




SPOTLIGHT ON HFT IN ASIA PACIFIC



Trading Architecture Asia is APAC's largest conference and expo dedicated to developing better electronic trading platforms and automated trading systems. It is focussed on technology topics of relevance to IT professionals. It show-cases advancements in HFT and low latency trading from across the region and provides new research insights from western markets. The event comprises 3 days with multiple streams which include a dedicated day on Exchange Technology, and two additional days on front office and back office IT processes. We anticipate 400 participants sharing insights with 100 presenters.

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About Trading Architecture Asia



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For more information email us at
wbrinfo@wbresearch.com
quoting "Spotlight on HFT"

About this survey

This survey is one of the first in APAC dedicated to highlighting market sentiment related to the development of the HFT industry. The results demonstrate that the participants consider that HFT is an unstoppable force for change influencing all the key players in the trading value chain.

Sydney and Tokyo are widely acknowledged as the hubs for HFT activity in Asia Pacific. This is largely related to the technology frameworks used by the traders and venues. Australia is a recent addition to the global HFT club, supported by the HFT platforms developed by the ASX and Chi-X. Traders focus on global markets with their black-boxes co-located at venues such as Chicago, Frankfurt, London and New York.

In Australia, the HFT firms mostly trade options and futures. Well known players include: Optiver, IMC, Susquehanna Investment Group, Tibra, and Kaiser Trading Group. Other players with strategies in this space include hedge funds such as Boronia and family offices like The Portland House Group. But there is also a small army of lesser known players who are new entrants in this market. Some are fairly new to the trading game using advanced IT skills from other industries. Others are more experienced traders with international HFT experience from brokerages or disbanded bank based prop trading teams.

TO PROVIDE SOME BACKGROUND ON APAC'S HFT SECTOR, WE INVITED COMMENTS ON ISSUES WHICH CONCERN HFT ACROSS APAC. SURVEY PARTICIPANTS INCLUDED:

JOB TITLE

CEO

Chairman

CIO

COO

CTO

Director

Director, ETT Trading Technology

Electronic Trading Architect

Equities Trader

Executive Director

Financial Application Specialist

Fund Manager

Global Head of Carrier Services

Global Head, eCommerce Products

Head APAC trading

Head Dealer

Head of Asian Trading

Head of Client Connectivity IT, Asia Pac

Head of Electronic Trading Ops

Head of Execution Sales/Sales Trading

Head of FX Sales ICAP/EBS Asia Pac

Head of IT for Hong Kong and Japan

Head of IT Infrastructure & Production

Head of Market Access

Head of quant research

Head of Sales Trading

IT Manager, Application

Manager - Performance Testing and Implementation.

Managing Director APAC

President

Principal Architect

Solutions Architect

Technical Evangelist

COMPANY

ABN AMRO Clearing

ANZ Global Markets

ASX

Aviva Investors

Barclays Capital Asia Ltd.

BNP Paribas CIB Asia Pacific

Caplin Systems

Chi-X Japan

Citigroup

Continuum Capital Management Ltd

Corvil

Deutsche Bank AG

Ernst & Young

Flow Traders Asia Pte Ltd

HSBC

HXW Trading

ICAP

ICICI Securities Limited

Instinet

Invesco Asset Management Japan

IRESS

Janus

JP Morgan Asset Management

KVH Co.

Merrill Lynch

Mirae Asset Management

Mizuho Securities

Morgan Stanley

NSX

NYSE Euronext Liffe

Orc Software

Reliance Mutual Fund

SGX

Shanghai Stock Exchange

SunGard

Sybase

T Rowe Price

Taiwan Futures Exchange

Thomson Reuters

TMF Group

Tokyo Stock Exchange

UBS Global AM Singapore

Vanguard Investments Ltd

SUMMARY OF SURVEY RESULTS

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65%

65% of respondents thought that HFT firms should form a lobby group to protect their interests. There is currently no formal group in APAC representing the HFT industry.

LOBBY GROUP FOR PROTECTION

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38%
35%

Not everyone believes the statements of some HFT firms who claim to be market makers with 38% of respondents claiming they are not real market makers though there is sympathy for their position with 35% saying they are essential to the market providing valuable liquidity under most conditions.

UP TO 30%

5% OR LESS



Regarding HFT activity in the equities trading space, respondents rated Australia and Japan as being the largest trading hubs with up to 30% of trading volume followed by Hong Kong, Singapore and Korea. The other regions in APAC were considered to have 5% or less.

