



SECOND QUARTER 2014

ZENO'S TRADE PROCESS PEER GROUP UNIVERSES & LEAGUE TABLES

EMERGING MARKETS MANAGERS

Earlier this year, Zeno Consulting Group introduced its trade cost Peer Group Universes and League Tables. The costs tracked in the universes include not just broker-related costs, but also the trading costs incurred by asset managers "working" their orders over multiple days. Equally important, the universes rank managers against other managers charged with the same investment mandate (e.g. Small Cap Growth, Large Cap Value, EAFE etc.).

As such, Zeno views these universes as the next step in the evolution of trade cost analysis; and an important tool in evaluating the degree to which a manager's trading process helps or hurts bottom-line returns. Just as Fund fiduciaries use Peer Group Universes to help identify managers with superior stock picking ability, Zeno's Peer Group Universes and League Tables help evaluate the skill and efficiency with which managers implement those stock picks.

This quarter's Newsletter highlights the range of trading costs, commissions, and impact to performance incurred by managers in Zeno's **Emerging Markets Peer Group Universe**. It also highlights those Emerging Markets managers who incurred the lowest total trading costs, lowest commission rates, highest turnover rates, and lowest turnover rates.

Emerging Markets - Peer Group Universe

Asset manager trading processes often significantly impact overall investment performance. To this end, managers have a fiduciary obligation to both obtain best execution (so as to minimize the impact their trading has on their clients' portfolio returns), and avoid paying excessive commissions. Asset owners, in turn, have a fiduciary obligation to monitor their managers to ensure these legal requirements are achieved.

As shown in the table below, the range of trading costs, commissions, and impact to performance experienced by Emerging Markets managers (for the four-quarter period ending March 31, 2014), ranged from less than +50bp to more than -180bp. The median Emerging Markets manager had total trading costs of -50bp, and a spread of 81 bp separate those managers that ranked in the top quartile and bottom quartile of their Peer Group.

About Us

Zeno Consulting Group, LLC, offers plan sponsors, mutual funds, insurance companies and fund-of-fund managers an objective way to examine the entire trading process, from stock selection through implementation, devoid of conflicts or associations with any broker/ dealer. As part of that commitment, we have also developed a proprietary benchmark that goes beyond measuring costs to encompass trade characteristics, existing market conditions and delay costs, giving you a fuller, more accurate picture of a manager's trading execution efficiency.

In this issue:

- **Zeno's 2Q14 Trade Process Peer Group Universes and Manager League Tables**

- Emerging Markets Peer Group Universe
- Emerging Markets League Table

- **Feature Article:**
High Frequency Trading: What does it mean for Asset Owners?

As with other asset classes, explicit commission costs represent just the “tip of the iceberg”. Specifically, the median Emerging Market commission rate was -14bp; and 8bp separate the Peer Group’s top quartile and bottom quartile managers.

The cost to trade Emerging Markets can be volatile, as evidenced by the 230+bp that separate the 5% and 95% managers (noted above). This underscores the importance of having a systematic and efficient trading process. This volatility also heightens the risks associated with using VWAP-based formulas to measure costs. VWAP-based formulas, by definition, tend to mask the true cost to trade; and as detailed in the table below, suggest that the median cost to trade Emerging Markets was only -18bp; with 12bp separating the top quartile and bottom quartile managers.

Emerging Markets				
Ranking	Total Costs (bp)	Performance Impact (bp)	Commissions (bp)	Execution Price vs. VWAP (bp)
Top (25%)	-26	-13	-9	-10
Median (50%)	-50	-50	-14	-18
Bottom (75%)	-107	-105	-17	-23

To review all of Zeno’s Peer Group Universes, key trends, and Glossary [click here](#).

Emerging Markets - Universe League Tables

An asset manager’s trade process is a function of both the Total Trading Costs incurred to build/unwind portfolio positions, and the amount of trading the manager engages in (turnover). “Total Trading Costs” x “Turnover” defines the impact a manager’s trade process has on overall investment performance.

