Could an "algo gone wild" cause a market disaster? This was the premise of a morning discussion at an event run by the Capital Markets Consortium yesterday morning. Moderator Bernard Donefer, Professor, Baruch College, says, "I'm just worried about that one errant trade, is it possible that someone could cause a market disaster with one trade?"

Bryan Harkins, Head of Sales and Strategy, Direct Edge believes that there are certainly things that could and do happen, but there are enough safety nets in place and coordinated efforts across the industry to stop them when they happen. "Whether you're talking about reacting to erroneous news reports or a fat finger, yes, these are all things that markets can build in protections against. And the markets have done a pretty good job of trying to coordinate interactional things, like coordinated halts, or clearly erroneous trade policies. We have gone a long way to increase transparency," he says.

Brian Hyndman clearly believes that algos cannot create market disasters. He says, "An algo cannot necessarily bring down the market," he states. "The rules that are written today will not allow that."

He continued to discuss the SEC's Clearly Erroneous Rules, which have been around for years, he says, and last October harmonized across market centers. The exchange rules provide guidelines for breaking stock trades that deviate so substantially from current market prices that they are considered "clearly erroneous."

Donefer is not convinced, "What about somebody that put in an order and all of a sudden gets caught in a down draft the retail customers loses only a few percent, is still wondering, "why am I bearing the brunt of this error?"

Joseph Mecane, Executive Vice President & Chief Administrative Officer, US Markets, NYSE Euronext, says, "There is no good way to make everyone happy. Things will happen whether you have all these controls in place or not—things that you could not predict. But in general the market has safety nets in place."
Harkins adds that things are a lot better now that the industry has coordinated efforts on clearly erroneous trades. "There was a lot more complaining before because customers felt there was too much discretion and things were not uniform across exchanges."

The consensus is that algos cannot create a market disaster, but Donefer continues to press the issue of what these market centers are doing to prevent other market issues, whether algo related or not.

Mecane says the NYSE is doing a variety of things to prevent problems in the market. "The first thing is we do have monitoring tools. We know what the message rates are and how they compare. We are looking to catch any situation as quickly as possible." He explains that the NYSE has the ability to slow trading to check if orders are valid.

When the NYSE had the hybrid system it had LRPs or liquidity replenishing points, where if there is a move in the market of more than x number of cents per share, the trades is bounced out and handled manually. Donefer asks, No longer having Hybrid, "May it rest in peace, Do you have an equivalent?"

Mecane responds that "Even though we no longer have hybrid, we retained LRP, because it was beneficial to clients. It's been very functional on high volatility days especially in catching orders that are erroneous. There have been a couple of instances that we've been able to go back to the firm quickly and have them change or adjust it."

Hyndman jumps in, "You're doing the right thing," But he goes on to say that if clients orders are halted or slowed on NYSE, the rest of the market hasn't stopped, so they are losing market share because the halts are not coordinated across market centers.

Mecane jokes, "We accept your offer!" He explains," I appreciate Brian saying that, I think that's the right answer for the market (a consolidated halt). The reality if you propose something like that it's looked at as anticompetitive behavior. But from a market structure view, it's the right for the market.