
# 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 Power and Price Informativeness, Savitar Sundaresan

### Keypoints:

- Levels and concentration of institutional equity ownership have been growing steadily over the last few decades raising concerns of potential market instability.
- From 1980 to 2015, the average institutional ownership of U.S. stocks increased from 25% to 60%, and ownership levels among the top 10 largest asset management companies almost doubled, from 18% to 35%.
- These striking trends have spurred an active debate among practitioners and policy makers over whether the largest asset managers should be regulated as systemically important financial institutions (SIFIs).
- An increase in institutional (informed) ownership increases price informativeness, and an increase in concentration of ownership leads to lower informativeness.
- The policy experiments of changing ownership structure indicate a non-monotonic relationship between the levels and concentration of ownership and price informativeness.
- This paper aims to take one step in this direction by offering a general equilibrium model in which asymmetric information, market power, and heterogeneity of assets play an important role.
- The model explored here can be flexibly applied to settings with rich cross-section of assets, differences in information asymmetry across agents, and differences in market power. Hence, it can generate interesting policy implications at the aggregate and cross sectional dimensions.

Key questions:

**“Is it not right to suggest that the growth in asset ownership by large institutions is a healthy phenomenon, because it allows households to access financial products with lower transaction costs and greater operational efficiencies?”**

This is a logical argument, yes. However, the empirical evidence suggests that large asset managers’ performance often suffers from diseconomies of scale.

**Looking more specifically, is it to generalist to talk of informed vs uninformed, because the reality is one whereby participants specialise in their learning to foster greater returns?”**

As market power increases, oligopolists know that the price effect of their trades will be higher, and that the information they collected will be revealed. As a result, they mitigate their price impact by spreading their learning over many assets. Thus, the model endogenously generates diversification in learning, which has important implications for both overall ownership structure and the average price informativeness of each asset.