

PUBLICATION

On My Bookshelf: Flash Boys

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This month, I read Michael Lewis' most recent book, *Flash Boys*. In it, Lewis exposes Wall Street's newest breed of scammers: high-frequency traders (HFTs).

In the spring of 2007, Brad Katsuyama, a successful New York banker at the Royal Bank of Canada (RBC), thought something was wrong with his computer. He was trying to buy 10,000 shares of Intel, offered at \$22. But the moment he pushed the "buy" button on his computer, the offers disappeared and eventually reappeared at a slightly higher price. What started as a frustrated call to his IT department ended with Katsuyama obsessively uncovering the world of Wall Street's HFTs.

Before the advent of computers, if an investor wanted to buy or sell a stock, he would call a broker, who would find a way to execute the trade by talking to other brokers. The arrival of computerized exchanges, however, eliminated human beings from the process. Instead, bids and offers are now matched by computer servers.

Today, if you place an order for 1,000 shares of Intel, it pings from exchange to exchange (there are currently at least 13 public exchanges) claiming a few shares at each stop, seeking the best price until the order is completed. But the moment that your order hits the first exchange, the HFTs see it, and they race ahead to the other exchanges, buy the stock you want, and sell it back to you for more than you intended to pay. The result is that in fractions of a second, buyers, like your very own mutual fund, are swindled. Upon discovering the ploy of HFTs, Katsuyama left his lucrative position with RBC to assemble a team of talented misfits to form their own transparent exchange, called the Investors Exchange, or IEX.

In *Flash Boys*, like all of his books, Michael Lewis tells the story of HFTs through anecdotes from colorful characters like Katsuyama. The result is an entertaining and accessible story about a highly complex (and legal!) aspect of our country's financial markets.

The book is one-sided, but compelling. As the *Wall Street Journal* book review points out, the HFTs themselves are notably silent in this book and, "there are reasonable arguments to be made that the frenetic trading by HFTs leads to greater liquidity and more efficient pricing."

Admittedly, I liked this book less than Lewis' other Wall Street exposés, *Liar's Poker*, *The Big Short* and *Boomerang*. But, on the whole, I think it is a great book with a potentially resounding legal effect on the securities industry. According to one report, in the week of its publication, inquiries into high-frequency trading were announced by the Department of Justice, the Federal Bureau of Investigation, the Securities and Exchange Commission, the New York Attorney General, the Commodities Futures Trading Commission and the European Union. So it might be a particularly important read for those of us in corporate practice or financial institutions litigation.