



Response by the FIA European Principal Traders Association (FIA EPTA) to the LSE consultation on market structure and trading hours

31 January 2020

Topic 1: Market Trading Hours on the London Stock Exchange

Question	FIA EPTA response
<p>Q1: Figure 2 in the ‘Appendix’ section of this document provides details of the opening hours based on continuous trading hours across several global exchanges:</p> <p>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?</p> <p>b) Alternatively, would the concentration of trading hours increase turnover and liquidity? (please cite, where possible, any studies or academic research).</p>	<p>a)</p> <p>FIA EPTA members consider that, generally speaking, the longer hours in Europe do not seem to provide a benefit to market liquidity and observe that the shorter hours in, for example, the U.S. main trading session do not hamper market liquidity. Some FIA EPTA members do consider, however, that the current market hours timing in Europe can be beneficial during periods of heightened volatility (e.g., caused by news events).</p> <p>While the LSE’s current consultation relates to cash equities, FIA EPTA members note that various other trading products have much longer trading hours. However, a majority of FIA EPTA members considers that potential greater divergence between shares and those other products in terms of trading hours would not be problematic (with the exception of equity options and single stock futures, as explained in our response to Q4 below).</p> <p>b)</p> <p>The views of FIA EPTA members differ as to whether a reduction in trading hours will, in and of itself, lead to increasing turnover and liquidity across the session. However, most FIA EPTA</p>

members consider that detrimental consequences for turnover and liquidity are unlikely, provided the changes to market hours are in the morning session and when consistently implemented across the relevant other equity markets in Europe as well as the related equity options and single stock futures segments.

Regarding market quality in the closing session, FIA EPTA members generally consider liquidity concentration at the close to be negative for market quality as it raises costs for end-investors and may create a single point of failure, risking the market to become more fragile. Currently, European equity markets tend to suffer from spells of inactivity and thin liquidity for some stocks in the morning and early afternoon sessions. This impairs the confidence of market participants in intra-day prices. Concurrently, high closing volume may increase volatility between a stock's last traded price in continuous trading and the closing print, making it more difficult for investors to execute effectively in the auction.

Some of our members believe that shortening the trading hours will help to address the problem of liquidity concentration at the close, as they expect that shorter trading hours will lead to more trading activity and liquidity across the entire day, reducing the attractiveness of the close as a moment to execute. However, not all FIA EPTA members agree with this analysis as they consider that shorter trading hours will not change the underlying factors which cause liquidity to concentrate at the close, i.e., the difficulty for many participants to have a full view of the market in the absence of a real-time, post-trade consolidated tape, leading them to favour the closing session so as to evidence best execution.

Regarding market quality in the opening session, some of our members believe that a later opening will enable firms to more effectively consume overnight news and issuer announcements, which may translate in a more lively morning session. However, not all of our members are convinced that such benefits will materialise in practice.

All things being equal, the majority of FIA EPTA members considers that life-balance considerations should be the most prominent reason for reducing trading hours (by means of a later opening). However, some of our members feel less strongly about this aspect due to the highly automated nature of their operations and/or because of how they have organised their operations to enable trading across multiple time zones and products.

<p>Q2: 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?</p>	<p>Given the current limited existing time-overlap with trading in the APAC region, FIA EPTA members generally do not expect material detrimental effects from shortening the trading hours in the morning. This situation might have been different had it currently been the case that greater time overlap had existed between APAC and Europe (i.e., if European markets would open earlier than now).</p> <p>By contrast, many FIA EPTA members consider the time overlap with the US in the afternoon session to be essential for market quality and, therefore, we would oppose a reduction on that side of the trading session.</p> <p>Separately, FIA EPTA members consider that the interest of non-European investors to allocate risk capital to European markets is highly dependent on the over-all competitiveness and economic attractiveness of the European time zone. Hence, we encourage the LSE to continue its efforts in supporting policy initiatives such as the Capital Markets Union (CMU) as well as potential future comparable UK policy initiatives.</p>
<p>Q3: What would be the anticipated impact for corporate issuers on European markets of adjusted trading hours?</p>	<p>FIA EPTA members would expect the impact for corporate issuers to be limited.</p>
<p>Q4: What would the implications be for equity options and futures markets if equity trading hours were shortened?</p>	<p>FIA EPTA members consider it key that the core trading hours for equity options and single stock futures should remain aligned with those for the underlying shares. These markets are intricately linked; liquidity in the equity options and single stock futures markets is dependent on the underlying stock markets being available and firms need access to all of those markets at the same time in order to hedge. If trading hours for the shares segment are changed, then the same change should be implemented, therefore, for equity options and single stock futures. While continuous trading hours for the core, continuous trading session may be adjusted to align with the shares segment, we would anticipate no change for the pre- and post-trading sessions.</p>

	<p>Other ETD markets, such as for index futures, operate very much in a self-sufficient manner in relation to the shares segment, and some very much as a near-24 hour market. FIA EPTA members would anticipate, therefore, no change here in terms of trading hours.</p>
<p>Q5: Would shortened trading hours impact the participation of retail investors in the market?</p>	<p>Generally speaking, FIA EPTA members believe the impact for participation of retail investors in the lit, public equities market will be limited. However, some of our members are concerned that as a consequence of shorter exchange trading hours for shares, retail volume may leak away to other venues which may opt to retain longer opening hours, to other trading environments such as systematic internalisers, or to different (synthetic) products such as e.g., CFDs.</p> <p>To ensure consistency, we believe that in case the LSE decides to change its trading hours, harmonisation should be sought with other European equities exchanges and (as per our response to Q4 above) that changes should include the core trading hours for equity options and single stock futures.</p>
<p>Q6: 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).</p>	<p>FIA EPTA members do not see any other implications and consider there to be no need to change current practices, including in respect of EDSP auctions.</p> <p>By way of background in relation to EDSP auctions, we find that current market practice, where these auctions are spread out in time, enables risk managers and traders to prudently manage their books in each product and assess the fair value at each options expiry which is conducive to orderly market functioning and market quality.</p> <p>Also, the current practice of spreading out expiry times for different products is beneficial from a turnover perspective and to help differentiate the various products.</p>
<p>Q7: Finally, considering the proposals outlined above, what would you consider to be the best choice in terms of market hours?</p>	<p>A majority of FIA EPTA members supports shortening the morning session, with option D (9h00-16h30 London time) capturing the broadest balance of views. If the LSE were to</p>

Please answer by stating one only of A, B, C, D, or E, supporting the answer with your views.

change its trading hours, our members believe that to be effective exchanges should implement these changes in a harmonised and consistent fashion across relevant equity markets in Europe as well as for the continuous trading sessions for equity options and single stock futures (as per our response to Q4).

Without such harmonisation, the benefits proposed by the shorter trading period at the LSE may not be felt more broadly, as market participants would still need to arrive earlier for European opening hours. Also, divergence in terms of trading hours may introduce new and undue complexity in the markets such as raising frictional costs and additional operational and execution risk for participants (including retail investors). Therefore, we would encourage the LSE to work closely with FESE and relevant individual exchanges and MTFs to seek a harmonised and consistent approach.

Further, FIA EPTA members would consider it prudent to implement the shortening of trading hours initially for a pilot period of one year so that the impact can be monitored and assessed.

Finally, we would take the opportunity to suggest that further harmonisation of exchange holidays across the different European markets would greatly help with achieving many of the same objectives targeted currently.