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High-Speed Trading Race May Hurt Market Fairness, Themis Says

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By Whitney Kisling

Dec. 9 (Bloomberg) -- High-frequency trading where investment firms use faster hardware and software to improve their stock executions may be fueling an unfair market, according to **Themis Trading LLC**.

High-frequency traders are buying and developing top technology programs and paying to place their computers inside exchanges' data centers to cut milliseconds off the time it takes to buy and sell shares. The speed advantage may mean some firms have better information than those who don't have the best programs or whose computers aren't colocated in the data centers, **Sal Arnuke** and **Joseph Saluzzi**, co-heads of equity trading at **Themis**, wrote in a paper this month.

The race to be faster "is more than a simple case of technological evolution, but raises serious questions about the fairness and equal access of U.S. equity markets," wrote **Arnuke** and **Saluzzi**, based in Chatham, New Jersey. "It is not the amount of time that matters. It's that a differential exists at all."

The U.S. Securities and Exchange Commission may propose rules as soon as next month on high-frequency trading. Regulators have been reviewing the practice as part of a broad market structure assessment this year after lawmakers and market participants said some tactics may promote an uneven playing field. The commission proposed in September banning flash orders, in which a group of traders sees an order a split second before it's routed to another venue.

Themis released a paper in December 2008 that claimed high-speed electronic trading led to an artificial increase in trading volume, a surge in price volatility and was hurting investors. High-frequency trading accounts for as much as 70 percent of all U.S. equity trading, according to Tabb Group LLC, a New York-based financial services consultant.