SYDNEY, AUSTRALIA -- Media OutReach -- 3 July, 2014 --A team of leading financial researchers from the Macquarie Graduate School of Management (MGSM) will undertake Australia's first comprehensive study into the impact of High Frequency Trading (HFT) on the quality of Australia's financial market.

Supported by more than $1 million in total research funds and in-kind contributions, including $300,000 from the Australian Research Council (ARC), the project will seek to provide policy-makers, exchange operators and investors with new insight into the significant issues associated with the microscopic time intervals at which HFT occur.

"The advent of HFT, a type of sophisticated algorithmic trading which enables sophisticated computers to trade large amounts of stock at extremely high rates of speed , has raised many policy issues relating to market structure and stability," said research lead and Dean of MGSM, Professor Alex Frino.

"By investigating the impact of HFT on market quality, this research project aims to achieve more efficient regulation, improve financial markets, make Australia attractive to investors and enhance the quality of retirement for residents," he said.

According to Professor Frino, the growing apprehension about HFT has led regulators around the world to, perhaps prematurely, release guidance and rules clarifying their expectations of market operators and participants. This includes those released by ASIC in Australia in 2013.

"Financial markets are essential to the functioning of the Australian economy. Ordinary residents have billions invested in financial markets through superannuation. Deterioration in market quality leads to poor consumer confidence, an increase firms' cost of capital and transaction costs, and ultimately reduces retirement quality, so proper regulation of HFT is critical," said Professor Frino.

"By providing ground breaking insights into the impact of HFT, this research will enable the development of effective regulatory frameworks to ensure Australia's market quality," said Professor Frino.

The Australian Securities Exchange (ASX) is supporting this project by allowing the research team access to their transaction data which is time-stamped to the nearest microsecond directly from the trading engine, providing the most precise data available.

"ASX believes it is important that data is analysed so that market structure settings continue to be consistent with the interests of investors and long-term growth," said Peter Hiom, ASX's Deputy CEO.

"Professor Frino and his team have strong capabilities that are internationally recognised and we are pleased to support this MGSM initiative."

MGSM's Dean, Professor Alex Frino, will be joined in this project by MGSM's Professor Andrew Lepone and Dr Jeff Wong who will specifically seek to:

· Discover how the introduction of co-location services affects HFT activity and the subsequent impact on market quality and institutional trading costs across 42 international exchanges.

· Examine the effects of HFT behaviour on price discovery and liquidity around price-sensitive information events across 42 major international exchanges.

· Research market integrity issues associated with exploitation of speed differentials (e.g. low latency) by HFT.

· Examine how the advent of alternative trading platforms across 50 global venues affects market quality and institutional trading costs through HFT behaviour.

· Construct a new market quality matrix that captures HFT complexity in modern financial markets.

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