

NEW CANADIAN RULES COMING ON HIGH-SPEED TRADING

Canada's financial regulators are preparing, perhaps as early as Friday, to take the first steps toward imposing regulations on a part of the industry that has already come under heavy scrutiny and control in other parts of the world: lightning-fast electronic trading which has grown to a significant chunk of trading volume in the few short years since its arrival. Also on the table for stricter monitoring is direct market access to exchanges, also known as "unfiltered" or "naked access," which has been embraced by some Canadian financial institutions and has come under the strictest regulatory control in the United States.

A ban on so-called naked access — where dealers provide high-speed traders with access to securities exchanges with few controls — will also be on the table for Canada when the Canadian Securities Administrators lay out their plans, according to sources familiar with the regulators' plans. ... High-speed electronic traders have been lauded by some industry players because they bring liquidity to markets which eases trading and brings down the cost. But they have also been targeted by regulators as culprits that can rob the market of that same liquidity at crucial times and contribute to events like the "flash crash" last May when markets lost billions of dollars of value in a matter of minutes and recovered just as quickly. ...

The regulations that are proposed by the Canada's CSA will be open for discussion, which industry players say is bound to be lively, particularly given the fact that while some Canadian dealers have embraced facilitating high-frequency trading and direct market access, others have steered clear or lost ground. ... In the United States, the Securities and Exchange Commission voted unanimously last year to adopt a new rule to require brokers and dealers to have risk controls in place before providing their high-frequency trading customers with access to the market.

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