

# How 'Hide Not Slide' Orders Work

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A basic principle of U.S. stock exchanges is that the first investor to place an order at the best current price generally should be the one whose order is filled first.

But critics say high-frequency traders can jump ahead in line **via special order types, like "Hide Not Slide."** Here's how it works.

Say an order to buy Microsoft Corp. for up to \$30.01 a share is sent to electronic stock exchange Direct Edge Holdings LLC, with instructions to be filled only there and not routed elsewhere.

Meanwhile, though there is no matching sell order on Direct Edge, another market, such as Nasdaq, has an order to sell Microsoft at \$30.01. It is also an order to be filled only on that exchange.

The SEC considers this a "locked market" and **doesn't allow it.** The fear is it could encourage manipulation such as buying and selling a stock merely to generate fees. The ban means an order to buy for \$30.01 can't be displayed on Direct Edge. The order will "slide" to a lower price, \$30.

Here's where Hide Not Slide orders can take advantage. **They are hidden from other investors—not displayed on the exchange's order book.**

The **locked-markets ban applies only to displayed orders.** So if a \$30.01 Hide Not Slide order is placed now, it won't slide to a lower price.

When the market "unlocks"—such as **the sell order on Nasdaq is filled or canceled**—the Hide Not Slide order is **converted back** to a displayed order at \$30.01 and is eligible to trade against Microsoft shares posted for sale on Direct Edge at that price.

As for the first investor's order—the one that slid to \$30—it converts back to the original \$30.01 price, but **is placed in line behind the Hide Not Slide order.** If a \$30.01 sell order for Microsoft enters Direct Edge, the Hide Not Slide order will get it first.

If not many Microsoft shares are offered for sale on Direct Edge at \$30.01, the first investor may not get any.

The SEC, though it cleared this order type, is examining disclosures and whether, in practice, its use violates the rule that the first order placed at the best current price must be filled first.

Defenders of this order type—variations of which are provided by other exchanges—say that since the hidden order offered a better price during the locked market, it

should get priority. Direct Edge declined to comment on the functioning of its order types or the investigation.

Exchanges generally say they make proper disclosures about order types and offer them to all investors. In practice, only those using computers and algorithms can use the arcane ones.

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