Open Session on the Contributions of the Report

Panel Discussion by

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The Future of Computer Trading in Financial Markets

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Suggested topics

- Academic views on report and CBT/HFT

- Issues not covered

- Next steps

- Data – wish list

- Foresight findings versus US findings

Academic view on report and CBT/HFT

- Great report with many fantastic "driver reviews" underpinning insights and conclusions
- List of involved academics, regulators and market players is long … so what can I add?

- Two general comments/thoughts
  - HFT covers many different players and strategies – need to better understand this – dynamic industry
    - Competition within HFT: can this lead to excessive risk taking?
    - Potential crowding out of other market participants:
      - retail and institutional investors
      - Market makers who commit capital
  - Co-location: HFTs paying for "closest distance" may lead to unfair competition both within HFTs and regarding other traders
    - You want HFTs to perform because of their underlying mechanism / rules and not because of their co-location

Issues not covered

- Cum-fee EBBO:
  - "Raw or observed" liquidity indicators may differ quite substantially from cum-fee liquidity indicators
    - Exchange fees and make/take fees (see Colliard and Foucault (RFS 2012), Foucault, Kadan and Kandell (JFforth), Menkveld (2012))
    - Clearing and settlement fees (Degryse, Van Achter and Wuyts (2012), Menkveld (2012))
  - Traders should take decisions based upon cum-fee liquidity and routing decisions may be taken on the basis of raw liquidity indicators

- Post-trading infrastructure organization and trading
  - Collateral requirements, …

Next steps

- Interaction between human traders and HFT

- Fair level playing field with other investor types and within HFT

- HFT will continue to change over time – what is different from decades ago?

- Need extremily detailed data to understand what is happening – also supervisors need this!

Data- wish list

- Trade, quote, and order data stamped to the highest level of detail from all trading venues – lit and dark

- **Trader identities** behind each trade, trader's inventory position

- HFT business model – market makers – retail investors

- Make/take fees and post-trading fees, CSD affiliation and collateral requirements

- Also important for supervisors to study market abuse!

Foresight findings versus US findings

- …