5 YEARS

Most respondents considered that in 5 years time, HFT would be more common across all the main asset classes but especially equities, futures, and FX.

ADOPTION OF THE LOW LATENCY TECHNOLOGY SERVICE SECTOR

The adoption of the low latency technology service sector was considered by most respondents to be more common in the years ahead with these services spreading across nearly all key trading areas including more low latency brokers, more low latency monitoring and more clearing firms catering to HFT needs.

50%

AUTOMATION
RULES
STRUCTURE

Regarding the influence of HFT firms on key market structures such as brokers, data centers and exchanges, around 50% of respondents thought it likely or very likely that that HFT firms would encourage more automation, rules and structures for their own benefit.

SUCCESS

FAILURE

35%

50%

35% thought that HFT could bring about a big market system failure but this was countered by 50% who thought that our technologists would work to mitigate the risks so that any future problems caused by HFT would be small and easily managed.

49%



11%

49% considering regulators to be behind the technology curve with a need to upgrade their technology systems. 11% wanted tougher rules against HFT rule breakers who they considered to be public interest criminals.

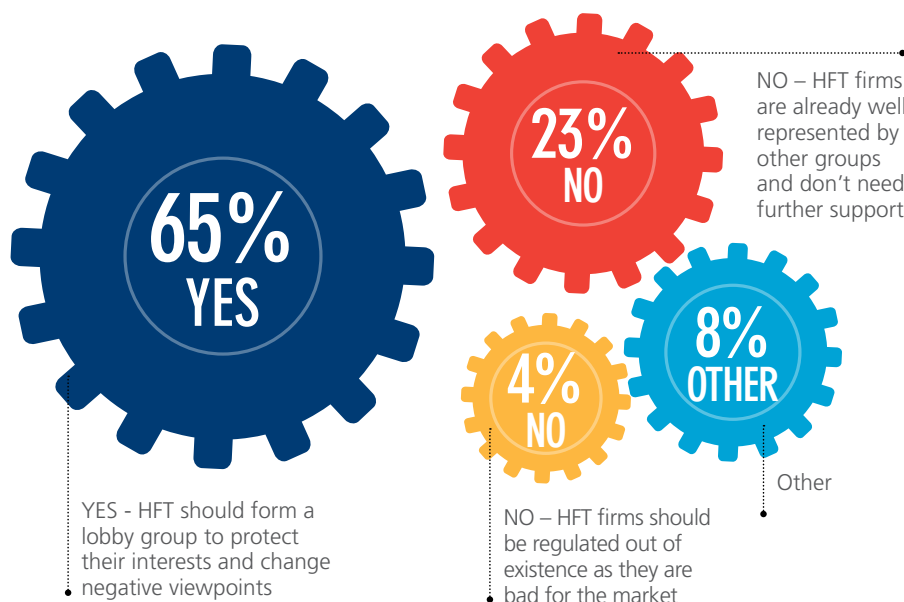


SURVEY DETAILS

QUESTION 1



HFTs are sometimes perplexed by the negative insinuations that are made against their form of market making behavior. It may be due to the fact that HFT firms in APAC are currently largely under represented in policy debate, at conferences and other public forums. This means that it is difficult to find information on their activities. Do you consider that HFT firms in APAC should form a lobby group to help manage their mutual interests, to properly inform the market on what they do, and to suggest reforms that help prevent abuse of technology strategies?



HFTs, like any other group should have a forum to explain how their behaviour adds liquidity and is an overall benefit to the markets. Such a forum, I believe would be well attended by both buy and sell side firms.

I'm generally against all forms of lobbying and collusion between business and government.

As far as I know, there are not many purely APAC based firms, but if they feel under-represented, they should certainly group together and speak up. However, as with many Hedge Funds, they may prefer to lay low.

There are substantial existing forums that Market Makers do and can participate in. The bigger issue in the market is the segregation of Market Makers vs other potentially more predatory HFT - which are just as prevalent in the investment banks as by Hedge Funds or other associations.

HFTs are not interested lobbying themselves, otherwise they would have done it already.

A lobby group is a good idea to educate regulatory agencies. HFTs holding forums for the financial community/public is probably even a better idea.

Not sure they need a lobby group per-se but wouldn't hurt for them to be given the opportunity to join the debate more often, as opposed to just being demonized.

