Response to LSE Consultation on Market Structure and Trading Hours N18/19

Respondent Details

Please submit a single, combined response per entity Type of Firm (indicate as many functions as appropriate)	Institutional Investor ☐ Hedge Fund ☐ Banks or Institutional Broker ☐ Market Maker ☐ Proprietary Trader ☐ Retail Broker ☐ Clearing Firm ☐ Index publisher ☐ Regulator ☐ Trade Association ☑ Individual Investor ☐ Other (Please specify below) ☐
Name of Organisation/Individual(s)	UK Individual Shareholders Society (ShareSoc) Cliff Weight Mark Bentley
Does your organisation operate a Systemic Internaliser? (Yes/No)	No
Business Function(s) Represented (we request one response per-entity representing that entity's corporate view)	N/A
Role(s) of Individual(s) contributing	Director
Location of Individual(s) contributing	UK☑ Continental Europe ☐ Americas ☐ Asia & MENA ☐ Other (Please specify below) ☐

Contact details [redacted]

Overview

ShareSoc is the leading independent organisation representing individual investors in the UK, with over 5,000 members. Our responses are based on feedback from our members and the opinions of our directors, who are highly experienced individual investors.

Topic 1: Market Trading Hours on London Stock Exchange

Question 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).

a) We are not aware of any evidence that the longer hours in Europe are a benefit to liquidity.

b) The concentration of market hours will increase turnover and liquidity on many stocks. This is because liquidity will be focused into a shorter time frame, therefore we anticipate spreads will be narrower and further increase liquidity and turnover. Retail investors frequently report to us that they are deterred from trading due to wide spreads in small- and mid-cap stocks.

Question 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?

Figure 3 shows that liquidity of European exchanges is principally skewed towards the close, with little evidence of significantly greater liquidity at the open. However, we believe that the extra liquidity at the close is principally due to traders wishing to close out or complete daily positions, rather than to overlap with N. American markets. This is evidenced by the liquidity spike in N. American markets at their close, when they do not overlap with either Asian or European markets. Hence we do not believe that a change to opening or closing hours will have a negative impact on liquidity.

Question 3

What would be the anticipated impact for corporate issuers on European markets of adjusted trading hours?

We do not anticipate any impact.

Question 4

What would the implications be for equity options and futures markets if equity trading hours were shortened?

No comment, as there is little retail participation in futures and options markets.

Question 5

Would shortened trading hours impact the participation of retail investors in the market?

Shortened trading hours would impact the participation of retail investors in the market positively.

Retail investors make up the vast majority of dealing in the secondary market (measured by number of trades) and would benefit from a delayed start, which would in turn benefit issuers.

As the Regularly News Service announcements begin at 07:00 this means private investors must be ready to begin reading and researching at this time.
Currently, private investors and indeed all market participants only have 50 minutes before the opening auction begins at 07:50, with the opening bell at 08:00.

A private investor who has several shareholdings reporting in that day may be stretched for time to accurately make what they feel are optimal decisions. This time pressure is compounded with any commute or family duties. By increasing the amount of time before the opening bell, this gives everyone a better opportunity to properly digest market news.

This in turn means a more efficient market, which increases the overall quality of the market. This would be to everyone's benefit and increases the attraction of a London listing.

Over the last few years, the London Stock Exchange has seen a decline in the number of securities listed on both the Main Market and AIM. It would be in all investors' interest to see the London Stock Exchange be an attractive place to list a company. A more liquid market would be more effective and attractive to issuers.

Question 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).

No comment.

Question 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.

We believe that option B (08:30-16:00 London time) is the best option for the reasons given in answer 5. These hours would still provide reasonable overlap with Asian and N. American markets.

Shorter trading hours will focus and increase liquidity, narrowing spreads, and therefore improving the quality of the market making it a more attractive place to list.

Shorter trading hours will reduce the stress and strain on both professional and retail traders and investors, as currently 8.5 hours without a single break means lunch is eaten at desks staring at screens as otherwise one can miss out or even see positions move against them. We also suggest that the LSE considers introducing a one hour "lunch break" to address this, say between midday and 1pm, when markets are closed, with auctions either side of the lunch break.

Reducing trading hours is a long overdue step in improving mental health and stress in market participants' personal lives.

Topic 2: Liquidity of small cap securities

Question 8

Prior to this consultation paper, were you aware of the auctions available for small cap securities available on SETSqx?

