

Flash Trading's Big Fan

Controversy may surround flash trading in equities. But not at TD Ameritrade. The retail broker has been a fan of the Direct Edge program since its beginnings in 2006. This is because of the opportunity to get price improvement for its customers' limit orders, said Chris Nagy, who heads Ameritrade's order routing strategy.

Direct Edge's Enhanced Liquidity Provider program involves "flashing" quotes to a select group of traders. The program has been criticized across the industry for giving some participants preferred status by letting them see orders before the rest of the market. The Securities and Exchange Commission has moved to ban the program.

Ameritrade routes a customer order to Direct Edge. And if the exchange is not at the National Best Bid or Offer, it flashes Ameritrade's order out to its participants. From there, a market participant takes the order roughly 70 percent of the time, Nagy said.

"And what we see, when that happens, is that we actually end up getting more size, more liquidity, than what was available without the program," he said.

Ameritrade uses the flash program on less than 2 percent of the orders it sends to Direct Edge, Nagy said.