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Schumer on High Frequency Trading

We know it's been a while since the May "flash crash.". But don't forget, we're still trading with a pretty rickety market structure. As The Journal pointed out in [its great take out on the Flash Crash](#), at the heart of events of May 6, was a decision by certain market makers to cut back trading, and in some cases pull out of the market all together.

Since so much of the market's liquidity comes from high-frequency trading or statistical-arbitrage firms some are saying there should be additional obligations to ensure that these firms don't pull out of the market.

One of them is New York Sen. Chuck Schumer. On Wednesday [his office issued a press release](#) laying out his opinion that the SEC ought "to place certain high-frequency trading firms under a uniform set of rules to prevent them from pulling out of markets en masse as they did during last May's flash crash that sent stock prices tumbling." Here's some of the core obligation Schumer lays out in a public letter to SEC chief Mary Schapiro:

Best Price Obligation: Market makers should be required to quote between the highest bid and lowest offer price for a specified percentage of time during the trading day depending on stock price, trading volume and other characteristics of the stock. This would ensure that market makers provide meaningful liquidity at market prices.

Maximum Quoted Spread: Market makers should also be required to post quotes that are reasonably related to the then-current market price, presumably within the percentage triggers for circuit breakers. This would eliminate the practice of posting so-called "stub quotes", widely believed to have led to many of the cancelled trades on May 6.

Depth Obligation: Market makers also should be required to provide multiple price levels below the best price obligation depending on volume, stock price and other characteristics of the stock. Making markets should not be limited to the superficial level of the best price. In order to be strong, resilient and less volatile, markets should be as deep and liquid as possible.

Uniformity Across Trading Venues: Perhaps most importantly, the eligibility requirements and obligations of market makers should be uniform across all exchanges and trading venues. Some exchanges require fewer obligations of their market makers than others. It is important that there is a level playing field between all trading venues and that this playing field has high standards that protect the best interests of long-term investors.

The folks over at [Themis Trading](#), who have been getting lots of attention as some of the most outspoken critics of HFT practices say these obligations look very similar to the ideas put forward by high-frequency market making firms themselves recently.

At any rate, there's no doubt that commission needs to sort out the obligations of high frequency liquidity providers. In the mean time, our computer driven market structure remains in the same fragile state that preceded the flash crash.