As shown in the table above, when taking into consideration the amount of trade volume each manager executed, the median bottom-line impact to performance (due to trading costs) equated to an annualized return of -50bp. The difference between top quartile and bottom quartile managers was over 90 bp! In essence, this means the stock picks of bottom quartile firms needed to outperform their peers by 90 bp, in order for their net returns to break even. This can represent a significant hurdle for long-term superior performance.

Conversely, managers with efficient trade processes, enjoy a systematic advantage over firms with more costly processes. The table below shows the **Emerging Markets Manager League Tables** for: “Total Trading Costs” (calculated on an implementation shortfall basis), “Commissions”, and “Turnover” for the four-quarter period ending March 31, 2014. The rankings are based on trading conducted by those managers reviewed in Zeno’s Emerging Markets Peer Group Universe.

Emerging Markets Managers			
Efficient Total Costs		Efficient Commissions	
Rank	Manager	Rank	Manager
1	Quantum Capital Management	1	Glovista Investments
2	Wells Capital Management	2	Structured Portfolio Management
3	Dimensional Fund Advisors	3	LSV Asset Management
4	Hamon	4	BlackRock
5	Fama Investments	5	Schroders
High Turnover		Low Turnover	
Rank	Manager	Rank	Manager
1	Glovista Investments	1	Lazard Freres Gestion
2	RS Investments	2	State Street Global Advisors
3	Harding Loevner	3	Dimensional Fund Advisors
4	Batterymarch Financial Management	4	Westwood Global Investments
5	Hamon	5	Structured Portfolio Management

To review all of Zeno's *Universe League Tables* and a *Glossary of key terms*, [click here](#).

FEATURE ARTICLE

High Frequency Trading: What does it mean for Asset Owners?

Introduction

While industry-insiders have been debating the merits of High Frequency Trading (“HFT”) since the implementation of the Regulation National Market System (“Reg NMS”) in 2007, until recently, most of the general public was unaware of the questions and concerns revolving around this practice. That all changed when Michael Lewis published his book “Flash Boys”.

Written for the general public, *Flash Boys* provided a riveting window into how at least some HFT firms are using advanced technology in today’s market system to take advantage of unwary investors. Most readers probably come away wondering if the markets are being manipulated at their expense, and whether the current regulatory framework and oversight mechanisms are adequate. Unfortunately, given the reality of micro- market dynamics, the answer to those questions, is not a simple “yes” or “no.”

In this regard, certain aspects of *Flash Boys* are similar to many other purported documentaries: a blend of legitimate facts, hyperbole, and unwarranted certitude regarding ambiguous market-structure practices (upon which reasonable minds can differ). As a transaction cost consulting firm, Zeno feels its primary job is to provide consultation on, and quantification of, the total transaction costs paid by our clientele’s outside investment managers. Our focus and concerns ultimately relate to the ability of those managers to achieve best execution, thereby maximizing the bottom-line returns for our client’s Funds.



For asset owners, HFT presents both an immediate quantitative and a longer-term philosophical question. In the short-term, the fundamental question for asset owners is whether HFT, on balance, causes their investment managers to incur higher trading costs. Additionally, even if the answer to that question is no, a secondary question is whether the elimination of certain HFT practices might nevertheless improve trading efficiency above its current level. Strategically, asset owners should also be concerned whether HFT (or certain aspects of it) are eroding investor confidence in the integrity of our market system.

To the extent *Flash Boys* has helped bring these issues to the attention of the general public and forefront of our regulatory agenda, we view its publication as a valuable (albeit incomplete) contribution. And in the same spirit, this paper details what this means for Zeno's asset owner clientele. The paper is divided into four parts: defining HFT; whether HFT helps or hurts asset owners; an overview of various proposed solutions; and specific actions asset owners can take to protect their Funds.

What is High Frequency Trading?

