# **Accepted Manuscript**

Regulating dark trading: Order flow segmentation and market quality

Carole Comerton-Forde, Katya Malinova, Andreas Park

PII: \$0304-405X(18)30178-8 DOI: 10.1016/j.jfineco.2018.07.002

Reference: FINEC 2923

To appear in: Journal of Financial Economics

Received date: 3 September 2016

Revised date: 2 June 2017 Accepted date: 5 July 2017



Please cite this article as: Carole Comerton-Forde, Katya Malinova, Andreas Park, Regulating dark trading: Order flow segmentation and market quality, *Journal of Financial Economics* (2018), doi: 10.1016/j.jfineco.2018.07.002

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

#### ACCEPTED MANUSCRIPT

## Regulating dark trading: Order flow segmentation and market quality\*

Carole Comerton-Forde<sup>a</sup>, Katya Malinova<sup>b</sup>, Andreas Park<sup>c\*</sup>

<sup>a</sup> UNSW Business School, UNSW Business School Building, NSW, 2052.

<sup>b</sup> University of Toronto

<sup>c</sup> University of Toronto Mississauga and Rotman School of Management

#### **ABSTRACT**

We examine the impact of a rule in the Canadian equities market that requires dark orders to offer price improvement over displayed orders. We show that this rule eliminated intermediation of retail orders in the dark and shifted retail orders onto the lit market with the lowest trading fee. Intermediaries shifted liquidity supply to this market leading to increased displayed liquidity. We conclude that reducing retail order segmentation enhances lit liquidity. Despite the improvement in liquidity, retail traders receive less price improvement. Retail brokers pay higher trading fees to exchanges, and high-frequency traders earn higher revenues from trading fees.

JEL classification: G14

Keywords: Dark trading, Trade-at rule, Price improvement, Segmentation, Retail internalization

Corresponding author: Tel: +61 2 9385 5773. Email address: c.comerton-forde@unsw.edu.au

corresponding author. Tel. 1012

<sup>\*</sup> This paper is based on the research report titled "The Impact of the Dark Trading Rules" that we prepared for the Investment Industry Regulatory Organization of Canada (IIROC). We thank IIROC for providing access to the data and for financial assistance and, in particular Victoria Pinnington and Helen Hogarth for assistance. We also thank Qizheng (Alan) Yuan for research assistance. We thank SIRCA for providing access to the Thomson Reuters Tick History data. We thank the editor (Bill Schwert), the referee (Ingrid Werner), Peter Bossaerts, Carole Gresse, Patrik Sandas, Vincent van Kervel, Ingrid Werner, Haoxiang Zhu, participants at the 2015 University of Cambridge Workshop on Microstructure Theory and Application, the Stern Microstructure Meeting 2015, the Seventh Erasmus Liquidity Conference, the Women in Microstructure Meeting 2015, the IIROC High-Frequency Trading Forum, the 2016 European Finance Association meetings, and seminar participants at ESSEC Business School, University of Auckland, Deakin University, HEC Montreal, New Economic School, Stockholm Business School, University of Illinois at Chicago, University of Copenhagen, and Warwick University. Carole Comerton-Forde is an economic consultant on market structure for the Australian Securities and Investments Commission. Andreas Park is a member of the Ontario Security Commission's Market Structure Advisory Committee. This work was done when Carole Comerton-Forde was at the University of Melbourne. Part of this work was done while Katya Malinova and Andreas Park visited Copenhagen Business School (CBS), and they thank CBS for its hospitality. Support from the Center for Financial Frictions (FRIC), grant no. DNRF102, Nordea Fonden, Social Sciences and Humanities Research Council, and the Global Risk Institute for the project "Risk Management and Market Liquidity" is gratefully acknowledged.

### Download English Version:

# https://daneshyari.com/en/article/11020478

Download Persian Version:

https://daneshyari.com/article/11020478

<u>Daneshyari.com</u>