

Consultation on market structure and trading hours

Closing date for responses 31 January 2020

Issued 10 December 2019

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1. Executive Summary

London Stock Exchange (“Exchange”) is conducting a consultation with market participants on potential changes to market structure, specifically:

- 1) An adjustment to trading hours;
- 2) A reduction in the number of auctions for SETSqx securities in consideration of the liquidity of small cap securities; and
- 3) Intraday Auction activity on the Stock Exchange

This paper outlines some of the issues for discussion, followed by a series of questions to provide market participants the opportunity to share their views.

This consultation document should be read and responded to by: Trading, Technology, Operations and Compliance staff at Member Firms; Investment Firms; and all other relevant Stakeholders including Regulators, Issuers and Individual Investors.

Feedback from this consultation will be used to enhance our service to market participants and determine if there is a case to make changes to our current market structure.

We request that interested parties provide a single, combined response per entity to the questions raised in this document no later than 31 January 2020. Details on how to submit responses can be found in the ‘Timetable and Contact details’ section.

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2. Overview

Our consultation incorporates questions on three topics: Market Hours, Liquidity in Small Cap Securities and Auctions. **Responses on all topics would be appreciated, but if a respondent does not feel a question or topic is relevant to their business, please indicate this by answering with N/A in the appropriate area.**

Topic 1: Market Trading Hours on London Stock Exchange

London Stock Exchange offers several trading services (refer to Figure 1 in 'Appendix' section of this document for details) which include on-book trading and off-book trade reporting services. The daily trading hours from the start of the opening auction until the end of the closing auction is illustrated for the SETS trading service in the diagram below:



The Association for Financial Markets in Europe (AFME), representing banks and brokers in Europe, and the Investment Association (IA), recently published a proposal¹ for European exchanges to review trading hours with the aim of benefiting market structure and improving wellbeing, culture and diversity across their member firms.

As with any proposed change to market operations, potential benefits as well as challenges associated with adjustments to trading hours were identified. These can be summarised as follows:

Potential benefits:

- Concentration of liquidity in shorter trading hours
- Helps encourage staff diversity
- Positive impact on mental wellbeing of staff
- Broad support from market, including AFME and IA

¹ [Proposal for a Review of Market Hours in Europe](#)

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Potential impacts:

- Reduced overlap with US trading hours if the market close is earlier, or reduced overlap with Asian trading hours if the market opens later, with potential negative impact for Asian or US trading participants
- Given major trading desks are pan-European, all main European trading venues would need to be aligned to maximise benefits
- Changes to regulatory reporting times would require regulatory approval and also commitments regarding trading on Systemic Internalisers (SIs) and OTC

Proposals:

There is a general sentiment that a coordinated approach by European exchanges would be required in order for a change to be effective.

We would therefore seek feedback on these potential proposals for Equity trading hours:

- A. 08:30 - 15:30 London time
Or
- B. 08:30 - 16:00 London time
Or
- C. 09:00 - 16:00 London time
Or
- D. 09:00 - 16:30 London time
Or
- E. Maintain the current time of 08:00 - 16:30 London time

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Questions

To help us continue a productive dialogue, we would welcome feedback from all participants on the following questions:

1. Figure 2 in the 'Appendix' section of this document provides details of the opening hours based on continuous trading hours across several global exchanges:
 - a) Equity markets in Europe are open for 8.5 hours, whereas most other global financial centres are open between 5-6.5 hours. Do you consider the longer hours in Europe a benefit to liquidity?
 - b) Alternatively, would the concentration of trading hours increase turnover and liquidity? (please cite, where possible, any studies or academic research).
2. Europe has the geographic advantage of "bridging" between Asian and North American markets. Figure 3 in the 'Appendix' section of this document shows how global equity liquidity is skewed towards the open and close of European trading hours. Would a reduction of trading hours reduce the interest of non-European investors in trading European equities?
3. What would be the anticipated impact for corporate issuers on European markets of adjusted trading hours?
4. What would the implications be for equity options and futures markets if equity trading hours were shortened?
5. Would shortened trading hours impact the participation of retail investors in the market?
6. Are there any other implications that might need to be considered when shortening market hours? (timing of Exchange Delivery Settlement Price (EDSP) auctions, impact on benchmarks, etc).
7. Finally, considering the proposals outlined above, what would you consider to be the best choice in terms of market hours? Please answer by stating one only of A, B, C, D, or E, supporting the answer with your views.