YES, but should include regulators on the boundaries (if it did not exist in that particular market)

Ensure that it is better understood. Collaborate with regulators, exchanges and press.

Should be better regulated, higher capital requirements and less leverage.

We do not take a political position.

Changing market perception of HFTs is important as they may have been wrongly accused of creating much market volatility.

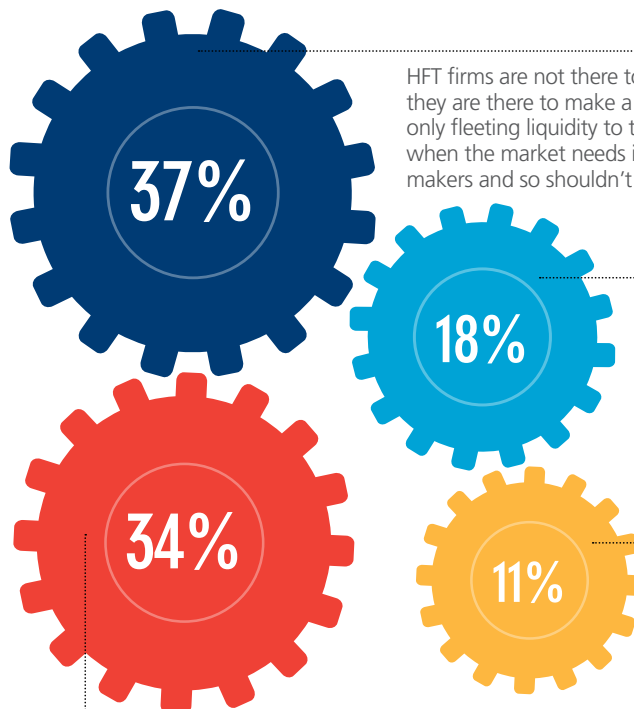


SURVEY DETAILS

QUESTION 2



One of the key benefits that the big High Frequency Traders claim to offer is that they provide liquidity and by so doing, they perform market making functions. Leading wholesalers like GETCO, Citadel and Knight fall in this category. Speed is said to be an essential tool for market makers to manage risk by controlling the amount of time that their quotes are placed on an exchange. However the flipside is that HFT liquidity is said to be a fast disappearing act when the market is stressed. Some people claim that this means that HFT firms are not real market makers because they are not operating when the market most needs them. What do you think?



HFT firms are not there to smooth the flow of capital, they are there to make a profit for themselves and provide only fleeting liquidity to the market which is withdrawn when the market needs it most. They are not real market makers and so shouldn't be acknowledged as such.

The market operators need to provide incentives for real liquidity makers to return to the market to avoid traders becoming hostage to the HFT market makers. This is an issue for the market operators to solve.

Other

HFT firms have stepped in to fill the role of traditional market makers and are now essential to market operation providing valuable liquidity under most conditions.

- No one should expect them to stay in the game when conditions are unfavorable.

HFTs that act like market makers should be given special privileges in return for genuinely and consistently making markets. Other 'highly automated' trading as per broker algos should have different standards applied.

Exchanges should define minimum participation levels for MM functions and maximum spreads.

HFT firms are better able to adapt to market conditions and play a critical role in providing liquidity. What is most important is that exchange operators place circuit breakers and trading limits in place to prevent algorithms from having a detrimental impact on market mechanisms like what happened during the flash crash.

We do make market in contingent environments. That is also when this business is most in demand and most profitable.

Bit of all three to be honest.

Higher trading volume doesn't mean higher investment liquidity.

HFT firms focus on short term strategies that work. The majority of fund managers are agency businesses that focus on what sells not what works.

It has been noted in various industry publications, for example BIS's most recent study which showed that HFT do not flee the market in times of stress anymore than traditional sell side firms. In fact, on our platform we see that HFT has had a net positive impact on market gapping as they have create many more price points in the order book.

Some HFTs are also market makers (you mention IMC, Susquehanna, etc.). So I think you need to make a distinction between HFTs that don't have market making obligations, in which case they can withdraw liquidity whenever they like, and those that are market makers and have associated obligations.

HFT firms are not true market makers. Market operators, backed by strong regulation, need to create a framework that is fair and robust where predatory trading and market manipulation is firstly prevented and secondly, prosecuted. These behaviours are not solely carried out by HFT, and much of the HFT behaviour is simply superior technologically - not dishonest.












