FBI Said to Probe High-Speed Traders Over Information Abuse (1)
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(Updates with background on inquiries starting in the fourth paragraph.)

By Keri Geiger and Patricia Hurtado

March 31 (Bloomberg) -- Federal agents are investigating whether high-frequency trading firms violate U.S. laws by acting on nonpublic information to gain an edge over competitors, according to a person with knowledge with the probe.

The Federal Bureau of Investigation's inquiry stems from a multiyear crackdown on insider trading, which has led to at least 79 convictions of hedge-fund traders and others. Agents are examining whether traders abuse information to act ahead of orders by institutional investors, according to the person, who asked not to be identified because the probe is confidential. Even trades based on computer algorithms could amount to wire fraud, securities fraud or insider trading.

The FBI joins a roster of authorities examining high- frequency trading, in which firms typically use super-fast computers to post and cancel orders at rates measured in thousandths or even millionths of a second to capture price discrepancies. New York Attorney General Eric Schneiderman opened a broad investigation into whether U.S. stock exchanges and alternative venues give such traders improper advantages.

Regulators have focused for years on whether high-speed trading hurts market stability. More recent law enforcement investigations are shifting the focus to unfair practices and possible criminal activity.

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Critics including some investors and regulators have said such trading, which captured the spotlight in the May 2010 flash crash that shook U.S. equities, serves little purpose, may distort the market and may leave individual shareholders at a disadvantage.

Schneiderman is examining the sale of products and services that offer faster access to data and richer information on trades than what's typically available to the public. Wall Street banks and rapid-fire trading firms pay thousands of dollars a month for these services from firms including Nasdaq OMX Group Inc. and IntercontinentalExchange Group Inc.'s New York Stock Exchange.

Robert Madden, a spokesman for Nasdaq, and Eric Ryan at the NYSE, declined to comment on the FBI's inquiry.

The FBI began focusing on high-frequency traders last year, before Schneiderman disclosed his inquiry this month, the person said. Federal prosecutors have scored dozens of insider trading convictions in recent years, including several linked to SAC Capital Advisors LP, the hedge-fund firm run by Steven A. Cohen that is changing its name to Point72.

SAC agreed in November to pay a record $1.8 billion and plead guilty to securities fraud to settle allegations of insider trading. As part of the settlement, Cohen agreed to close SAC's investment advisory business.

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