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Putting stock in Mahwah center

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Starting next year, all North American trades handled by the New York Stock Exchange's parent company will be processed in a massive data center under construction in Mahwah.

The Mahwah data center, scheduled for completion in the third quarter next year, is set to become a "virtual trading floor," processing billions of trades daily, said Stanley Young, a co-chief information officer for NYSE Euronext.

Housed inside a fortress of brick and concrete will be the NYSE Euronext's powerful computer "matching engines" to pair buyers and sellers in the company's markets for stocks, options, futures and derivatives. No more than about 50 employees will be working at the site at any given time.

Next to those matching engines will be servers from investment firms — broker-dealers, hedge funds — that will have rented space inside the 400,000-square-foot, two-story structure along Route 17 and MacArthur Boulevard.

Inside there will be state-of-the-art servers and fiber-optic lines linking the NYSE Euronext's stock exchanges to the Mahwah data center with super-fast speed to reduce "latency," or the tiny fractions of seconds computers take to communicate across vast distances.

The data center will house what the NYSE Euronext sees as the future of stock trading, which has become ever-more automated in recent years.

Whereas traders on the New York Stock Exchange's physical trading floor have traditionally been the buyers and sellers of securities, much of today's trading is conducted by computer algorithms.

"Technology is doing a lot of the donkey work that a lot of people used to run around waving their hands doing," said Young, who oversees the company's data centers.

NYSE Euronext, itself a publicly traded business, hopes the Mahwah data center

and another one for European markets, based in the town of Basildon outside London, will help it increase its revenue from a growing practice called high-frequency trading.

Firms executing trades electronically can do so up to 1,000 times faster than the blink of an eye. Algorithms can spot market trends and fire off trades automatically, saving investors' time and money.

"We expect the savings to be enormous to the overall industry," Young said.

The company estimates that high-frequency trading now accounts for about half of all securities transactions.

"We think of our data centers as liquidity centers, where trading begets trading because we're able to feed the algorithms with information from executed business, which updates the algorithms, which then allows these guys to execute more business," Young said.

Regulators have expressed concerns that the growth of high-frequency trading could lead to a computer glitch that could pose a systemic risk to global financial markets.

For example, a computer glitch could hypothetically lead to a flood of orders for stocks being sent into the market, said Dan Gray, a senior special counsel in the Securities and Exchange Commission's division of trading and markets. The financial exposure with so many orders could swamp the trader and the stockbroker.

Regulators also are keeping an eye on so-called co-location, by which exchanges rent space to trading firms near exchanges' matching engines.

"Everyone wants to be the fastest," Gray said, but the SEC wants to make sure that "everyone's getting fair and reasonable access" to securities markets.

Officials are weighing regulations of the practice of making "flash" orders, by which some exchanges hold orders for a split-second before publishing them on competing platforms.

Sen. Charles Schumer, D-N.Y., has asked the SEC to ban the practice, saying the flash orders are used by "sophisticated high-frequency traders" to get an unfair edge. (NYSE Euronext has said it also opposes flash orders.)

Partha Mohanram, a finance professor at Columbia University, said exchanges should ensure everyone gets trading data at the same time instead of imposing limits on the use of technology.

"The key is a level playing field, but you should not lower the playing field to

make it level," he said. "All you have to do is make sure everybody has the same level of access. I don't think there's anything wrong with high-speed trading, per se, if they have the same priority as any other investor."

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