

CEPR-Imperial-Plato Inaugural Market Innovator (MI3) Conference

Evolving Market Structure in Europe and Beyond

29 June 2017

Overview

This document provides an overview of the key points covered during the research paper presentations and panel discussion the recent Plato Partnership Market Innovator (MI3) Conference, 'Evolving Market Structure in Europe and Beyond'. Once approved, this document will be fully designed and distributed as a follow-up to attendees. This is in addition to following-up on our promise to post information and links to all the research papers to the Plato website.



Information and Optimal Trading Strategies with Dark Pools, Ariadna Dumitrescu

Keypoints:

- There has been an increase in fragmentation over the past decade, alongside an increase in competition.
- However, an increase in fragmentation hasn't led to a deterioration in market performance, and transaction costs in particular didn't deteriorate.
- However, a large part of trading has moved to opaque venues, and markets are overall getting darker, with regulators worried that dark pools distort prices and exacerbate volatility.
- The paper looked at the effect of different levels of access to information by adding a dark pool alongside an exchange.
- There were several factors, such as liquidity and volatility, which depended on the type of stock traded.
- Both pooling and separate equilibria in dark pool trading are possible.
- Adding a dark pool alongside an exchange may shift the optimum strategy of each type of rational traders, but investor welfare was not lower with dark pools than without it.

Key questions:

"How was welfare defined?"

We defined welfare as the expectation of profit, looking at the sum of expected profit between rational and liquidity traders.

"When measuring welfare, how does one account for costs of trading in the dark?"

We simply looked at one trader arriving at one stock, examining the first and second period trading and probabilities. There was a feedback affect, do we don't have dark pool choice included.