The term "HFT", like the term "Hedge Fund" encompasses multiple strategies and practices. However, unlike Hedge Funds, most HFT firms tend to assess their profitability daily, and invest their own money (rather than that of outside clients). In both these respects, HFT firms are very different from the typical investment manager retained by asset owners (whose investment horizon is generally measured in months or years). And no surprise, their trading practices and strategies are different as well.

At its most basic, HFT entails the use of very sophisticated computer algorithms, high-speed communication components, and geographic proximity to trading centers in order to implement trading strategies as quickly as possible. The typical HFT strategy entails: enormous volumes of small intra-day trades (essential to generating significant revenues, without making large "risky" trades), queue priority (essential to executing trades under Reg NMS), flipping in and out of positions almost instantaneously (essential to minimizing market risk), and rebate capture (essential for making an overall profit given the short-term holding period and the market's tight Bid/Ask spreads).

Many if not most of these practices are perfectly legal and a logical manifestation of our current market structure and electronic trading environment. Indeed, there is a large body of academic work that suggests HFT, in aggregate, provides much needed liquidity to the markets, and have brought overall trading costs down.

However, some HFT strategies/practices are predatory, manipulative and/or possibly illegal. The initial challenge then, is to distinguish between "good" HFT (that provides legitimate liquidity and contributes to lower trading costs) and "bad" HFT (which provides only illusory liquidity, and increases the cost of doing business without providing any real value). This is easier said than done. Part of the problem is that, to date, US regulators have not formally defined HFT, or HFT firms.

Hopefully, this ambiguity will change in the not too distant future. A number of foreign markets have already instituted legal definitions. For example, Germany defines HFT as firms that trade for their own account (i.e. no external clients), without human intervention, using low latency infrastructure, and sending a high amount of intraday messages.¹ It should also be noted that while not yet proposing a formal definition, the SEC has described some traits commonly found among HFT firms (albeit, not all of the traits are employed by all HFT firms).² These include:

¹ *High Frequency Trading Act of 2013*, Article 3 (a), Section 2 (Definitions), Paragraph (d).

² *Securities Exchange Act Release No. 34-61358*, (January 21, 2010) ("Concept Release).

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- Use of extraordinarily high speed and sophisticated programs for generating, routing, and executing orders.
 - Use of co-location services and individual data feeds offered by exchanges and others to minimize network and other latencies.
 - Very short time-frames for establishing and liquidating positions.
 - Submission in some instances of numerous orders that are cancelled shortly after submission.
 - Ending the trading day in as close to a flat “Profit/Loss” position as possible.

Until a formal definition is adopted by US regulators (and/or a broad consensus of market participants), Zeno would caution that when discussing HFT, specificity regarding the “practices engaged in” is needed. More to the point, Zeno finds it useful to focus on the firm’s “behavior and intent”, with the critical distinction being whether a HFT firm engages in: electronic automated “market-making”³ (albeit at very high speed); or faux “market-making” strategies in which queue priority, rebate capture and high inventory recycling are critical.

In Zeno’s view, the former provides a necessary and beneficial service to the capital markets (for which the firms have a right to make whatever profits the free markets allow). In contrast, the latter activity often results in profits being generated at the expense of other market participants, without any offsetting benefits in market stability or efficiency. To the extent market reforms are contemplated, it is the latter types of practices that Zeno believe should be targeted.

Is HFT good or bad for your Fund?

HFT as we know it today is largely rooted in the market structure engendered by Reg NMS. Our current fragmented market place (in which trades can be executed on thirteen exchanges and 40+ Dark Pools and other automated trading systems) necessarily presents an environment where advanced algorithms and speed in communicating are at a premium. In many respects, that was the intent of Congress and the SEC, to wit: a fragmented marketplace is a prerequisite for competition, which in turn, fosters innovation and ultimately more efficient executions.⁴

Of course, as technology dramatically improved the speed, capacity, and sophistication of trading, firms employing these tools (in the context of a fragmented marketplace), enjoyed significant advantages over those that didn’t. To be sure, the goal of trading “faster than your competitor” has existed as long as there have been markets. An oft-quoted anecdote is Nathan Mayer Rothschild’s innovative technique in 1815 of using Carrier Pigeons to bring him news of the outcome of the Battle of Waterloo. This Pre-Victorian Age high-speed tactic of gathering market information allegedly enabled the banker to learn of Napoleon’s defeat a full day before the official government messengers arrived; and during the interim 24 hours make a small fortune in the sovereign debt markets.