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Topic 2: Liquidity of small cap securities

Over the past few years, we have seen a reduction in the number of specialist brokers and advisors focused on small cap securities (i.e. securities outside the FTSE 350 index). This has resulted in fewer market participants providing broking and trading services in these securities. New regulations such as the Central Securities Depositories Regulation (CSDR) may further challenge liquidity provision in these small cap securities. This is because the new settlement requirements are much more prescriptive in terms of buy-ins, than currently, with a timeline which can be challenging for market makers to fulfil when a client has taken them short.

London Stock Exchange is keen to work with market participants to ensure liquidity is available through the full spectrum of securities traded on both our SETSqx and SETS platforms.

SETSqx is a quote-driven trading service which facilitates trading for AIM securities and some of the smallest Main Market securities. The service displays the bids and offers of market makers, combined with the provision of multilateral order book auctions five times a day (at 08:00, 09:00, 11:00, 14:00, and 16:30).

SETSqx auction trading data (January 2019 - September 2019 inclusive) shows that almost 57.7% of trading activity on the service occurs during the closing auction. The remainder of the activity is spread across the four earlier auctions, with trading activity generally increasing as the day progresses.

Proposal

London Stock Exchange would like to explore the potential for reducing the number of auctions held for SETSqx securities to three per day.

By reducing the number of auctions from five to three, liquidity may become concentrated in the remaining auctions, consequently providing more meaningful price discovery and trading sizes.

Questions

8. Prior to this consultation paper, were you aware of the auctions available for small cap securities available on SETSqx?
9. Do you agree that a reduction in the number of auctions on SETSqx could provide more focused liquidity?

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10. If you agree with question 9, which of the current SETSx auctions would you remove? (08:00, 09:00, 11:00, 14:00, 16:30). 08:00 and 09:00 are currently the auctions with the lowest liquidity.

11. Please propose any other actions London Stock Exchange should consider in order to promote greater liquidity in SETSx auctions.

Smaller securities traded on SETS orderbook (including FTSE Small Cap and certain AIM securities)

The Minimum Quote At Touch (MQAT) was introduced in November 2015 for certain less liquid securities quoted on the SETS orderbook. Recognising that a significant amount of trading in these names takes place off order book, the purpose of MQAT was to ensure non-economic orders did not distort the price discovery process. This in turn should produce more meaningful liquidity at best bid/offer (BBO) and reduced market volatility.

Questions

12. Are you aware of MQAT and the securities it applies to?

13. In your experience, has MQAT fulfilled its purpose? Please provide comments/examples/explanation.

14. Are there any other actions London Stock Exchange should consider which would promote greater liquidity for small cap securities on SETS?

CSDR

CSDR has the potential to impact some market participants focused on small cap securities. London Stock Exchange is keen to explore what role the regulation will play to help the market mitigate and/or address such concerns.

Questions

15. Are you concerned about the potential impact of CSDR on the liquidity of small cap securities? Please explain.

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16. If yes, have you engaged in any form of discussions with regulators on this topic? What feedback have you received?

17. What actions might be considered to help address a potential impact to liquidity? What can London Stock Exchange do to help? For example: support improved securities lending, work with CSDs to improve auto-borrow facilities, etc.

18. Finally, the introduction of MiFID II caused concerns for the quantity and quality of research on small cap securities because of changes in the rules for payment of research. Do you think this has been the case? And has this had an impact on liquidity?

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Topic 3: Auctions

London Stock Exchange's Intraday Auction was introduced on 21 March 2016 to offer an opportunity to trade blocks at a traditionally low volatility point in the day. The auction occurs each business day (except the two half-trading days on Christmas and New Year's Eve) at 12:00, as can be seen in Figure 4 in the 'Appendix' section of this document. It consists of a two-minute call period followed by a random 30 second uncrossing. During the Intraday Auction call phase and any subsequent price monitoring or market orders extensions, only Level 1 data (including indicative uncrossing price and trade size) is published.

From launch until end of September 2019, intraday auctions have attracted £3.3bn (0.10% of value traded on SETS during this time period i.e. 21 March 2016 to 30 September 2019). This market consultation presents London Stock Exchange with the opportunity to canvas market participants opinion on possible ways of improving liquidity during the Intraday Auction.

Questions

19. Are there any actions London Stock Exchange could take to improve liquidity in the Intraday Auction, such as bringing the uncross time forward to 12:00 to facilitate the use of this time as a "strike price" for benchmarking purposes?
20. Does the Intraday Auction provide a useful liquidity event for small cap or less liquid securities?
21. Should London Stock Exchange discontinue the Intraday Auction altogether?
22. Currently, during all other auctions, London Stock Exchange publishes both Level 1 (top of book) and Level 2 (full order depth) data, whereas only Level 1 data is provided during the Intraday Auction. Which Level of data do you feel is most appropriate for auctions?
 - a) Level 1 or
 - b) Level 1 and 2?Please provide explanation for your choice.

