

Determinants of Alternative Trading Venue's Market Share: Global Evidence from the Introduction of Chi-X

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Alternative trading platforms are emerging in the global financial markets. They have taken substantial trading volumes and market shares from the traditional exchanges. This paper employs data from 16 countries based on 920 listed stocks across Australia, Japan and Europe. It uses Chi-X as a case study to investigate its performances in Australia, Europe, and Japan. The impacts of the introduction of Chi-X on market quality in each region are studied in this paper. Furthermore, the pricing efficiency and liquidity quality of various securities on Chi-X differ from each other. In addition, differences in exchange structures, such as trading fees and trading system speeds, are expected to influence an exchange's market share. These characteristics of exchanges are also examined in this paper.

The findings in this paper are valuable to relevant market participants. Stock exchange management is able to gain information on their performances based on various market quality measures after the introduction of Chi-X. Moreover, they are able to compare their performances with other stock exchanges in global financial markets. This paper also provides insights of the key factors that determine turnovers and market shares of stock exchanges. These help the exchange management to understand what aspects of market quality they should focus to improve their competitiveness in financial markets. Further, as financial market regulators, they could use the findings in this paper to understand the impacts of increasing competition on various aspects of market quality. These findings would be informative for them to make regulatory decision in future.

The results in this paper show that depth level and percentage time that a venue displays best bid or offer (BBO) are positively associated with the stock exchange market share, while order-to-trade ratio is found to be negatively related to the market share. Furthermore, a trading venue with lower trading fees and faster trading system is likely to obtain higher turnovers and market shares. The results also show that investors and traders tend to search for a venue with lower bid-ask spread and greater average trade size, because they are able to minimise their transaction costs in these exchanges. Interestingly, Chi-X is found to perform better in small market-cap firms. This finding suggests that exchanges could focus on policies to attract trading volumes in small-cap firms in order to maintain their competitiveness in those stocks.