In this context, supporters of HFT would argue that HFT is nothing more than a modern-day version of time-honored tradition. More to the point, technology has enabled the electronic replication of the traditional exchange trading-floor, and HFT simply performs those transactions at a pace which human traders could never achieve. At the same time, this environment raises concerns that certain HFT firms (along with certain trading centers competing for trade volume) are employing practices, tactics, and/or strategies that add little value, increase costs, and erode confidence in the integrity of the markets.

³ For purposes of this paper, Zeno uses the term “market maker” in a manner consistent with the description provided by the SEC: “a firm that stands ready to buy and sell a particular stock on a regular and continuous basis at a publicly quoted price”

⁴ *Concept Release*



As noted in the Introduction, an initial question for asset owners is whether HFT causes their investment managers to incur higher trading costs than they otherwise would. For purposes of this paper, Zeno defines trading costs as *the loss of asset value paid from a Fund as a result of an investment manager either building or unwinding a position (which sometimes may require “working” an order for several days)*. More strategically, Zeno also feels asset owners should also be asking whether HFT (or certain aspects of it) contribute to an erosion of confidence in our market system.

Unfortunately, notwithstanding the premise of *Flash Boys* there is no consensus as to whether, on balance, HFT hurts or helps our markets. On one side of the debate, Michael Lewis is not alone in believing that HFT on balance harms the marketplace. Frequently voiced complaints include:

- The super-fast posting and cancelling of HFT quotes provides a false sense of liquidity and price discovery (particularly for institutional-sized orders);
- At its core, HFT adds little in way of true liquidity, and is intended to essentially step in front of institutional orders (since HFT firms typically use their own money, we refrain from using the phrase “front run”).
- Many HFT trading practices are designed as “winner take all” strategies in which the firm with the fastest process wins every time (this in turn, incents an expensive “technology arms race” among HFT firms to be the fastest);
- HFT firms and the exchanges that cater to HFT firms, collude to develop features (such as special order types, co-location, direct data feeds, and unique “maker-taker” fee arrangements), in an essentially exclusive and non-public manner;
- Broker/Dealers who operate Dark Pools and simultaneously maintain internal HFT funds (that trade in those Dark Pools), have an inherent conflict of interest;
- All of the above (in combination), contributes to general erosion of confidence, and loss of faith, in the integrity of the markets.

On the other hand, relatively few commentators or studies suggest that HFT practices, on balance, result in higher trading costs. Indeed, defenders of HFT cite the fact that HFT quotes (even if fleeting) tend to reduce overall trading costs by narrowing the bid/ask spread, and provide a level of “price discovery” for other investors. Certainly, explicit trading costs (i.e. commissions) have been reduced to unprecedented levels. In many cases “execution-only” commissions are under 1.5¢ per share in US markets, and sub-penny when traded electronically.

Most empirical studies that compared the cost of trading before and after the entrance of HFT, have concluded that markets are more efficient and trading costs have declined (some studies suggesting by as much as 120 bp), even after factoring in the impact of the deleterious HFT trading practices.⁵ This is consistent with anecdotal commentary from many market participants, who have been noting the fall in total transaction costs for several years now, *and are at the lowest levels seen during any period.*⁶ Zeno’s own data has consistently noted that total transaction costs, across all of our Peer Group Universes, have steadily fallen.

