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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.



Market Structure Evolution – Research Avenues

Key comments:

"Academics are different to practitioners themselves, who are more solutions based than ideas based. Consulting means that academics lose independence as researchers."

Market structure:

"The basic ideas on block versus dark haven't really changed, and the overall goal remains trying to source large natural liquidity. Technology has caught up to efficiency gains, and benefits have also gone to infrastructure providers. The pendulum has shifted away from electronic traders to source large block liquidity. There is a trade-off however, as sometimes you need liquidity faster, so it is a work in progress."

"Markets are having to be more patient because of fragmentation. The time horizon is now different between HFT and passive, and this has large effects on venue choice."

"Market structure change is driven by client need. MIFID II is a response to market shocks, where there was no facility for regulators to fund central data, and has now started a dialogue between academia and the government. However, with so many moving parts, finding a control group is a challenge."

Buy side challenges

"We have moved away from an Agency to a Principal model. However, not having a full picture can affect results assessments, and the buy-side relies too much on sell-side data."

"It is easy to access at chart level, but harder on the meta side. Post MIFID II, the onus is on asset managers to justify their approach. Addressing ignored questions should be a priority, and standardisation in the industry is a must, for example formulating coherent timestamps."

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Best execution

"In the EU, the buy-side and the sell-side have managed to come to an accommodation. The US, however, is much more rigid: it's a simpler approach but it may not be best."

"ESMA has aimed to create parallel studies of markets in order to be able to inform governments. There are plenty of research opportunities, such as the optimum calibration of circuit breakers for best market function."

Venue performance

"There is more work to be done, but we've had a lot of practice, some fragmentation and some consolidation. A classic dark/lit sweep doesn't change so much on the sell-side. SI performance assessment across venues will be different, as well as the effect of intraday auctions. DEA rules making venue participation increase expectations will mean fewer venues."

"With more data, analysis has to be tailored to a venue, and we need to do more of this, mostly qualitative, but there is currently no unique method for assessments. More should also be done on event studies."

Key questions:

Implementation shortfall: is there a principal agent problem?"

"Academics often focus on informed versus uninformed trading, but don't look at segments over time."

"There will probably be a consolidation of brokers, with LIS and execution higher up the scale. However, there will also be more chance of a partnership between the buy-side and the sell side, but people will pick partnerships on different terms compared to the past 5 years."

"What's the future for active versus passive? Are there concerns on price discovery?"

"Passive is definitely here to stay for a while, given its performance and low fees. However, the proportion of shares that never change hands is increasing. There is an argument that we don't need as many actively traded shares, but there may be greater volatility and there are fewer active managers who still all fall into the same thinking."

"There always have to be balances, and there will most certainly be new opportunities for active that open up."
