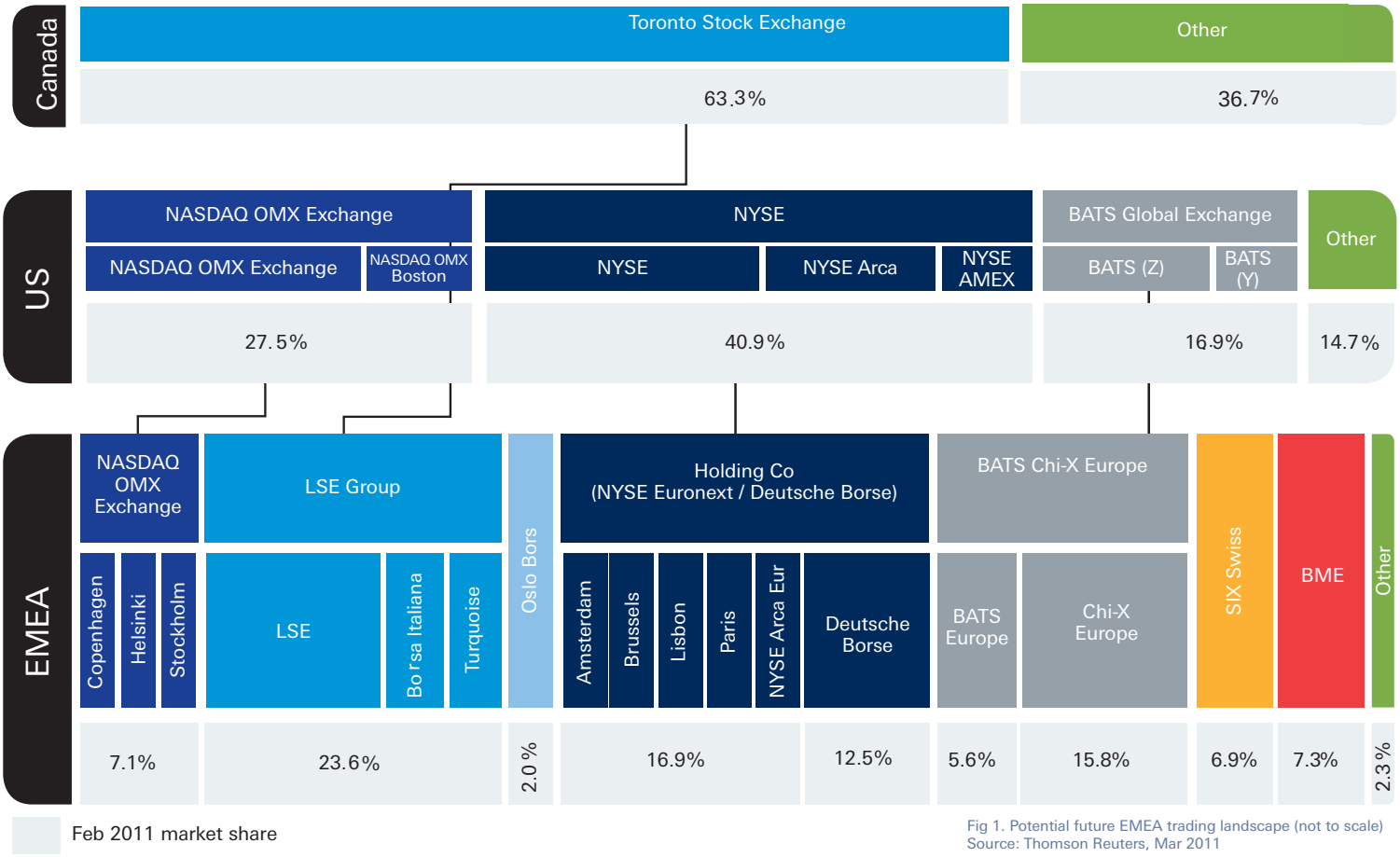


Fig 1. Potential future EMEA trading landscape (not to scale)
Source: Thomson Reuters, Mar 2011

This shows four main groups emerging: NASDAQ OMX Exchange; LSE Group; Holding Co (NYSE Euronext / Deutsche Börse) and BATS Global Markets.