Indeed, defenders of HFT warn that efforts to reduce HFT may in fact, have unintended consequences. A recent academic study supporting this position, analyzed the impact of Canadian regulations designed to curb HFT. The study

⁵ See e.g. Jovanovic and Menkveld, *Middlemen in limit-order markets* (2012); Bershova and Rakhlin, *High-frequency trading and long-term investors* (2013), Malinova, Park & Riordan, *Do retail trades suffer from high frequency traders?*, University of Toronto (2013); Brogaard, *High frequency trading and its impact on market quality*. (2010); Hasbrouck & Saar, *Low-latency trading*. (2010); Hendershott, Jones & Menkveld, *Does algorithmic trading improve liquidity?* (2011); Hendershott & Riordan, *Algorithmic trading and the market for liquidity*. (2012); and Menkveld, *High frequency trading and the new-market makers*. (2012).

⁶ See e.g. comments of SEC Chairwoman Mary Joe White, *Sandler O’Neil & Partners Global Exchange and Brokerage Conf.* (June 2014)



found that while HFT activity did indeed fall as a result of the regulations, the Bid/Ask spreads correspondingly widened almost ½ bp for every 1.6% reduction in HFT activity.⁷ Another recent study found that France (who enacted anti-HFT legislation in 2012) has seen its market share of European equity trading fall 88%.⁸

While buy-side traders may feel frustrated that their trades execute at prices slightly higher than what they see on their screens, these studies tend to demonstrate that the overall costs incurred to build/unwind positions are still lower than what they used to be (when traders paid a much-wider spread and higher commissions to traditional broker/dealers). It is also worth noting that even as the US and Europe contemplate ways to curb HFT, a number of developed and emerging countries have enacted (or are actively considering) legislation designed to attract and encourage HFT. These countries include: Japan, Singapore, New Zealand, Brazil, Russia, and Mexico.⁹

In view of the above, a number of commentators have opined that if HFT is truly cost-less to the end investor, then regardless of whether technically illegal or manipulative practices are occurring, no reforms are needed. With all due respect, Zeno disagrees. While the aggregate cost-saving benefits may outweigh the aggregate cost-generating consequences, in Zeno's view, HFT is not necessarily an "all or nothing" construct. If specific predatory activities (that cause higher trading costs) can be isolated, remedial steps should be taken.

Further, from a long-term strategic perspective, practices that erode investor confidence in the integrity of our market structure have consequences. In particular, to the extent the investing public loses confidence in the markets, natural investors (i.e. those with capital to allocate) may leave the "lit" exchanges for "dark" off-exchange venues, or stop trading all together.

While this migration is understandable as a cost-mitigation tactic, as greater volume leaves lit exchanges, the reduced observable ("lit") trades necessarily impairs transparency and "price discovery". This presents a strategic risk to the overall marketplace, particularly in times of market uncertainty, when the shallower depth of lit markets might be quickly eaten through. For this reason, regardless of HFT's "fiscal" impact, Zeno feels that practices which undermine market integrity should be prohibited.

All of which is to say, Zeno feels intuitively, that HFT is neither all good, nor all bad. Rather, unlike the premise of *Flash Boys*, this is an issue upon which "reasonable minds can differ". A recent example underscoring this uncertainty, is that the author of a 2012 study demonstrating that HFT tended to reduce trading costs (and cited by the SEC), published a second paper in 2014 suggesting that under certain conditions, HFT could increase trading costs.¹⁰

Accordingly, Zeno feels additional study and quantitative analysis of HFT is needed before final conclusions are drawn. Zeno is also mindful that crafting a regulatory solution to HFT (if indeed one is needed) is not an easy task. Modifying our regulatory framework, even with the best of intentions, does not guarantee the achievement of the desired goals, and sometimes results in unintended and undesired consequences (many would cite the enactment of Reg NMS as just such an example). Additional analysis will not only help clarify practices that ought to be constrained, but also assist regulators in fashioning appropriate solutions.

