Liquidity improves when market makers avert adverse selection from fast arbitrageurs.

**Introduction**
- Fast arbitrageurs snipe stale quotes before market makers can cancel
  - Adds adverse selection costs
  - Discourages liquidity provision
- Curbs on fast arbitrage boost liquidity

**Methods & Data**
- DiD with stock, day, and venue FE$s$  
  - +/-4-week around the ban started
- Nasdaq Stockholm 30 Index stocks
- Quotes on 5 lit exchanges
- Trades with IDs of trading firms

**Results**
- Adverse selection and liquidity costs declined significantly
  - Adverse selection cost: **-34%**
  - Quotes spread: **-86%**
  - Effective spread: **-57%**

**Discussion**
- Spillover effects on other exchanges
- Generalization issues of the treatment
  - Small exchange
  - Unique market design
  - Only 1 fast arbitrageur(s) affected

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**Fig 1.** Adverse selection costs (plotted) due to fast arbitrage declined by **37%** on the treated exchange while quoted spread declined by **12%**.

**Fig 2.** Liquidity taken by fast trading firms declined from 21% to **10%** after the ban restrained fast arbitrageur(s).