TAC ATS/HFT
Working Group 4
Market Microstructure Issues

June 20, 2012

Participants

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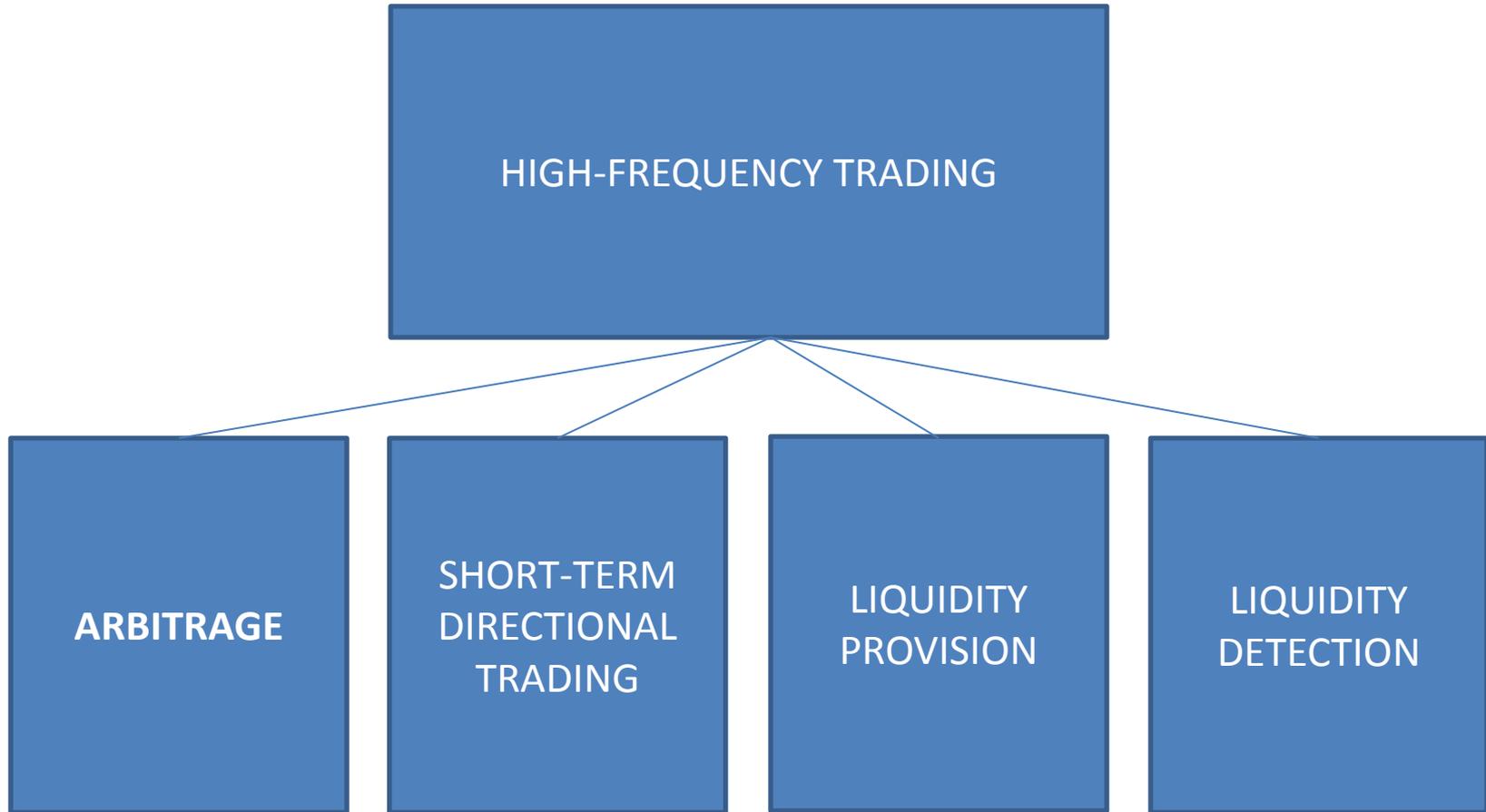- Jitesh Thakkar, Edge Financial Technologies

Market microstructure issues

- Microstructure
  - Trading protocols
  - Participants
  - Operational efficiency
  - Market efficiency
- What are the changes caused by ATS/HFT?

The group's approach

- Discussion and classification of current strategies.
- Taxonomy (a joint product w. group 2)
- Use a basis for identifying practices that are beneficial those that are not.

Strategies that may use HFT techniques

HIGH-FREQUENCY TRADING

ARBITRAGE

SHORT-TERM DIRECTIONAL TRADING

LIQUIDITY PROVISION

LIQUIDITY DETECTION

Strategies that may use HFT techniques

- Liquidity Provision
  - Rebate capture *
  - Quote matching
  - Spread capture
  - Market making
  - Layering
- Liquidity Detection
  - Pinging / sniffing / sniping
  - Quote stuffing
  - Spoofing

*presently applies to equities only

Strategies that may use HFT techniques

– Arbitrage
  - Cross-asset
  - Cross-market
  - Stat-arb / relative value trading
  - Latency arbitrage
– Directional
  - Momentum / trend
  - Mean reversion
  - Event driven
  - Ignition

Next Steps

- Identifying/designing metrics for evaluating market quality (e.g. market depth, liquidity).

- Analytical tools to continue formalizing our intuitions.

- Aggressive vs. passive strategies and on how HFT activity may affect relevant metrics.

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