⁷ Malinova, Park & Riordan

⁸ Bell & Searles, *An analysis of global HFT regulation*. (April 2014).

⁹ Bell & Searles

¹⁰ Jovanovic and Menkveld; and Menkveld & Zoican, *Need for speed? Exchange Latency and Market Quality*. (May 2014)



Proposed Solutions to HFT

Over the past several years, a wide range of solutions to the above concerns have been proposed. While Zeno does not feel all are warranted, or even necessarily wise, many have merit. Some of the more widely discussed proposals are:

- Don't do anything, and let the current regulatory framework and free markets work.
- Improve transparency through increased disclosure by trading centers (either mandated by regulation, or through voluntary compliance); and use sophisticated oversight tools such as TradeDynamix's and Trillium's software, to enable smarter order-routing strategies.
- Incorporate "randomized delays" (of 0-10 milliseconds) between the time that posted quotes/cancels are received by a trading center, and when they are actually submitted to the trading center's matching engine for implementation.
- Use a standardized "fixed delay" (e.g. 350 microseconds) before notifying a firm that one of its posted quotes has been executed.
- Conduct trades via "Batched Call Auctions", whereby exchanges would have set time-schedules (e.g. one per second) at which time all quotes (submitted since the prior Batched Call Auction) would be reviewed to determine which quote had the best price.
- Charge a "transaction fee" (e.g. 1¢) for every quote, cancel, and/or trade.
- Reform or eliminate the "maker/taker" rebate pricing model.
- Limit the permissible types of orders used by Exchanges/Trading Centers.
- Increase the minimum tick-size from 1¢ to 5¢.
- Increase the speed at which the Securities Information Processor ("SIP") consolidates the various exchanges' trade/quote information; and prohibit the selling of proprietary data feeds by exchanges.
- Require all trading centers and/or individual HFT firms to install "Circuit Breakers" or "Kill Switches" (e.g. a 5 minute pause for larger cap stocks that fall 10% in the preceding five minutes).
- Require all HFT firms to register with FINRA and/or the SEC.

For a more detailed description and discussion of specific HFT trading practices and the proposed solutions, you can access Zeno's full HFT Position Paper posted on our website.

Ultimately, any significant reforms will likely need to be mandated, or "strongly encouraged", by the SEC. Indeed, if the SEC has a fundamental purpose, it is to oversee and promote fair and stable markets. In this regard, since 2010, the SEC has been active in researching HFT, and making their findings available to the public. This includes the establishment of a public website called MIDAS that publishes trading data previously unavailable or difficult to obtain, and approval of a new FINRA rule (which went into effect May 28, 2014) requiring Alternative Trading Systems (e.g. Dark Pools) ("ATSS") to report their weekly trade volume and number of equity and bond trades.

Most recently, the SEC has announced plans to investigate a broad range of HFT-related issues. Chief among these are: new reporting requirements to the SEC by ATSS regarding their operations (along the lines of what FINRA has begun doing); a Pilot Program exploring the value of increasing the minimum tick size, a review of whether Reg NMS's Rule 611 ("Trade Through") has contributed to excessive market fragmentation; a new Rule that enhances the disclosure requirements of Reg NMS Rule 606 (broker order-routing practices); and working with exchanges to address how order and price data is released so as to not disadvantage the public.



Zeno is encouraged by the scope of the SEC's proposed rules, Pilot Programs, and ongoing reviews. As they are implemented, Zeno believes these initiatives will yield a wealth of information and much needed empirical data. That data promises to facilitate, inform, and guide future reforms.

For a detailed timeline of some of the more prominent market-structure events occurring since 1975, and the current SEC initiatives, you can access Zeno's full HFT Position Paper posted on our website by [clicking here](#).

Recommended Actions for Asset Owners

For asset owners who do not run money internally, there is little direct action a Fund can take, regardless of their views on these issues. However, that is not to say asset owners shouldn't care, or ignore the effects of HFT. Rather, the matter becomes one of "investor awareness;" and the degree to which that awareness triggers asset owner due diligence into the tools and practices utilized by their Fund's investment managers.

