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Lawsuit claims CME gives HFTs unfair advantage

By Neil Munshi in Chicago

A group of traders has sued CME Group, operator of the world's largest derivatives exchange, for allegedly selling market data to high frequency traders earlier than to other market participants.

The traders allege that the Chicago-based company has perpetuated a "fraud on the marketplace" since 2007 by allowing high-frequency traders, who use sophisticated computer algorithms to shave fractions of a second off trading times, early access to buy and sell orders. Such practices changed prices for all other participants, the complaint alleges.

CME has denied any wrongdoing.

The plaintiffs – William Braman and two other traders – are seeking class-action status and say they paid for real-time market data even as CME allowed HFT groups to trade on early non-public data, according to the complaint filed on Friday in a federal court in Chicago.

CME "concealed the fact that they were not providing a marketplace free of market manipulation because they allowed HFTs to trade based upon non-public information", the complaint alleges.

In a statement, CME said the suit was "devoid of any facts supporting the allegations" and "demonstrates a fundamental misunderstanding of how our markets operate".

"The case is without merit, and we intend to defend ourselves vigorously," the exchange operator said.

The lawsuit comes amid an intensifying public debate over the merits of high-speed trading, fuelled by the recent publication of author Michael Lewis' latest book, *Flash Boys* .

Earlier this month, New York's attorney-general announced a probe into US stock exchanges to determine whether they provide services to HFTs that give them unfair advantages in the marketplace.

Critics allege that such groups are favoured by exchanges and wreak havoc on market stability, while proponents of high-speed trading argue that the groups provide much needed liquidity to markets.

Virtu, a top HFT group, delayed its high-profile listing earlier this month amid the furore and the attention that has been given to revelations in its initial public offering filing that it has had just one losing trading day over the past five years.

This is not the first time CME has been sued for allegedly favouring electronic traders. Last month an Illinois judge ruled in favour of the exchange against floor traders who had sued CME to overturn rules that factor in electronic trades to settle end-of-day grain futures prices. The traders had said the rules were forcing many of them out of business.

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