SURVEY DETAILS

QUESTION 3



The overall adoption of high frequency trading in APAC is expected to lag behind Europe & the US by a significant margin due to the lack of IT infrastructure, complexity in regulation, and lack of attractive market microstructure. However, the presence of high frequency trading firms in most of the major APAC markets confirms that given the right mixture of conditions, the penetration of high frequency trading flow could be significant and quite rapid. The most recent estimates suggest that high-frequency traders in APACs HFT hubs in Australia and Japan make up about 20 % the equity market's volume with the rest of APAC having virtually no HFT activity. But estimates vary widely. How do you rate the regional percentages of HFT Trading volumes as a % across the equities asset classes?

	LESS THAN 10%	10-20%	20-30%	30-40%	OVER 40%
 AUSTRALIA	5%	40%	38%	9%	8%
 JAPAN	3%	33%	40%	13%	11%
 HONG KONG	29%	37%	20%	11%	3%
 SINGAPORE	26%	43%	21%	8%	1%
 INDIA	52%	31%	14%	1%	1%
 CHINA	71%	22%	5%	1%	1%
 KOREA	39%	31%	16%	7%	6%
 INDONESIA	78%	15%	6%	1%	0%
 THAILAND	75%	20%	5%	1%	0%

QUESTION 4



Which categories of HFT activity do you expect to increase or decrease over the next 5 years?

	MUCH MORE	MORE	SAME	LESS	MUCH LESS
EQUITIES	19%	63%	14%	4%	0%
FX	24%	55%	20%	1%	0%
OPTIONS	18%	48%	29%	5%	0%
FUTURES	24%	56%	19%	1%	0%
FIXED INCOME	6%	44%	43%	6%	1%
ETFs	17%	49%	31%	4%	0%

SURVEY DETAILS

QUESTION 5



Low latency trading is the corner stone to the HFT strategy. The categories below are all examples of changes emerging today that reflect the mainstreaming of the low latency trading trend. To what extent do you consider that these categories will change over the coming years?

	LESS PREVALENT	NO CHANGE	MORE PREVALENT	VERY COMMON
Specialist low latency brokers	6%	27%	58%	9%
Low Latency measurement as part of the TCA	3%	28%	59%	10%
Clearing firms catering to HFT needs	3%	26%	62%	9%
Flash crashes and other trading technology induced market scares	8%	36%	48%	8%
Trading venues catering to HFT needs	3%	19%	62%	16%
Regulation dramatically impacting HFT activity (eg. French transaction tax)	2%	25%	63%	11%
Latency monitoring services linked with all key trading technology products	0%	16%	70%	13%
Trading risk control technology services	1%	15%	64%	19%
Colocation and new proximity trading services across all APAC exchanges	1%	11%	57%	30%
Low latency data services and analytic services	0%	19%	56%	25%
Anti gaming technology services to protect traders from HFT predictors	1%	34%	56%	10%
Easy access to global markets and more HFT impacted asset classes	1%	20%	65%	13%

QUESTION 6



In recent years, we have seen a massive shift towards in the use of technology and the provision of HFT services on the part of leading exchanges and alternative trading venues. What do you see as the longer term implications of exchanges adopting the HFT based market making technology driven model and the impact of increased competition? The categories below are examples of what some people suggest might be the future. How do you rate the likelihood of these things occurring?

	UNLIKELY	POSSIBLE	LIKELY	VERY LIKELY
HFT players will totally capture the trading venues and change the rules in their favour	48%	37%	12%	3%
HFT firms themselves will become brokers and data centres will become the new trading venue	30%	40%	25%	6%
Exchanges will become much smaller with more automated processes and risk control functions	37%	30%	27%	6%
HFT firms will be unable to cancel orders as they do today and will focus more on quant models	22%	50%	24%	4%
Trading will be continuous 24 hrs, 7 days a week and human traders will be eliminated	44%	34%	15%	6%
Technology vendors will become the new market stars as they find new competitive tech strategies	20%	42%	30%	8%

Was this research paper of much interest? Want and need to learn more about High Frequency Trading?

We can help.

Trading Architecture Asia is APAC's largest conference and exhibition dedicated to **capital market IT trading issues with Buyside, Sellside & Trading Venue** perspectives on Asian and global trading operations, and is ideally positioned to provide benefits to trading teams with its international trading technology pedigree and proven track record of low latency-HFT expertise sorting fact from fiction. We detail both the commercial and the technology facts you need for making profit in this machine dominated world while staying safe and compliant with new regulations.

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