Specifically, many of the micro-market structure issues swirling around the HFT debate, while important, are more the province of their Fund's investment managers, the broker/dealers those managers use, and the various trading centers upon which their trades are executed. In contrast, asset owners should primarily be focused on the impact that HFT has on overall investment performance.

In this regard, as noted earlier, most empirical studies suggest that HFT in the aggregate has reduced trading costs (thereby incrementally helping Fund performance). However, the potential to be taken advantage of by HFT firms still exists. To some degree, trading centers that cater to predatory HFT firms can be avoided by investment managers. The challenge for investment managers is to know when it makes sense to avoid those venues, and how to minimize their risks when they can't be avoided.

For this reason, investment managers should be knowledgeable, well trained, and employ sophisticated pre and post-trade analytical tools (or use broker/dealers that do). Zeno therefore recommends that asset owners conduct some basic due diligence on each of their investment managers (and those they are considering hiring). The due diligence should cover the following areas:

1. Are your investment managers implementing their overall investment decisions (including orders executed over several days) efficiently? This implies they must achieve efficient and low total transaction costs, in keeping with their obligations to obtain best execution for your Fund (not just firm-wide for the manager).
2. Are your investment managers executing trades on trading centers/venues that are free from HFT price manipulation and/or predatory practices? More importantly, are your managers making informed cost/benefit decisions as to which trading center to use?
3. Are your investment managers conducting due diligence to ensure the order-routing performed by the broker/dealers they use is not driven by economic reasons other than Best Execution (e.g. rebates from trading centers)? The disclosures should identify which trading centers the broker/dealer routes orders to, what incentives (if any) they have for preferring one trading center over another, and how the broker/dealer routes to other trading centers when liquidity is not found in the first-choice trading center.
4. What quantitative tools and software do your investment managers use in determining how/when to route trades to various Trading Centers and execution venues?
5. What type of training and pre-trade tools do your investment managers' trading personnel receive? Do they utilize any proprietary or 3rd party TCA? If so, how is it used?

For a more comprehensive list of specific due diligence questions managers can be asked, don't hesitate to contact your Zeno consultant, or info@zenocg.com.

In sum, while Zeno firmly believes the markets are not "rigged", there are certainly "issues" that should be addressed constructively. In speaking with firms on the Buy and the Sell-side, the general consensus seems to be that deeper draconian regulation is not the answer (as that may simply create more and varied opportunities for profit). However, a number of limited reforms, focusing on specific practices, may have merit.

To a large degree, Zeno is sympathetic to the notion that the market can self-correct. However, in our view, given the current conflicted environment (in which "for profit" trading centers compete for HFT trade flow), additional regulatory reform may also be necessary. At a minimum, reforms designed to provide greater transparency into the practices and operations of trading centers, as well as additional trade-related details, are needed. This additional information would enable market participants to make more informed decisions regarding their routing practices and trading strategies. That said, most of the underlying "issues" and premises concerning HFT are still open to debate; and as with any debate, opinions (sometimes strongly held) exist on both sides. Hence the need for more empirical and qualitative research. Happily, the regulators, academics, and market participants continue to conduct substantive studies. As Zeno gathers more information, we anticipate gaining more perspective on the pros and cons of each respective issue. And will keep our clients apprised of those developments.

To read and access the full article, [click here](#).



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Steven joined Zeno (formerly Plexus Group) in 1996. He manages all client servicing, sales, marketing and product development for institutional clients including plan sponsors, mutual fund boards, and other entities exercising oversight over 3rd party investment managers. Prior to joining Zeno, Steven served as General Counsel to the District of Columbia Retirement Board where he provided fiduciary guidance on investment management issues, and developed the Board's Transaction Cost Monitoring Program.

Upcoming Newsletter

- 3Q14 Newsletter
The use of TCA to supplement manager search due diligence

