Blogs
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Speed is Good: But Is High-Speed Trading A Crime?

In the 1987 film "Wall Street," Gordon Gecko gives a memorable speech in which he declares "that greed, for lack of a better word, is good. Greed is right, greed works."

On Wall Street today, one might say that *speed* is good. Milliseconds (1/1,000th of a second) and microseconds (1/1,000,000th of a second) matter. Traders relentlessly pursue methods to access the most current information from Wall Street, employing fiber-optic cable, microwave dishes, and even laser beams. But is acting upon this virtually-instant data, which may arrive at a high-speed trader's computer mere milliseconds before the average trader, insider trading? Some are claiming, "yes." After the publication of Michael Lewis's book *Flash Boys: A Wall Street Revolt*, allegations are circulating that a speed advantage allows high-speed traders to effectively "front run" other traders. Traditional front running occurs when a broker uses his advanced knowledge of a new share price (set by a customer's order) to himself purchase shares before executing that customer's order. Michael Lewis and others claim that high-speed traders are effectively doing the same thing. For example, a broker places an order for 10,000 shares of ABC Company's stock at $50. The order will be filled with 5,000 shares on the NYSE and 5,000 on the Nasdaq. The order reaches the NYSE milliseconds before the order reaches the Nasdaq. A high-speed trader, using instantaneous data, sees the NYSE trade and purchases the shares of ABC Company available on the Nasdaq for $50. If the broker's customer still wants the shares, it must now buy the shares of ABC Company for a slightly higher price. Others claim that this cannot be insider trading: The broker's order on the NYSE is public information. How could placing an order on the Nasdaq based on that information, however quickly, be insider trading? While the pundits sound off, it remains to be seen whether regulators, prosecutors, and ultimately courts will consider high-speed trading to create an unfair and illegal advantage. A few government bodies, however, have made their position clear. New York Attorney General Eric Schneiderman has announced an investigation into the practice, calling high-speed trading "Insider Trading 2.0" and saying "when blinding speed is coupled with early access to data, it gives small groups of traders the power to manipulate market movements in their own favor before anyone else knows what's happening." United States Attorney General Eric Holder also confirmed that that the Department of Justice is investigating, and the FBI is looking for whistle-blowers to come forward. The Commodity Futures Trading Commission has also announced an investigation into high-speed trading. Whether high-speed trading will be criminalized remains to be seen. What is clear, though, is that regulators' interest has been piqued, and that investigations into high-speed trading are unlikely to go away any time soon.

Authors

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