Fairness of Outcomes vs. Opportunities at The Trading Show Chicago

By Laura Lupo / 29 June 2012

Our panel for the second session of the day consists of a group of experts from regulatory firms to securities trading. The moderator, Mark Shepherd of Derivative Strategy Consultants, starts out by asking for some perspective on the fairness of the outcomes vs. opportunities debate. Karim Taleb of Robust Methods responded, "I do believe technology has been evolving faster than our ability to establish laws. … It's time to step back and look at it from a fair distribution of flow and value". Joe Gawronski of Rosenblatt Securities states, "Market structure is far from perfect but the SEC is working on them. By any metric you look at, the market has improved due to intense competition." In terms of looking at fairness across the globe, Mehmet Yanilmaz of Myra Trading suggests that key issues in the debate are incentivizing order flows for traders and understanding what the incentives are for order cancelation flows. Mr. Yanilmaz then goes to quote, "in the US there are a few lessons we can learn from EU and Australia … but at the same time those markets are not as fragmented as the US's market".

The next question for the panel from Mr. Shepherd is, "What effects have payments (positive and negative) on order flow have on markets?" Matthew Cushman of Citadel provides some perspective on the issue by stating, "There was a time when there was an ability to monetize a market maker. In order to replace that, rebates are encouraged." This statement further supports what is known in the markets, providing incentives does help liquidity. Although this is true, Mr. Gawronski adds that it is hard to prove that you have met your best execution performance and thusly the effect of payments on the market is not trivial to understand.

Rounding out the last question, "What is fairness and what is optimal market structure?", Joe Kroeper of FINRA claims there are two sides to this question. There are the participants and the regulators which as Mr. Kroeper puts it, "We do not have a dog in the fight". This is due to the regulatory mission of FINRA and it is understood what constitutes fairness may be different for other entities vying in a competitive market. The majority of the panel expressed some concern with how order cancelation affects the bottom line and decision making. Mr. Taleb makes an interesting comparison to the game of chess as a way to respond to this question. Order cancelation should not happen without good cause. Rather, orders should be considered to be commitments whereby once you touch it, you have to move it, and leave it. HFT may give an advantage to those firms that can surmount the average execution time over other firms and possibly abuse order cancellation transactions. Differing arguments over the regulation or elimination of order cancelation in the industry is still a ripe issue and the solution will take more agreement from regulatory and market participating firms.

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