US Venue News continued

Market Structure News

Direct Edge stops flash orders

As of close of business on 28 Feb 2011, Direct Edge ceased offering flash order functionality. The SEC has long been concerned that the practice offers some participants an unfair information advantage and announced that it would be reviewing the practice. The SEC originally proposed a rule prohibiting the practice back in Sep 2009 but a rule has yet to be finalised. Bloomberg reports that executions from Direct Edge's flash orders represented 2.3% of the company's share of trading from 01 Feb 2011 to 25 Feb 2011 and 0.3% of the total US equities volume.

NASDAQ OMX and BATS Global both previously agreed to cease offering the function. NYSE Euronext has never offered flash orders. CBOE Stock Exchange has confirmed that it does not currently have any plans to stop offering flash orders.

In the options market, venues use different rules to match orders and both CBOE and ISE have voiced concerns that prohibiting flash orders (known as step-up orders) will limit their ability to compete with other exchanges that use different matching rules.

Proposed SEC rule: http://www.sec.gov/rules/proposed/proposedarchive/proposed2009.shtml

Regulation and policy news

SEC approves short selling restrictions

On 28 Feb 2011, the alternative Uptick rule (Rule 201) was adopted by the SEC. The rule places restrictions on short selling when a stock has triggered a circuit breaker by experiencing a price decline of more than 10% in price in one day. At that point, short selling would be permitted if the price of the security is above the national best bid. The SEC has said that the rule is intended to promote market stability and preserve investor confidence.

The Wall Street Journal reported that on the first day of trading, 17 securities on the New York Stock Exchange were triggered and 35 securities were triggered on NASDAQ. However, a significant proportion of the affected stocks were priced below $5 per share, which has led to concerns that the price movement trigger of 10% is set too low for these stocks.

Rule 201: http://www.sec.gov/news/press/2010/2010-26.htm

SEC and CFTC differ on swap execution facility rules

The SEC has proposed that swap execution facilities (SEFs) should not be able to limit the number of liquidity providers but that customers trading on a SEF should be able to request quotes from less than all of the providers, including just one.

This is in contrast to the CFTC proposal, which requires swap customers to receive prices from no fewer than five dealers at a time.

The CFTC and SEC were tasked together with formulating rules for OTC markets as part of the Dodd-Frank legislation and the SEC has jurisdiction over security-based swaps. The SEC has adopted the proposed rules and started a 60-day comment period.

Deutsche Bank has submitted comments to the CFTC regarding their SEF proposal.

SEC rule proposals on SEFs: http://www.sec.gov/rules/proposed.shtml
CFTC rule proposals on SEFs: http://www.cftc.gov/LawRegulation/DoddFrankAct/Rulemakings/DF_13_SEFRules/index.htm

Regulators at risk of budget cuts

The Senate has approved a continuing resolution to keep the government running through to 18 Mar 2011 as Democrats and Republicans battle over budget cuts. Federal agencies have been operating on the fiscal 2010 budget since Oct 2010 due to Congress failing to enact a fiscal 2011 budget. House appropriators have said that they would like to see the CFTC's budget cut by $57m to $169m for 2011, and the SEC's budget cut by $25m to $1,075m.

Reuters reports that Republicans have questioned funding increases for regulators due to concerns about provisions in Dodd-Frank legislation, including new rules for OTC derivatives. The Obama administration has called for large increases in the fiscal 2012 budgets for both the CFTC and SEC. Both the SEC Chairman, Mary Schapiro, and the CFTC Chairman, Gary Gensler, have said that any potential cuts would have a major impact on their ability to implement Dodd-Frank and upgrade their outdated technology.

Sources: www.sec.gov; www.wsj.com; www.bloomberg.com; www.investmentnews.com; www.uk.reuters.com;
Dow Jones Newswires

LatAm Venue News

BATS Global signs MOU with Claritas to explore potential creation of a new Brazilian stock exchange

BATS Global has announced that it has signed a memorandum of understanding with Claritas, a Brazilian asset management firm, to work together on the potential creation of a new Brazilian stock exchange. Plans for the new exchange also include clearing and depository services.

