Main propositions of the paper
Insider trading v. HFT trading
Information Asymmetries
Some areas worth exploring

Insider Trading and Market Structure

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Main propositions of the paper

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2. Insider trading v. HFT trading
3. Information Asymmetries
4. Some areas worth exploring
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2. Conventional insider trading doctrine does not address these information asymmetries. (Structural insiders v. conventional insiders)

3. Conventional insider trading doctrine must be re-visited to address information asymmetries arising from HFT trading.
Story explained

1. HFT traders use co-located servers, rich data feeds and are able to respond faster to trade-related data.

2. By placing orders ahead of the others, they stand between an informed trader and the best available price on the market.
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Apprehensions:
Increased cost of trading • Capital flight • Cloak and dagger behaviour.
Insider trading v. HFT trading

- Insider trading doctrine involves an element of deceit:
  - Classical theory: Breach of fiduciary obligation to other shareholders.
  - Misappropriation theory: Breach of obligation to a source of information.

- Rule 10b-5, Section 10b of the Securities Exchange Act, 1934 envisage manipulation, deceit and fraud.

- These elements are absent (though not necessarily!) when a HFT trader responds to trade-related data.
Only commonality between an insider and a HFT trader is, therefore, information asymmetry.

Not all information asymmetry warrants intervention (Hall, 2007).

Treatment of previous technological innovations which have caused information asymmetries. Examples:

1. Transition from pit-trading to electronic trading
2. Transition in retail trading from phone to electronic trading
3. In Indian context, transition from 3G to 4G!
Some areas worth exploring

- Popular discourse categorizes “all” HFT trading as market abuse. Problems:
  1. Presumption of guilt in all HFT trading.
     - Example: Most common allegation against a HFT is “front running” other investors. In an anonymised trading system, front-running may just be an educated guess of what’s coming up.
  2. What happens when one HFT trader is trading with another HFT trader?
    - If policy frowns upon co-location, it throws open the debate on information asymmetries arising from proximity issues. How close is TOO close??
    - Will introducing latencies destroy the efficiencies that HFT trading brings to the market? Should this be a private sector solution?
Some areas worth exploring (contd.)

1. Can HFT trading fit within the overall regulatory framework for market abuse?
2. Easier surveillance - Does HFT trading make datamining easier for the regulator?
3. Regulatory capacity
Thank you