

## Accepted Manuscript

Order-to-trade ratios and market liquidity

Sylvain Friederich, Richard Payne

PII: S0378-4266(14)00328-8

DOI: <http://dx.doi.org/10.1016/j.jbankfin.2014.10.005>

Reference: JBF 4581

To appear in: *Journal of Banking & Finance*

Received Date: 19 April 2013

Revised Date: 26 September 2014

Accepted Date: 14 October 2014



Please cite this article as: Friederich, S., Payne, R., Order-to-trade ratios and market liquidity, *Journal of Banking & Finance* (2014), doi: <http://dx.doi.org/10.1016/j.jbankfin.2014.10.005>

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.

## Order-to-trade ratios and market liquidity

Sylvain Friederich<sup>a</sup>, Richard Payne<sup>b</sup>

<sup>a</sup>Corresponding author. Department of Accounting and Finance, University of Bristol, Bristol BS8 1TN, UK. Email [s.friederich@bristol.ac.uk](mailto:s.friederich@bristol.ac.uk), tel. +44 117 394-1484, fax +44 117 928 8577.

<sup>b</sup>Faculty of Finance, Cass Business School, City University London, London EC1Y 8TZ. [Richard.Payne.1@city.ac.uk](mailto:Richard.Payne.1@city.ac.uk)

---

**Abstract**

We study the impact on market liquidity of the introduction of a penalty for high order-to-trade ratios (OTRs), implemented by the Italian stock exchange to curtail high-frequency quote submission. We find that the fee is associated with a collapse in the quoted depth of the stocks that make up the bulk of trading in Italian equities and an increase in price impacts of trading across the treated stocks. Spreads do not change, however. Stocks from a pan-European control sample show no such liquidity changes. Thus, the Italian OTR fee had the effect of making Italian stocks markets more shallow and less resilient. Large stocks are more severely affected than mid-caps. We also find evidence of a limited decrease in turnover. Consolidated liquidity, constructed by aggregating across all electronic trading venues for these stocks, decreases just like that on the main exchange. Thus, liquidity was not simply diverted from the main exchange, it was reduced in aggregate.

---

<sup>\*</sup>A study forming part of the body of evidence generated by the UK Government's Foresight project "The Future of Computer-based Trading in Financial Markets" was the basis for this paper. We thank Fanny Declerck, Ian Marsh, Sébastien Pouget and two anonymous reviewers for their comments. All errors are our own.

Download English Version:

<https://daneshyari.com/en/article/5088572>

Download Persian Version:

<https://daneshyari.com/article/5088572>

[Daneshyari.com](https://daneshyari.com)