

NEWS RELEASE

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For further information, please contact:

Karen Archer
Senior Media and Public Affairs Specialist
416-865-3046
karcher@iiroc.ca

Lucy Becker
Vice President, Public Affairs
416-943-5870
lbecker@iiroc.ca

Experts to study HFT impact on market quality and integrity

IIROC announces final academic team to study HFT impact

October 17, 2014 (Toronto, Ontario) - The Investment Industry Regulatory Organization of Canada (IIROC) today announced the selection of the fourth and final project team to assess the impact of high frequency trading (HFT) and related activity on Canadian equity markets as part of the last phase of its HFT Study.

Earlier this year, IIROC announced [the selection of three project teams](#), whose work it expects to publish by the end of 2014. The work of the fourth team will be published by June 2015.

The fourth team is comprised of two professors at the University of Toronto, Canada and a professor at the University of Melbourne, Australia, who have extensive experience studying, teaching and publishing reports about HFT, algorithmic trading and other market structure issues internationally.

This team will undertake two studies. The first will examine the impact of the dark liquidity rules introduced in Canada in October 2012 on high frequency traders and the market as a whole, with a focus on the impact on price efficiency, price discovery and price volatility. The second will examine liquidity provision and market making by high frequency traders, focusing on how these traders avoid being adversely selected.

All the teams will, as part of their research, have access to secure and “masked” data for the period of January 1, 2012 to June 30, 2013.

“We are using empirical data and objective study to better understand the impact of HFT on market integrity and quality, as well as overall investor confidence,” said Wendy Rudd, IIROC Senior Vice President, Market Regulation. “This research, combined with IIROC’s ongoing work, will help to inform any further policy making or regulatory interventions.”

This impact analysis is the third phase of IIROC's HFT Study. It follows the publication of the first two phases of the [study](#) in December 2012, which objectively identified a study group of traders and offered a detailed, statistical analysis of their activity. IIROC's HFT Study will complement other initiatives already adopted by IIROC to govern high frequency and algorithmic trading. In particular, in 2013 IIROC issued [guidance](#) on manipulative and deceptive trading. Surveillance alerts have been implemented and IIROC is actively monitoring to detect these rule violations.

Background on Project Team

Project #1

"Impact of the Dark Liquidity Rules"- Andreas Park, Katya Malinova and Carole Comerton-Forde

This team will study the market impact of the dark liquidity rules introduced in Canada in October 2012 on trading costs for the market as a whole and for groups of traders including high frequency traders, and on price efficiency, price discovery and price volatility.

Project #2

"Liquidity Provision and Market Making by HFTs"- Andreas Park and Katya Malinova

This team will study how HFTs make decisions to post orders: whether their decisions depend on past order flow; when they remove orders; whether their quoting or trading behavior predicts future order flow and price movements.

Backgrounds:

Andreas Park:

- Associate Professor in the Department of Management and Department of Economics at the University of Toronto, Canada
- Visiting Professor of Finance at Copenhagen Business School
- Teaches courses on market microstructure, trading, asset pricing and corporate finance
- Ph.D., Economics, University of Cambridge, 2004
- M.Phil., Economics, University of Cambridge, 1999
- Diploma (M.Sc.), Mathematical Economics, University of Bielefeld (Germany)
- Recent publications:
 - "Subsidizing Liquidity: The Impact of Make/Take Fees on Market Quality" (with Katya Malinova), *Journal of Finance*, 2014, forthcoming.

- “Liquidity, Volume and Price Efficiency: The Impact of Order vs. Quote Driven Trading” (with Katya Malinova), *Journal of Financial Markets*, 16 (1) February 2013, 104-126.
- “Herding and Contrarianism in Financial Markets with Endogeneous Timing of Trades” (with Daniel SgROI), *European Economic Review*, 56 (6), August 2012, 1020-1037.
- “Herding and Contrarian Behavior in Financial Markets” (with Hamid Sabourian), *Econometrica*, 2010, 79 (4), 973-1026.
- “Trading Volume in Dealer Markets” (with Katya Malinova), *Journal of Financial and Quantitative Analysis*, 2010, 45 (6), 1447-1484.
- “How Syndicate Short Sales Affect the Informational Efficiency of IPO Prices and Underpricing” (with Bjorn Bartling), *Journal of Financial and Quantitative Analysis*, 2010, 45 (2), 441-471.

Katya Malinova:

- Assistant Professor, Department of Economics, University of Toronto
- Visiting Associate Professor of Finance, Copenhagen Business School
- Teaches courses on asset pricing and corporate finance
- Ph.D., Economics, University of Michigan, 2006
- B.Sc., Physics, St. Petersburg State University (Russia), 1998
- Recent publications:
 - “Subsidizing Liquidity: The Impact of Make/Take Fees on Market Quality” (with Andreas Park), *Journal of Finance*, forthcoming.
 - “The Impact of Competition and Information on Intraday Trading” (with Andreas Park), *Journal of Banking and Finance*, 2014, 44, 55-71.
 - “Liquidity, Volume and Price Efficiency: The Impact of Order vs. Quote Driven Trading” (with Andreas Park), *Journal of Financial Markets*, 16 (1) February 2013, 104-126.
 - “Trading Volume in Dealer Markets” (with Andreas Park), *Journal of Financial and Quantitative Analysis*, 2010, 45 (6), 1447-1484.

Carole Comerton-Forde:

- Professor, Department of Finance, University of Melbourne (Australia)
- Ph.D., University of Sydney (Australia), 2001
- B.Com(Hons)., Finance, University of Sydney (Australia), 1996
- Recent / forthcoming publications:
 - “Stock Price Manipulation: Prevalence and Determinants” (with T. Putnins), *Review of Finance*, 23-66.

- “Why Do Traders Choose to Trade Anonymously?” (with C.K. Tang and T. Putnins), *Journal of Financial and Quantitative Analysis* 46, 1025-1049.
- “Measuring Closing Price Manipulation” (with C.K. Tang and T. Putnins), *Journal of Financial Intermediation* 20 (2), 135-58.
- “Pricing Accuracy, Liquidity, and Trader Behavior with Closing Price Manipulation” (with T. Putnins), *Experimental Economics* 14 (1), 110-131.

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

IIROC carries out its regulatory responsibilities by creating and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through the creation and enforcement of market integrity rules regarding trading activity on Canadian marketplaces.

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