

ECNs

What Is an Electronic Communication Network (ECN)?

An electronic communication network (ECN) is a computerized system that automatically matches buy and sell orders for securities in the market. ECN trading is especially helpful when investors in different geographic areas wish to complete a secure transaction without the use of a third party.

KEY TAKEAWAYS

- An electronic communication network (ECN) is a digital system that matches buyers and sellers looking to trade securities in the financial markets.
- ECNs allow brokerages and investors in different geographic areas to trade without a third party involved, offering privacy for investors.
- ECNs enables trading to happen outside of traditional trading hours, therefore enabling investors to react to or anticipate after-hours news.
- One of the downsides of using ECNs is that they have access fees and commission charges that can jack up the overall price of use.
- Without ECNs, it would take considerably longer for buyers and sellers to be matched with one another, making it more difficult to enter or exit positions and adding to the costs and risks of trading.

Understanding an Electronic Communication Network (ECN)

ECNs connect major brokerages and individual traders so they can trade directly between themselves without going through a middleman. They also make it possible for investors in different geographic locations to quickly and easily trade with each other. The U.S. Securities and Exchange Commission (SEC) requires ECNs to register as broker-dealers.

ECNs are computer-based systems that display the best available bid and ask quotes from multiple market participants, and then automatically match and execute orders. They not only facilitate trading on major exchanges during market hours, but they are also used for after-hours trading and foreign currency trading. ECNs allow for automated trading, passive order matching, and speedy execution.

Advantages and Disadvantages of Electronic Communication Networks

The use of the ECN allows investors a way to trade outside traditional trading hours, providing a mechanism for those who either can't be actively involved during normal market times or who prefer the flexibility offered by wider availability. It also avoids the wider spreads that are common when using a traditional broker and provides overall lower commissions and fees. For those concerned about privacy, the ECN can provide a level of anonymity to those who desire it. This can be particularly attractive to investors interested in making larger transactions.

One of the biggest drawbacks to using an ECN is the price to pay for using one. Access fees and commission charges can be costly and are difficult to avoid. Per-trade-based commissions can be costly and can affect your bottom line and profitability.

Another disadvantage of using ECNs is that the platform is less user-friendly than those provided by traditional brokers. Furthermore, the lack of integrated charts and data traditional brokers provide on their interfaces may make it difficult for beginner investors.

Finally, the wider spreads may complicate the process of calculating break-even and stop-loss points for some investors.

Examples of ECNs

Some of the different ECNs include **Instinet**, **SelectNet**, and **NYSE Arca**. Instinet was the first ECN, founded in 1969, and is used by small brokerages and for transactions between institutions. It is widely used by market makers for NASDAQ trades, but individuals and small firms can also use it.

SelectNet is used primarily by market makers, but it does not require immediate order execution and helps investors trade with specific market makers. NYSE Arca grew out of the merger between the New York Stock Exchange (NYSE) and Archipelago, an early ECN from 1996. It facilitates electronic stock trading on major U.S. exchanges such as the NYSE and NASDAQ.

ECNs vs. Market Makers

The term *market makers* refers to high-volume traders that literally "make a market" for securities by always standing at the ready to buy or sell. Unlike ECNs, market makers profit on the bid-ask spread rather than through commissions and fees. Similar to ECNs they benefit the market by increasing liquidity.

Market makers set both the bid and the ask prices on their systems and display them publicly on their quote screens. The spread is typically kept lower than that investors can find in ECNs due to the fact that market makers generate their profit via the spread.

Without market makers and ECNs, it would take considerably longer for buyers and sellers to be matched with one another. This would reduce liquidity, making it more difficult to enter or exit positions and adding to the costs and risks of trading.

What Types of Brokers Are There?

1. **Market makers, also known as dealing desk (DD) brokers.**
2. **Direct Market Access Brokers (DMA), also called the non-dealing desk (NDD) brokers or Straight Through Processing (STP) brokers.**
3. **ECN (Electronic Communication Network) Brokers**

What Is an ECN Broker?

ECN brokers facilitate transactions that occur on electronic communication networks (ECNs). Because an ECN broker consolidates price quotations from several market participants, it can generally offer its clients tighter bid/ask spreads than would be otherwise available to them.

