



## Bill Black: High Frequency Trading in the Trump Era

*NOTE: This transcript may not be 100% accurate.*

### [TEXT]

Bill Black is a former bank regulator who's worked for decades to expose fraud on Wall Street.

He sat down with the Real News to talk about the dominance of HIGH FREQUENCY TRADING on Wall Street, and how a Trump administration might deal with it.

### [INTERVIEW]

**Bill Black:** Hypervelocity trading as it really is literally trades in fractions of seconds.

#### **Thomas Hedges:**

To make this work the high frequency trading programs must always be a split second faster than the others. And that's only possible when they are close to the Stock Market. The shorter the cable, the faster the information can be transmitted. It's all about milliseconds.

**Bill Black:** So, to trade in a tiny fraction of a second, like literally ten-billionths of a second, obviously, a human being can't do that. So, hypervelocity trading doesn't use humans to trade. It creates mathematical systems, algorithms that look and see, "Hey if this security, the stock went up, what happened to the following other stocks?" And then they say, "Oh they tended to go up." So, a hypervelocity trading algorithm would say, "If say GM goes up, well then Ford and Chrysler are likely to go up as well, buy Ford and Chrysler." Or it might say, you know, the opposite for an agricultural company.

Another thing that we know about hypervelocity trading is that they spend an enormous amount of time -- most of their activity is creating fake offers. These fake offers are designed to distort the markets, to fool people and such. And they do them to the tune of trillions of dollars.

**Thomas Hedges:** The novel high speed and the lack of regulation are often exploited by high frequency traders to manipulate the markets and deceive other market participants.

**Bill Black:** So, one strategy is called front-running. Front-running is I know, either through insider trading, or because my clients are about to buy or sell a big position, what's likely to

happen to a stock price in the next few seconds. And then I can trade for my own account knowing that's about to happen.

A second thing that came out as a result of scandal is they do secret deals. They did secret deals with my University, the University of Michigan, which does important statistical series. So, that they got access to it 15 minutes before other folks. But it was actually a two-level scam. So, they sell access to a broader group of folks 15 minutes before the public gets it. But then they sell it to a tiny fraction of folks that do hypervelocity trading and they give them like 10 seconds only extra knowledge but that 10 seconds is enough to know what's coming.

And the problem is while these are all secret, proprietary programs the people that create the math program are all using the same correlation, the underlying correlation -- what happens to GM when Ford and Chrysler move? And therefore, there's a grave danger that everyone will be doing the same strategy at exactly the same time in unprecedented volumes.

And that's what was believed to have created the Black Monday Crash back in 1987. And a variant of that may have been involved in creating the Flash Crash, where within literally a minute or two the Stock Market goes down 20%, and some securities go from \$90 a share to 2 cents a share in fractions of a second.

The Obama Administration hasn't been great on this. You haven't heard them complaining about what was being done. But the Trump Administration has reached a whole new level. The Trump Administration is creating the most criminogenic environment in US history. It's going to produce epidemic levels of elite white collar fraud and good old fashioned corruption.

There was already an enormous problem with high velocity trading. The Securities and Exchange Commission and the Commodities Futures Trading Commission, which are supposed to regulate this, do not have the computer capacity to even monitor what's happening in anything like real time. And the Republicans in Congress throughout the Obama Administration have deliberately denied funds with the idea of preventing the SEC and the Commodities Futures Trading Commission from having the resources to be able to do anything about high volume or high frequency trading.

Even if you had a prosecutor willing to prosecute, if the SEC and the CFTC don't have the computer technology and the experts to bring the facts and to make a case, you weren't going to get much of any case. But in this situation, the Attorney General of the United States of America, Jeff Sessions, was picked to make sure that these prosecutions didn't occur.

And the only person that's demonstrated any kind of spine in the senior leadership ranks of the Justice Department and that was Ms. Yates, was of course fired, personally by Donald Trump, when she was Acting Attorney General. So, as this whole crew gets in, it's going to be clear that you can get away with anything, if you're a Trump supporter.

The new SEC Chair is someone who did his work overwhelmingly for Goldman Sachs and who ran this report of New York lawyers, Wall Street lawyers that said, the critical thing America needed to do was to gut the Foreign Corrupt Practices Act. That's the statute against bribery. He said that it created a competitive disadvantage for US firms that we couldn't bribe people, right; they want to bring back bribery.

One of their first acts in the House and Senate was to pass a rule designed to destroy the SEC

disclosure on things like... In the anti-corruption world, which is one of the things I do, we've been trying for years to get a requirement that the oil companies disclose publicly what they're paying the governments. And this would allow you in exceptionally corrupt countries like we're becoming, as a public citizen to know, hey you know Nigeria got, I'm making up this number, but \$250 billion in oil revenues. Where did it go? Right, and so, this required adding one sentence to your securities filings. So, it was no cost. And that is something that the House and the Senate Republicans targeted for the very first rule to get rid of. Just like they targeted the House and Senate Ethics body as the very first thing. When they were just forming the House that was the very first thing they did. So, this is the entire pattern.

This is a group of folks that don't believe in the rule of law; love conflicts of interest. Think it's appropriate to use your government position to make yourself and your cronies incredibly wealthy. There's going to be nothing like this in history. Harding is going to have nothing compared to these people.

If this is going to be stopped, it's not going to be by the Justice Department. It's not going to be by the regulators. It's going to have to be whistle-blowers. And we strongly urge all Federal employees to start keeping records of what's being done. Keep copies of these emails. Keep copies of these memos. Keep copies of where you warned them that you couldn't enforce the law effectively. And at the right time, become a whistle-blower.

**END**