BM&FBovespa and the Shanghai Stock Exchange sign MOU

BM&FBovespa and the Shanghai Stock Exchange have signed a memorandum of understanding to begin joint discussions about business opportunities and the exchange of information.

Foreign investors are the largest contributors to equity trading volume on BM&FBovespa during Feb 2011

The BM&FBovespa reported that foreign investors were the largest contributors to equity trading volume on BM&FBovespa during Feb 2011, with 34.05% of the volume. Individual investors (individuals and investment clubs) represented 22.38% and institutional investors represented 33.46%.

BM&FBovespa breaks co-location trading volume record

BM&FBovespa announced that it broke the co-location trading volume record twice during Feb 2011. The new record now stands at 53,910 trades and a BRL 380,470,000 trading volume in DMA via co-location in the Bovespa segment (equities). Before Feb 2011, the record was 43,848 trades and a volume of BRL 304,819,000 trading volume on 11 Jan 2011.

DMA in the Bovespa segment has only been available since Sep 2010, whereas DMA in the BM&F segment (derivatives) has been available since 2009.

Sources: www.batstrading.com; www.bmfbovespa.com;

Canadian Venue News

TMX Group and London Stock Exchange Group agree 'merger of equals'

TMX Group and London Stock Exchange Group (LSEG) have announced plans for an 'all-share merger of equals'. The merger has been agreed by both boards but is still subject to the requisite approvals, including approval from Canadian provincial and federal authorities due to restrictions preventing an entity owning more than 10% of an exchange.

On 02 Mar 2011, CEOs of both TMX Group and LSE Group appeared before the Ontario Government Select Committee, which is examining the proposed merger.

If the deal goes ahead, it will create the largest platform for the trading of mining stocks.

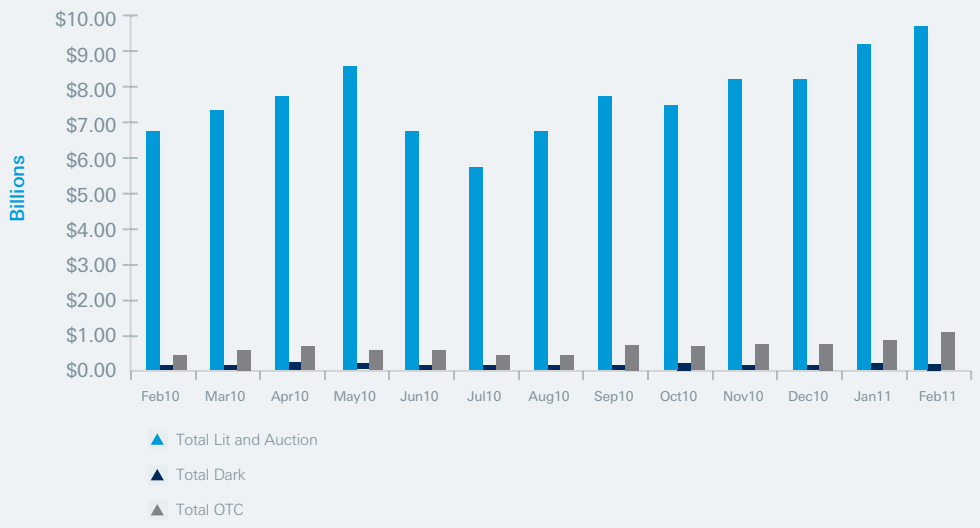
For further information: http://www.tmx.com/en/media_kit.html

Montreal Exchange sets new Feb 2011 trading volume record

The Montreal Exchange set a new trading volume record for Feb 2011, with total volume executed reaching 4,592,757 contracts. The previous record was back in May 2007 with 4,592,430 contracts.