COMMON ECNs

NASDAQ

Summary

Nasdaq



Stock exchange

The Nasdaq Stock Market is an American stock exchange based in New York City. It is ranked second on the list of stock exchanges by market capitalization of shares traded, behind the New York Stock Exchange. [Wikipedia](#)

Location: [New York City, U.S](#)

Currency: [United States dollar](#)

Owner: [Nasdaq, Inc.](#)

Indices: [Nasdaq-100](#); [NASDAQ Financial-100](#);
[Nasdaq Composite](#)

Founded: February 8, 1971; 51 years ago

Market cap: \$19.4 trillion (2021)

No. of listings: 3,554

Holidays

Nasdaq has a total of nine US stock market holidays and one market half-day holiday in 2021.

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US Stock Market Holidays Hours.

Holiday	2021	Status
Presidents Day	Monday, February 15	CLOSED
Good Friday	Friday, April 2	CLOSED
Memorial Day	Monday, May 31	CLOSED
Independence Day	Monday, July 5	CLOSED

"Nasdaq" was initially an acronym for the *National Association of Securities Dealers Automated Quotations*. It was founded in **1971** by the National Association of Securities Dealers (NASD), now known as the Financial Industry Regulatory Authority (FINRA). On **February 8, 1971**, the Nasdaq stock market began operations as the world's first electronic stock market. At first, it was merely a "quotation system" and did not provide a way to perform electronic trades. Over the years, it became more of a stock market by adding trade and volume reporting and automated trading systems. In 1981, Nasdaq traded 37% of the U.S. securities markets' total of 21 billion shares. By 1991, Nasdaq's share had grown to 46%. In 1992, the Nasdaq Stock Market joined with the London Stock Exchange to form the first intercontinental linkage of capital markets. In 1998, it became the first stock market in the United States to trade online, using the slogan "the stock market for the next hundred years". The Nasdaq Stock Market attracted many companies during the dot-com bubble.

Its main index is the NASDAQ Composite, which has been published since its inception. The QQQ exchange-traded fund tracks the large-cap NASDAQ-100 index, which was introduced in 1985 alongside the NASDAQ Financial-100 Index, which tracks the largest 100 companies in terms of market capitalization. In 2006, the status of the Nasdaq Stock Market was changed from a stock market to a licensed national securities exchange. In 2007, it merged with **OMX**, a leading exchange

operator in the Nordic countries, expanded its global footprint, and changed its name to the NASDAQ OMX Group.

To qualify for listing on the exchange, a company must be registered with the United States Securities and Exchange Commission (SEC), must have at least three market makers (financial firms that act as brokers or dealers for specific securities) and must meet minimum requirements for assets, capital, public shares, and shareholders.

QUOTE AVAILABILITY

Nasdaq quotes are available at three levels:

- Level 1 shows the highest bid and lowest ask—inside quote.
- Level 2 shows all public quotes of market makers together with information of market dealers wishing to buy or sell stock and recently executed orders.
- Level 3 is used by the market makers and allows them to enter their quotes and execute orders

TIMINGS

The Nasdaq Stock Market sessions, with times in the Eastern Time Zone are:

- **Premarket:** 7:00 a.m. to 9:30 a.m.: extended-hours trading session
- **Normal trading session:** 9:30 a.m. to 4:00 p.m.
- **Postmarket:** 4:00 p.m. to 8:00 p.m.

The Nasdaq Stock Market averages about 253 trading days per year.

MARKET TIERS

The Nasdaq Stock Market has three different market tiers:

- **Capital Market** (NASDAQ-CM small cap) is an equity market for companies that have relatively small levels of market capitalization. Listing requirements for such "small cap" companies are less stringent than for other Nasdaq markets that list larger companies with significantly higher market capitalization.
- **Global Market** (NASDAQ-GM mid cap) is made up of stocks that represent the Nasdaq Global Market. The Global Market consists of 1,450 stocks that meet Nasdaq's strict financial and liquidity requirements, and corporate governance standards. The Global Market is less exclusive than the Global Select Market.
- **Global Select Market** (NASDAQ-GS large cap) is a market capitalization-weighted index made up of US-based and international stocks that represent the Global Select Market Composite. The Global Select Market consists of 1,200 stocks that meet Nasdaq's strict financial and liquidity requirements and corporate governance standards. The Global Select Market is more exclusive than the Global Market. Every October, the Nasdaq

Listing Qualifications Department reviews the Global Market Composite to determine if any of its stocks have become eligible for listing on the Global Select Market.

