Rotman School of Management
UNIVERSITY OF TORONTO

RIT Case Brief – LT4
Build 1.02

Liability Trading 4

This case is designed to illustrate the effect that multiple trading venues has on trading. In this case, students will be able to trade stocks CRZY or TAME on the alternative or main exchange. The commissions and liquidity parameters are different on each exchange providing different incentives to trade on each.

Security Information

There are two tradable securities in this case that are traded on two different exchanges, they are denoted as CRZY_M & TAME_M (traded on the main exchange) and CRZY_A & TAME_A (traded on the alternative exchange.). Positions across exchanges are aggregate, so if a trader purchases 100 shares of CRZY_M then sells 100 shares of CRZY_A, their resulting position will be 0 shares.

Traders can buy long and short sell the security on either market. Traders will trade for 1 period which lasts 5 minutes.

Trading Periods	1
Period Time	300 Seconds

Liquidity Traders

Programmed liquidity traders, marked as ANON in the order book, actively trade by continuously submitting buy or sell orders according to parameters appropriate to the specific market. The programmed liquidity traders will attempt to drive the market price towards the pre-generated path price.

ANON trades will typically submit smaller, more frequent orders to the main exchange. In contrast the ANON trader will submit large infrequent orders to the alternative exchange.

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Institutional Orders

Institutional orders are generated by the server and randomly routed to traders in the market. The orders will be randomly routed to a trader who then has 30 seconds to accept or decline the order. If the order is accepted, the order is instantly filled out of the trader's inventory at the advertised price. Although the institutional orders will be labelled CRZY_M, liability traders can cover that order on either exchange.

Trading Costs and Risk Management

A trading fee of $0.01 per share is charged on orders that remove liquidity from the main market. The alternative market offers a more competitive rate of $0.005 per share for orders that remove liquidity from the market. In addition, a net rebate of $0.0025 per share is paid for limit orders that are filled on the alternative market. For example, a limit order for 1000 shares that gets traded against will generate $2.50 of commission rebates. Marketable limit orders (limit orders that cross the bid/ask spread) are treated as market orders. There is a maximum order size of 10,000 shares when submitting a single order.

As in the LT3 case, in your job description as a liability trader, it is clearly stated that you should only trade to unwind positions that you accumulated as a consequence of transactions with institutional clients (accepted tender offers). You should not trade for any other reason (e.g., arbitrage, market making, following the trend, etc.). Your instructor or CRO has the option to penalize you for front-running and other speculative strategies, defined for this case as trading unrelated to unwinding accepted tender offers and not completely covering accepted tenders prior to the end of the trading period.

Similar to the LT3 case, traders are given a limit of 100,000 shares net, or 200,000 shares gross. Net limits are calculated by taking the sum of the positions – long and short positions will cancel each other out. Gross limits are calculated by taking the sum of the absolute value of the positions, which means short and long positions are additive.

Position Close-Out

Any non-zero position in the security will be closed out at the price of the securities on the main exchanges at the end of trading. As noted above, you should close out any remaining position associated with accepted tender offers prior to the end of the period.

