

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.



Trades, Quotes and the Cost of Capital, Ioanid Rosu

Keypoints:

- The study looked at measuring HFT in practice, primarily at the quote-to-trade ration (QT).
- QT ratios have risen significantly in recent years, at QT levels were highest among the more neglected stocks, where the opposite could have been assumed.
- A QT Effect has been observed, where a high QT is observed where there are lower expected returns, and the QT Effect is stable over time.
- Where there are several Market Makers, more quotes have a positive impact on the wider market.
- This leads to a situation where the higher the number of Market Makers, the lower the overall number of quotes.

Key questions:

“Was the study taking into account the larger tick size and volume in relation to the quotes?”

Yes, but this could use more monitoring. However, in higher priced stocks this was less of a factor.

“When the study looked at small cap stocks, could it mostly have been small caps just trying to get out of the way? For higher cap stocks, was it not simply that traders more profit motivated, and the QT was higher overall because people just have less appetite to trade in smaller stocks?”

This would be an alternative theory around the results. However, with the rival rate of trades normalised to one, the trades themselves don't matter as much, just the quotes. However, all of these variables have an effect, and it is hard to completely separate them when running these studies.