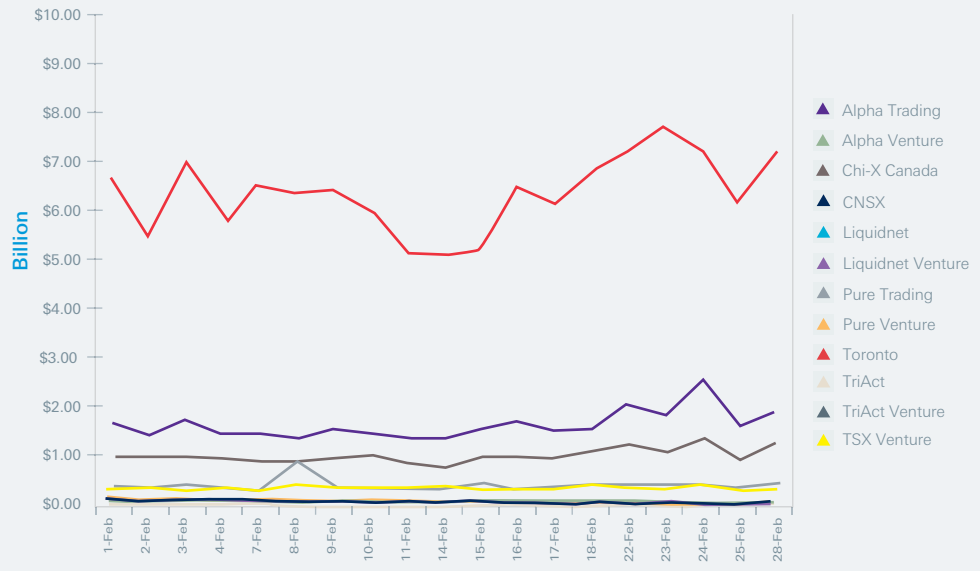
Source: www.tmx.com; www.londonstockexchangegroup.com; www.ft.com