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3. Appendix

Figure 1:

Trading Service	start of Pre-Mandatory quote period / opening auction call	Start of Mandatory quote period / scheduled opening auction	Closing Auction Call	Scheduled closing auction / Start of Post Mandatory period. N.B. mandatory period does not end until the auction process including any extensions and random periods has concluded	Duration (hh:mm)
SETS	07:50	08:00	16:30	16:35	08:45
ETPs - Euroclear Bank settlement	07:50	08:00	16:30	16:35	08:45
SETSqx - with Market Makers	07:30	08:00	16:30	16:35	09:05
SETSqx - with NO Market Makers	07:50	08:00	14:00	16:35	08:45
Securitized Derivatives	08:05	08:15	N/A	16:30	08:25
Order book for Retail Bonds (Gilts)	07:50	08:00	16:30	16:35	08:45
Order book for Retail Bonds (Corporates) + (International Corporates & Other Bonds)	07:50	08:00	16:30	16:35	08:45
Order book for Fixed Income Securities	07:50	08:00	16:30	16:35	08:45
Fixed interest (SEAQ)	07:30	08:00	N/A	16:30	09:00
Gilts	N/A	08:30	N/A	16:30	08:00
European Quoting Service	*Please see source				
International Order Book - segments IOBE & IOBU	07:50	08:00	16:30	16:35	08:45
International Order Book: Shanghai-London Stock Connect (segments IOBS & IOBT)	08:50	09:00	16:30	16:35	07:45
Open Ended Funds (NAV Trading)	N/A	N/A	08:00	11:00	03:00

*Source: [Millennium Exchange and TRADEcho Business Parameters](#)

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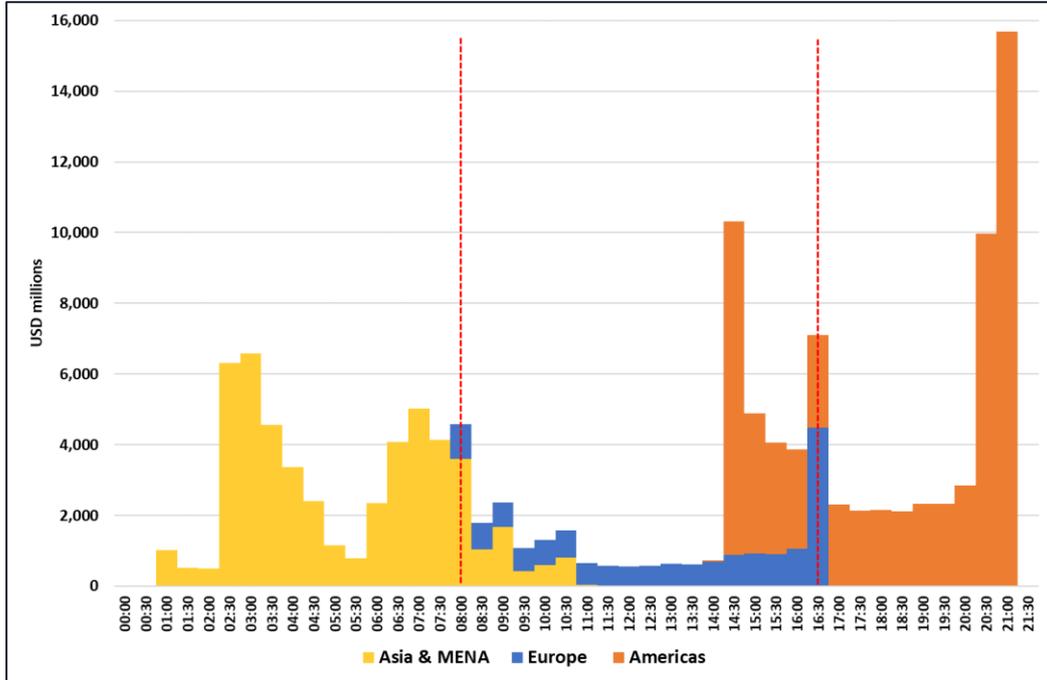
Figure 2:

Duration*	Trading Venue
≥ 4 hrs and ≤ 6 hrs	Australian Securities Exchange
	Hong Kong Stock Exchange
	NASDAQ Dubai
	Shanghai Stock Exchange
	Tokyo Stock Exchange
≥ 6 hrs and ≤ 8 hrs	Brasil Bolsa Balcão S.A.
	Johannesburg Stock Exchange
	NASDAQ
	NASDAQ OMX
	National Stock Exchange of India
	New York Stock Exchange
	Singapore Exchange
Toronto Stock Exchange	
≥ 8 hrs and ≤ 10 hrs	Borsa Italiana
	Deutsche Börse
	Euronext Paris
	London Stock Exchange
	Moscow Exchange