Yes, but we believe that many individual investors are not aware, principally because they are unable to access the auctions through their brokers/platforms. See our response to question 11.

Question 9

Do you agree that a reduction in the number of auctions on SETSqx could provide more focused liquidity?

We agree that a reduction in the number of auctions on SETSqx could provide more focused liquidity. This is because a reduction would mean there are fewer opportunities to bid for stock and to put stock up on the ask. This would, in theory, mean increasing bidding and offering in the fewer auctions available and increase the prospects of an uncrossing.

More uncrossing would mean more liquidity and in turn a more efficient market.

Question 10

If you agree with question 9, which of the current SETSqx 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.

We would like to see the current 09:00 and 14:00 SETSqx auctions removed. This is because there should be an opportunity for traders and investors to participate in an opening auction and closing auction.

The opening auction of 08:00 (or 08:30 if our preferred market hours option B is selected) along with the auction at 09:00 are currently the auctions with the lowest liquidity – perhaps this is because there are two auctions within quick succession followed by another two hours later. Removing the 09:00 auction will focus liquidity into both the 08:00/08:30 and 11:00 auctions.

By removing the 14:00 auction, this again will push liquidity into the 11:00 auction and the 16:30/16:00 closing auction, thereby increasing the chances of uncrossing.

Question 11

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

Currently, SETSqx auctions have very little liquidity. We believe the awareness and use by retail investors is very low.

The LSE could incentivise retail brokers to implement access to SETSqx auctions, and then for brokers to educate their customers. Very few mainstream UK retail brokers/platforms currently provide access. ShareSoc would also be delighted to collaborate with the LSE in educating individual investors about using SETSqx auctions, if mainstream platforms/brokers made that facility widely available.

More liquidity in SETSqx auctions should also encourage market makers to tighten their quoted spreads, as they should find it easier to cover their positions in those auctions as well, reducing the risk of holding an unbalanced book for a short period. Wide quoted spreads are a big deterrent to trading and thus impact overall liquidity.

Time In Force of GTD should be allowed, as few individual investors are likely to re-enter their orders every morning. Allowing fill or kill orders in SETSqx auctions would also be desirable, as partial fills, after deduction of commissions, may be uneconomic for individual investors. Algorithmic traders make partial fills of orders placed by individual investors more likely.

The Auction order book is only visible during auction calls. It would encourage order entry if the order book was visible at all times.

Question 12

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

No. We do not believe there is much awareness of MQAT amongst individual investors, as few have DMA, as described in our response to question 11 above.

Question 13

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

No comment.

Question 14

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

As per our response to question 11, the very poor availability of DMA for retail investors means that very few are able to trade directly on SETS. To increase SETS liquidity, it is essential that many more retail brokers/platforms offer DMA for equities. Fill or kill limit orders are very important, especially during auctions, as DMA trading is deterred when retail investors frequently encounter uneconomic partial fills. They would also deter algorithms from “front running” retail orders. ShareSoc will be contacting leading retail platforms, to discover why they do not currently offer DMA and would appreciate the LSE’s co-operation in ensuring that it is easy and economic for those platforms to offer DMA.

Question 15

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

We can see no clear reason why CSDR should impact the liquidity of smallcap securities. On the contrary, dematerialisation of certificated holdings should make it easier to trade those holdings, improving liquidity. But it is essential that the UK implementation of CSDR preserves all the rights that certificated, directly registered, shareholders enjoy. Unless rights are preserved, there will be a lack of trust/confidence in dematerialised securities.

Question 16

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

We are liaising closely with the Law Commission in its review of intermediated securities legislation, and with BEIS. There appears to be broad acceptance of our concerns regarding shareholder rights.

Question 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.

We would like the LSE to support our submissions to the Law Commission and to press for the necessary legislative changes to be implemented.

Question 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?

Access to broker research for individual investors has been poor historically, but we perceive that MiFID II has driven more issuers to commission non-independent research, which is accessible and of value to individual investors and encourages trading. So, we believe that the impact of this aspect of MiFID II has been positive for liquidity.

Topic 3: Auctions

Question 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?

No comment.

Question 20

Does the Intraday Auction provide a useful liquidity event for small cap or less liquid securities?

No.

Question 21

Should London Stock Exchange discontinue the Intraday Auction altogether?

If only 0.1% of value has traded in this auction, it makes sense to discontinue it.

Question 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.

Level 1 and 2 would assist liquidity. Full order depth assists in determining where to set an auction limit price.