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EXCHANGE --- Business News: TD Ameritrade Wins Fight Over Order Handling

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A federal appeals court sided with TD Ameritrade in a legal battle over its practice of routing investors' stock orders to high-speed trading firms in exchange for payments.

The U.S. Court of Appeals for the Eighth Circuit on Friday rejected a proposed class-action lawsuit from investors who accused the brokerage of securities fraud. The suit claimed TD Ameritrade had failed to abide by its duty to seek the best execution for customer stock trades.

The decision by a three-judge panel reversed a 2018 ruling from a federal judge in Nebraska who had allowed the suit to go forward.

It came as the practice at the heart of the lawsuit -- called payment for order flow -- came under renewed scrutiny in a series of recent congressional hearings devoted to the wild, Reddit-fueled rally in GameStop Corp. stock earlier this year.

In Friday's opinion, the judges didn't weigh in on the substance of the plaintiffs' fraud allegations. Instead, they found it would be too difficult to determine which investors had been harmed by TD Ameritrade's order-routing practices.

Such a determination would require numerous individualized inquiries studying each trade over a period of several years, the judges said, rejecting an effort by the plaintiffs to use a giant data-crunching computer program to pinpoint who had been harmed.

"We conclude that despite advances in **technology**, individual evidence and inquiry is still required to determine economic loss for each class member," the judges wrote.

A spokeswoman for Charles Schwab Corp., which completed its acquisition of TD Ameritrade last year, said the firm was pleased with the court's decision. "High-quality trade executions and transparency are a cornerstone of our commitment to putting clients first, and our combined firm has a strong track record that consistently reflects that commitment," she said.

A lawyer for the plaintiffs didn't immediately respond to a request for comment.

Better Markets, a financial-reform group that had filed a brief in support of the plaintiffs, voiced disappointment with the ruling. "The anti-investor decision will help perpetuate a system of legalized bribery in our stock markets at the expense of millions of everyday investors," Stephen Hall, legal director and securities specialist of Better Markets, said.

Payment for order flow, a decades-old practice, is widespread in the brokerage industry. It helps make it possible for brokers such as E*Trade, TD Ameritrade and Robinhood Markets Inc. to offer zero-commission trading.

Critics say payment for order flow is a conflict of interest for brokers because it encourages them to maximize the amount of money they collect from high-speed trading firms, rather than ensuring that investors get the best possible price on their trades.

Brokers say investors get slightly better prices on stock trades when their orders are routed to electronic trading firms than they would if the order were sent to public stock exchanges. Trading giants such as Citadel Securities LLC and Virtu Financial Inc. handle the majority of individual investors' orders.

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