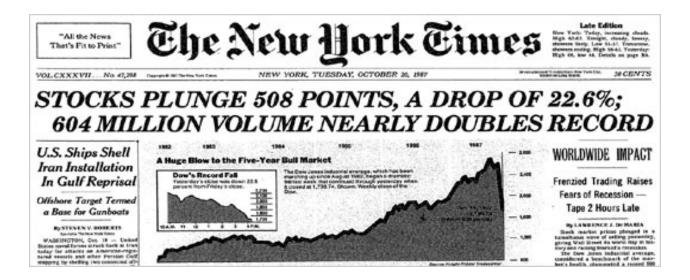
History lesson on the evolution of exchanges

Market delays and intervention of market makers created a demand for a faster and specialist free exchange.

This led to the birth of Instinet, the first Electronic communication network (ECN). Instinet was founded by Jerome M. Pustilnik and Herbert R. Behrens and was incorporated in 1967 as Institutional Networks Corp.

The founders aimed to compete with the New York Stock Exchange by means of computer links between major institutions, such as banks, mutual funds, and insurance companies.

Then Black Monday happened.



During the crash of 1987, electronic trading systems allowed trading when brokers and market makers were unwilling to answer their phones during the free-fall.

Market Maker collusion was the last straw for regulation change.

In 1994, a study by two economists showed possible Market Maker Bid/Ask Spread price collusion resulted in an anti-trust lawsuit against NASDAQ. As part of NASDAQ's settlement of the antitrust charges, NASDAQ adopted new order handling rules that integrated ECNs into the NASDAQ system.

Shortly after this settlement, the SEC adopted Regulation ATS, which permitted ECNs the option of registering as stock exchanges.

ECN (Electronic Communication Network)

This is an electronic system that accepts/dessiminates orders entered into it and permits the orders to be executed against.

As ECNs were permited to act as exchanges, Instinet and Island exploded in popularity. Archipelago (ARCA) Exchange was born and new ECNs emerged.

Archipelago (ARCA) exchange

Founded in 1994 by Stuart Townsend and Gerald Putman. First orders accepted on January 20, 1997. Brand new pricing scheme that changed everything.

The new pricing scheme went as follow:

- -Rebate for adding liquidity
- -Fee for removing liquidity

Example: ARCA: add \$0.002, remove -\$0.003 Incentive for people to Add liquidity on ECNs instead of on the actual exchange. Incentive for people to remove liquidity (even though more expensive) on ECNs because there is more liquidity there. If you can't beat them. Buy them.

Instinct in 2002 merged with the Island ECN, renaming the Island technology platform Inet.

In 2005 NASDAQ buys Inet

In 2006 NYSE buys Arca

Sample Fee Structure of current ECNs

ECN	Add	Remove
NSDQBX	\$0.0025	\$0
EDGA	\$0.0005	\$(0.0002)
EDGX	\$ (0.0020)	\$0.0029
NYSE	(\$0.0013)	\$0.0031
ARCA	(\$0.0020)	\$0.0030
BYX	\$0.0018	(\$0.0015)
BATS	(\$0.0020)	\$0.0030

Level 2 example



