Nasdaq tries to make amends for Facebook problems

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This Wednesday, May 23, 2012, file photo, shows the pre-market price for Facebook at the Nasdaq MarketSite in New York. The Nasdaq stock exchange said Wednesday that it plans to hand out $40 million in cash and credit to reimburse investment firms that got ensnared by technical problems with trading Facebook stock. (AP Photo/Mark Lennihan, File)

(AP) — The Nasdaq stock exchange tried to make amends with investors ensnared by technical problems on the day Facebook went public.

But the apology was not universally accepted.

Nasdaq said Wednesday afternoon that it would hand out $40 million in cash and credit to reimburse investment firms that lost money on Facebook's opening day because of computer glitches at the exchange.

Nasdaq's chief rival, the New York Stock Exchange, fired off a statement condemning the move, saying Nasdaq was giving itself an unfair advantage and rewarding itself for its own mistakes.

One broker, Knight Capital, said the planned reimbursements weren't nearly enough, encapsulating the complaints that other brokers and investment firms were making privately.

Facebook went public May 18 amid great fanfare, but computer glitches at the Nasdaq threw the day into chaos. The opening was delayed by half an hour. Technical problems kept many investors from buying shares in the morning, selling them later in the day, or even from knowing whether their orders went through. Some investors complained that they were left holding shares they didn't want.

Nasdaq will pay about $14 million in cash to investment companies that bought or sold shares, or tried to, at certain levels. The rest will be given as credit, meaning the firms won't have to pay as much in the usual fees required for trading on the Nasdaq. Nasdaq predicted that those benefits could last as long as six months.

The credit for trading fees riled the NYSE. It said the move gave investors a strong incentive to move more of their trading to the Nasdaq, allowing Nasdaq "to reap a benefit from market share gains they would not have otherwise received."

"This is tantamount to forcing the industry to subsidize Nasdaq's missteps and would establish a harmful precedent that could have far reaching implications for the markets, investors and the public interest," the NYSE said in a statement.

The war of words underscores the constant battle that Nasdaq and the NYSE are locked in. The NYSE, with roots dating to the 18th century and its familiar neoclassic headquarters on Wall Street, bills itself as reliable and well-known. Nasdaq, which started in 1971, promotes itself as a high-tech exchange favored by high-tech companies including Apple and Google.

The $40 million amount is far more than usual: Nasdaq has traditionally imposed a $3 million cap for reimbursing customers who lost money because of technical problems.

It's hard to imagine that the amount could cover all the claims. Knight Capital alone has estimated that it lost as much as $35 million because of Nasdaq's glitches.

Knight Capital said it was disappointed that the reimbursement pool "does not come close to covering reported losses" connected to the technical glitches.

"Their proposed solution to this problem is simply unacceptable," the company said in a statement.

It isn't clear what will happen next. Nasdaq still has to get approval from the Securities and Exchange Commission for its plan. The NYSE said it would "strongly press our views" but didn't give details. Knight Capital said it is "evaluating all remedies available under law," which could mean it plans to sue.

Facebook's stock originally priced at $38 and closed that first day at $38.23, a disappointment to speculators who had hoped for a first-day pop. Nasdaq has said it was embarrassed by the glitches, but that they didn't contribute to the underwhelming returns.

Nasdaq says it will reimburse investment firms that tried to sell shares at $42 or less but either couldn't sell or sold at a lower price than they intended. It will also reimburse investment firms that bought at $42 but in trades that weren't immediately confirmed. FINRA, the financial industry's self-regulatory group, will review the claims for compensation. Facebook's shares went as high as $45 on the first day.

The shares rose after the Nasdaq announcement and closed up 94 cents, nearly 4 percent, at $26.81. That's still down nearly 30 percent from the initial pricing.

The Facebook offering has left a bad taste for many investors, though they don't blame Nasdaq alone. Many also think that Facebook as well as Morgan Stanley, the main bank that underwrote the deal, overestimated demand, pricing the shares too high and issuing too many.

Nasdaq says the problems have been fixed and that it has hired IBM to review its operating systems.