

HFT: VIEWS OF INVESTORS

CFA Institute staff have tracked the evolution of high-frequency trading (HFT) in global capital markets, with a view toward understanding potential impacts on market quality and integrity as well as to inform our perspectives on public policy and regulatory initiatives.

INVESTOR CONCERNS

The primary concerns about HFT are whether firms engaged in this type of trading also:

1. may engage in abusive trading strategies;
2. are not subject to capital and transparency requirements that are typically required of traditional market makers;
3. deploy algorithms that, if not robustly tested, have the capacity to destabilize markets;
4. take advantage of superior market data (proprietary data feeds that operate with lower latencies than the consolidated quote and tape) and proximity to exchange matching engines (co-location) to execute ahead of other market participants;
5. may have contributed to a reduction in the depth and breadth of liquidity that could exacerbate market sell-offs like the May 2010 Flash Crash.

CFA INSTITUTE COMMENTARY

- [2015 Comment letter to European Securities and Markets Authority on MiFID II](#)
- [2014 Comment letter to European Securities and Markets Authority on MiFID II](#)
- [2012 Comment letter to European Commission ECON Committee on MiFID Rule Reforms \(question 8\)](#)
- [Research Paper: Dark Pools, Internalization, and Equity Market Quality \(2012\)](#)
- [2011 Comment letter to IOSCO on Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency](#)
- [2010 Comment letter to CESR on Microstructural Issues of the Equity Markets](#)
- [2010 Comment letter to SEC on US Equity Market Structure Concept Release](#)
- ["HFT, Price Improvement, Adverse Selection: An Expensive Way to Get Tighter Spreads?" \(Market Integrity Insights blog post\)](#)
- ["HFT Cause and Effect: What Is the Role of Exchange Industry Economics?" \(Market Integrity Insights blog post\)](#)
- ["Debating Michael Lewis' 'Flash Boys': High-Frequency Trading Not All Bad" \(Market Integrity Insights blog post\)](#)

CFA INSTITUTE VIEWPOINT

- Regulators must enforce all rules and regulation to prohibit and sanction all forms of market manipulation and fraud.
- Appropriately registered and regulated market makers should not 1) use information to trade ahead of, or "front run," orders of clients; 2) step ahead of available best bid or offer without providing meaningful price improvement; or 3) permit others, either within their firms or clients of their firms, to access order book without appropriate pre-trade risk controls.
- HFTs pursuing market making strategies should not have special access to the market order book unless they are subject to the same capital and transparency obligations of traditional market makers. Broker-dealers should not give HFTs unfiltered direct market access.
- Regulators should make it incumbent upon firms to strengthen testing and oversight of algorithms to improve network resiliency, especially for potential bouts of volatility.
- Exchanges should be permitted to offer co-location services only if it is provided on equal commercial terms to all market participants willing to purchase such proximity for a given level of service.