*Duration refers to continuous trading hours in a day, excluding any mid-day trading breaks where applicable
Source: Websites of trading venues

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Figure 3:



Above figure represents liquidity across global exchanges, as per September 2019 daily average value traded (continuous + auctions) across Equities Exchanges include: Asia & MENA (ASX, HKSE, NSE, QSE, SGX, SSE, TSE), Europe (AEX, ISE, MAD, MTA, PAR, LSE, XETRA) and Americas (NASDAQ, NYSE, TSX)
Source: Bloomberg

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Figure 4:

2019	Turquoise																				
	London Stock Exchange	Borsa Italiana	Euronext Amsterdam	Euronext Brussels	Euronext Paris	Euronext Lisbon	Euronext Dublin	OMX Copenhagen	OMX Stockholm Borsen	OMX Helsinki	Deutsche Borse	SIX Swiss Exchange	Wiener Borse	Oslo Bors	Boisa de Madrid	Bourse de Luxembourg	Prague Stock Exchange	Budapest Stock Exchange	Warsaw Stock Exchange	US Markets	
Early Closing Time	13:00	12:30	13:00	13:00	13:00	13:00	13:00	12:00	12:00	12:00	13:00	13:00	13:00	12:00	13:00	13:00	13:00	13:00	13:00	13:00	
Tue 1-Jan-19																					
Wed 2-Jan-19																					
Mon 21-Jan-19																					
Mon 18-Feb-19																					
Fri 15-Mar-19																					
Wed 17-Apr-19																					
Thu 18-Apr-19																					
Fri 19-Apr-19																					
Mon 22-Apr-19																					
Tue 30-Apr-19																					
Wed 1-May-19																					
Fri 3-May-19																					
Mon 6-May-19																					
Wed 8-May-19																					
Fri 17-May-19																					
Mon 27-May-19																					
Wed 29-May-19																					
Thu 30-May-19																					
Fri 31-May-19																					
Wed 5-Jun-19																					
Thu 6-Jun-19																					
Mon 10-Jun-19																					
Thu 20-Jun-19																					
Fri 21-Jun-19																					
Thu 4-Jul-19																					
Fri 5-Jul-19																					
Thu 1-Aug-19																					
Thu 15-Aug-19																					
Mon 19-Aug-19																					
Tue 20-Aug-19																					
Mon 26-Aug-19																					
Mon 2-Sep-19																					
Thu 3-Oct-19																					
Wed 23-Oct-19																					
Mon 28-Oct-19																					
Fri 1-Nov-19																					
Mon 11-Nov-19																					
Thu 28-Nov-19																					
Fri 6-Dec-19																					
Tue 24-Dec-19																					
Wed 25-Dec-19																					
Thu 26-Dec-19																					
Mon 30-Dec-19																					
Tue 31-Dec-19																					

Trading Hours

Continuous trading (no opening auction) 08:00
 Market Close (no closing auction) 16:30



Market Closed
 Early Close

Please note all of the above are London times. This calendar does not include Saturdays and Sundays

Source: [Turquoise Trading Calendar](#)

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4. Respondent Details

Please submit a single, combined response per entity

Type of Firm (indicate as many functions as appropriate)	Institutional Investor <input type="checkbox"/> Hedge Fund <input type="checkbox"/> Banks or Institutional Broker <input type="checkbox"/> Market Maker <input type="checkbox"/> Proprietary Trader <input type="checkbox"/> Retail Broker <input type="checkbox"/> Clearing Firm <input type="checkbox"/> Index publisher <input type="checkbox"/> Regulator <input type="checkbox"/> Trade Association <input type="checkbox"/> Individual Investor <input type="checkbox"/> Other (Please specify below) <input type="checkbox"/>
Name of Organisation/Individual(s)	
Does your organisation operate a Systemic Internaliser? (Yes/No)	
Business Function(s) Represented (we request one response per-entity representing that entity's corporate view)	
Role(s) of Individual(s) contributing	

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Location of Individual(s) contributing	UK <input type="checkbox"/> Continental Europe <input type="checkbox"/> Americas <input type="checkbox"/> Asia & MENA <input type="checkbox"/> Other (Please specify below) <input type="checkbox"/>
Name of Individual(s) contributing (optional)	
Contact details	

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5. Timetable and Contact details

Responses are requested by 31 January 2020.

Responses to questions in the 'Overview' and 'Respondent Details' sections of this document can be sent by email to: clients@lseg.com

Alternatively, they can be posted to:

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