Fig 1: Canadian ADV Bar chart: Lit & Auction, Dark, and OTC



Source: Thomson Reuters, Mar 2011

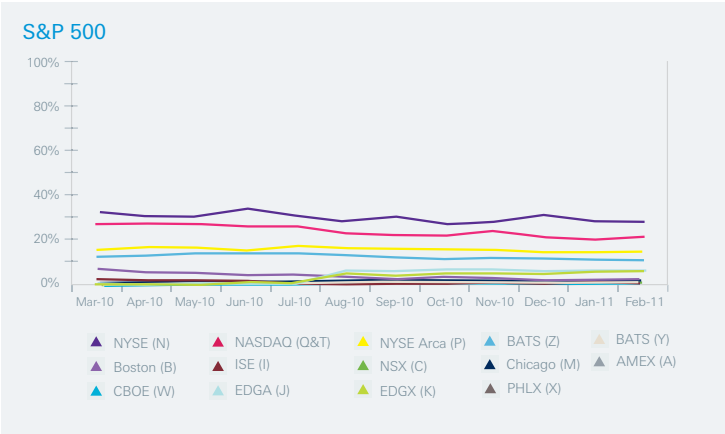
Fig 2: Canadian Daily Turnover

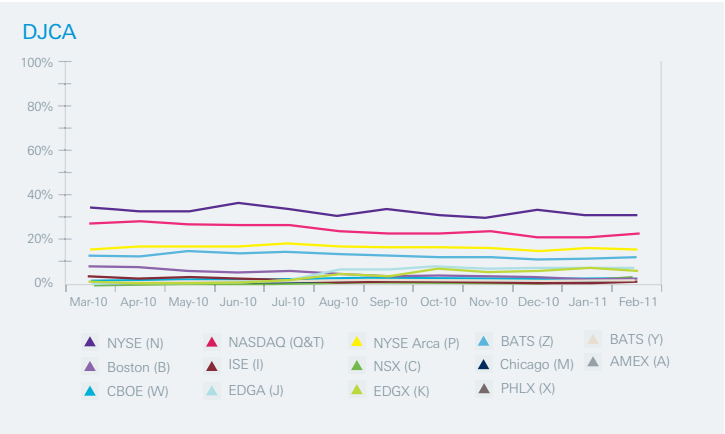


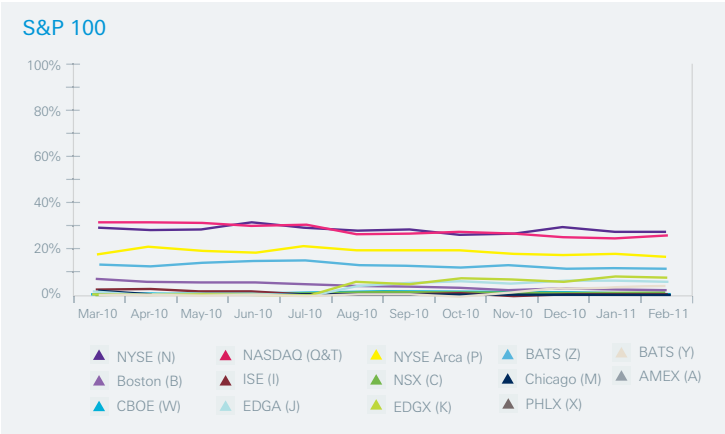
Source: Thomson Reuters, Mar 2011

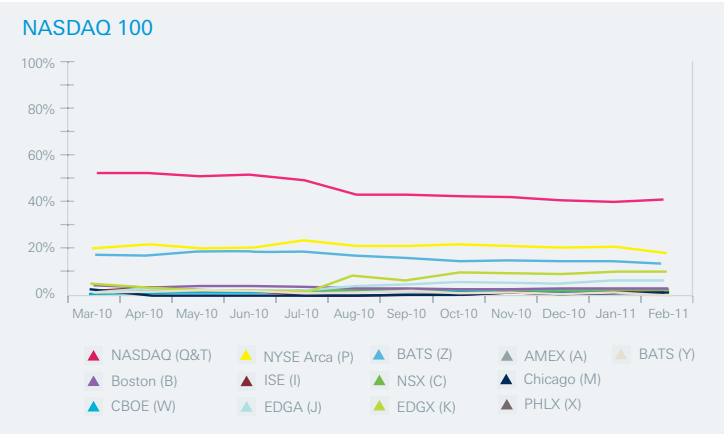
Index market share

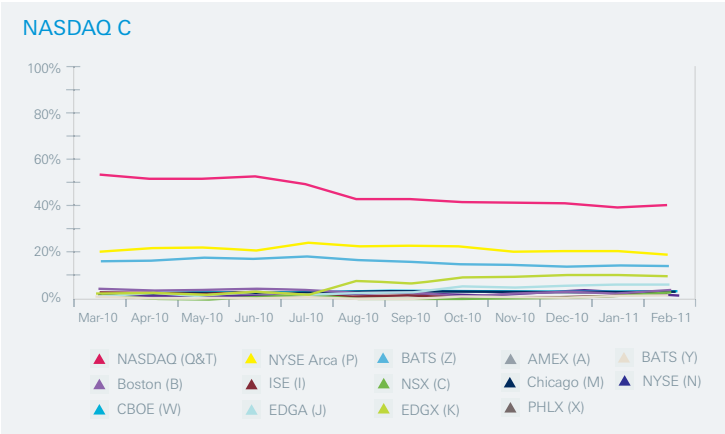
The charts below show the key US indices broken down by trading venue % market share:

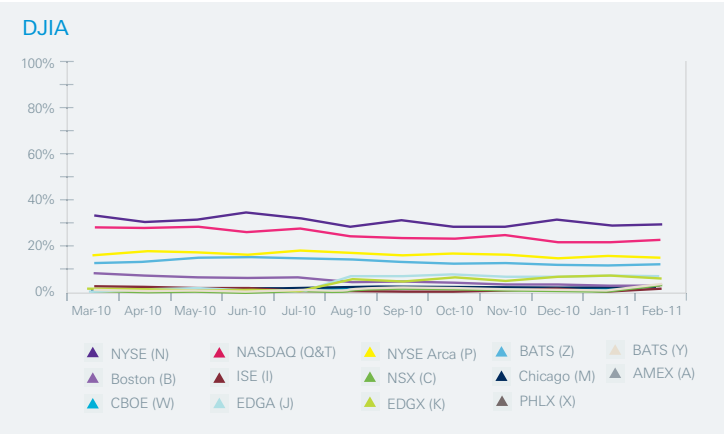












Source: Thomson Reuters, Mar 2011

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