The use of randomisation logic to eliminate the execution advantages gained on foreign exchange trading platforms by some high-frequency traders (HFTs) was denounced as little more than a “marketing ploy” by a group of platforms and technology vendors at FX Week USA.

Speaking during a panel discussion, David Mercer and Dmitri Galinov, chief executives of LMAX Exchange and FastMatch respectively, agreed the use of randomisation, which is a central tenet of bank-backed platform ParFX and is also being rolled out on EBS (www.fxweek.com/2271944), is unlikely to become widespread.

“I think randomisation is nuts, and it covers deficiencies in existing venues. Technology hasn’t gone anywhere near as far as it is going to. We talk to some of the banks that allegedly would prefer or are involved in randomisation, and they say they want to be done in price-time priority, but sure, if they are losing out to HFTs, then let’s randomise. The banks have caught up a lot with the HFTs. Randomisation is easy to do; it’s trivial technology-wise, but it is a marketing ploy right now, apparently to create fairness. I don’t think it will be the way forward,” said Mercer.

“Typically every market goes through this, where you have primary venues that don’t have good technology,” added Galinov. “They come out with randomisation mechanisms and other things, but ultimately new venues with better technology will show up; they will buy them and they will upgrade their technology, which will benefit all participants.”

Other panellists agreed randomisation is unlikely to spread, and that while ParFX and EBS have argued it creates a fairer playing field, it could tip the balance too far by delaying orders and preventing participants from getting the best out of their technology. Better market surveillance might be a more effective way to tackle latency arbitrage, said Yaacov Heidingsfeld, chief executive of liquidity aggregation technology vendor TraderTools.

“If we can self-police away from latency arbitrage, and get rid of the valueless volume and flow that goes through platforms just because market participants are taking advantage of latency, I think that will go a long way toward creating the fairness everybody is talking about. But people that are faster inherently and can spot market trends more quickly – and certainly that would include some types of HFT – should be allowed to profit and benefit from things like that. It is not knowing which way the market is going first that is the problem; it is taking advantage of those market participants that can’t act fast enough because of infrastructure or technology limitations,” said Heidingsfeld. □ Peter Madigan