New York Stock Exchange (NYSE)

The **New York Stock Exchange (NYSE)**, nicknamed "**The Big Board**") is an American stock exchange in the Financial District of Lower Manhattan in New York City. It is by far the world's largest stock exchange by market capitalization of its listed companies at US\$30.1 trillion as of February 2018. The average daily trading value was approximately US\$169 billion in 2013. The NYSE trading floor is at the New York Stock Exchange Building on 11 Wall Street and 18 Broad Street and is a National Historic Landmark. An additional trading room, at 30 Broad Street, was closed in February 2007.

The NYSE is owned by Intercontinental Exchange, an American holding company that it also lists (**NYSE**: ICE). Previously, it was part of NYSE Euronext (NYSE), which was formed by the NYSE's 2007 merger with Euronext.

History of the New York Stock Exchange

In 1792, the NYSE was established at 68 Wall Street where 24 brokers and merchants outlined the rules for trading securities in the Buttonwood Agreement. The organization was initially named New York Stock & Exchange Board. It became the New York Stock Exchange in 1863. At that time, only male traders took part in the NYSE. It was only in 1967 when a female trader named Muriel Siebert was allowed to participate in trading.

In 1971, NYSE became a not-for-profit corporation, and in 2006, a publicly-traded company. It was also during this time when traders and

the public started using an electronic system to trade stocks. In 2007, NYSE merged with Euronext, and in 2008, NYSE acquired the American Stock Exchange. The Intercontinental Exchange later purchased the NYSE for \$8.2 billion.

Opening and Closing Bells

The NYSE originally used a gavel to signal the start and end of trading, but in 1870, it switched to a Chinese gong. When it moved to its present location, the gong was replaced by a brass bell. The opening bell rings at 9:30 a.m. Eastern Time, while the closing bell can be heard at 4:00 p.m.

NYSE ARCA

NYSE Arca, previously known as **ArcaEx**, an abbreviation of **Archipelago Exchange**, is an exchange on which both stocks and options are traded. It was owned by **Intercontinental Exchange**. It merged with the New York Stock Exchange in **2006** and now operates as a subsidiary of the NYSE Group, Inc. It is headquartered in Chicago.

AMEX

What Is the American Stock Exchange (AMEX)?

The American Stock Exchange (AMEX) was once the third-largest stock exchange in the United States, as measured by trading volume. The exchange, at its height, handled about 10% of all securities traded in the U.S.

Today, the AMEX is known as the NYSE American. In 2008, NYSE Euronext acquired the AMEX. In the subsequent years, it also became known as NYSE Amex Equities and NYSE MKT

KEY TAKEAWAYS

- The American Stock Exchange (AMEX) was once the third-largest stock exchange in the U.S.
- NYSE Euronext acquired the AMEX in 2008 and today it is known as the NYSE American.
- The majority of trading on the NYSE American is in small cap stocks.
- The NYSE American uses market makers to ensure liquidity and an orderly marketplace for its listed securities.

In 1993, the AMEX introduced the first exchange traded fund (ETF). The ETF, now a popular investment, is a type of security that tracks an index or a basket of assets. They are much like mutual funds but differ in that they trade like stocks on an exchange.

Over time, the AMEX gained the reputation of listing companies that could not meet the strict requirements of the NYSE. Today, a good portion of trading on the NYSE American is in small cap stocks. It operates as a fully electronic exchange. Over the years, the NYSE American has become an attractive listing place for younger, entrepreneurial companies, some of whom are in the early stages of their growth and certainly not as well-known as [blue chip](#) companies. Compared to the NYSE and Nasdaq, the NYSE American trades at much smaller volumes. Market makers are individuals or firms that are available to buy and sell a particular security as needed throughout the trading session. These designated market makers have quoting obligations for specific NYSE American-listed companies. In return for making a market for a security, market makers earn money through the [bid-ask spread](#) and from fees and commissions. So, despite the fact that the NYSE American is a smaller-volume exchange specializing in listing smaller companies, its use of market makers enables it to maintain [liquidity](#) and an orderly market.

BATS

What Is Bats Global Markets?

Bats Global Markets was a U.S.-based exchange that listed several different types of investments, including equities, options, and foreign exchange. It was founded in 2005 and was acquired by CBOE Holdings (CBOE) in 2017. Prior to being acquired, Bats Global Market was one of the largest U.S. exchanges and well known for its services to [broker-dealers](#) as well as retail and institutional investors.

KEY TAKEAWAYS

- Better Alternative Trading Systems was rebranded to Bats Global Markets in 2008 when the exchange made a foray into European markets.
- CBOE acquired Bats in 2017 and migrated three of its exchanges to the Bats Global Markets platform.
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- Prior to the acquisition, Bats had become one of the largest exchanges in the world with listings in stocks, options, ETFs, and foreign exchange.

As an exchange, Bats grew into the main competitor to the New York Stock Exchange (NYSE) and Nasdaq, both of which handled a greater amount of equities when ranked by market capitalization. In 2016, Bats had become the second-largest U.S. equity exchange by market share and was the largest [exchange-traded fund](#) (ETF) exchange.

In the United States, its BZX Exchange became a registered exchange in 2008, and its BYX Exchange was launched in 2010. Between 2011 and 2015, Bats merged with and acquired several exchanges. In 2011, it acquired Chi-X Europe, making it the largest stock exchange in Europe. In 2014, a merger with Direct Edge added the EDGA and EDGX exchanges.

In 2015, Bats acquired Hotspot, an electronic communication network (ECN), allowing institutional investors spot trading, swap execution, and forward trading services.

CBOE Holdings, the owner of the Chicago Board Options Exchange and CBOE Futures Exchange (CFE), made an offer to acquire Bats Global Markets in 2017. The acquisition allowed CBOE to expand into Europe and increase its offerings to include foreign exchange and ETFs. CBOE now operates four U.S. options markets, CFE, two European equities markets, four U.S. equities markets, and two foreign exchange markets. Three of the exchanges that CBOE operated prior to acquiring Bats migrated to the Bats trading platform.

EDGX

- EDGX Exchange is a U.S. equities exchange operated by CBOE U.S. Equities.
- CBOE Global Markets acquired Bats Global Markets and now operates the BZX Exchange and BYX Exchange along with EDGX and EDGA.
- EDGX and CBOE members are registered broker-dealers across a broad range of financial services companies.

These four equity exchanges provide pools of liquidity and facilitate varying types of liquid markets (choice or active) for their customers.

EDGX Members

EDGX and CBOE members are registered broker-dealers across a broad range of financial services companies. Members include automated market makers, such as electronic market-making firms as well as wholesale broker dealers that mainly are market makers for retail orders. Retail brokers may directly route trades to EDGX and CBOE. In addition, the bulge bracket investment banks that offer research and trading to clients also are members. Proprietary traders who buy and sell for their own accounts rather than for clients are also active on the exchanges. EDGX is the third largest stock

market in the United States, behind the New York Stock Exchange and NASDAQ.

Direct Edge traded all U.S.-listed equities:

- Tape A – [NYSE](#) listed
- Tape B – [NYSE Arca/Amex](#) listed
- Tape C – [NASDAQ](#) listed

EDGX is an exchange with a maker/taker pricing model offering high rebates for liquidity providers.

EDGA is a low cost exchange with a taker/maker pricing model.

Hours of operation are from **8 a.m. to 8 p.m.** with the regular trading session designated between the hours of **9:30 a.m. and 4 p.m.** EDGA is identified as “J” for all trades and quotes posted to the Security Information Processor (public quote stream) and EDGX is identified as “K”.

On March 12, 2010, Direct Edge received official approval from the U.S. Securities and Exchange Commission (SEC) to convert both EDGA and EDGX ECN platforms into two newly established national securities exchanges

MEMX

The Members Exchange (MEMX) is an independently owned, technology-driven stock exchange founded by members to serve the interest of its founders and their collective client base. The founding members, which include nine major financial organizations, seek to transform markets around the goals of transparency, innovation, and competition in order to align exchange services with the interests of market participants. It is a member-formed equities trading platform, and competes with the major equity exchanges: NYSE, Nasdaq, and CBOE.

MEMX received approval from the Securities and Exchange Commission in May 2020 to operate as a national securities exchange. The exchange launched on September 21, 2020, listing seven symbols and rolling out additional names through October 2020.

The mission of the exchange is "to increase competition, improve operational transparency, further reduce fixed costs and simplify the execution of equity trading in the U.S.," per a press release. MEMX is designed to represent the interests of its founders' clients, a group of retail and institutional investors.

