Euronext responds to calls for shorter trading hours

Euronext Paper

August 2020

EURONEXT

In November 2019, Euronext received a joint request from AFME and the IA[1] to consult our stakeholders on a potential reduction in trading hours and we consequently conducted a market consultation between April and June 2020.[2]

We consulted the markets we serve in Paris, Brussels, Amsterdam, Lisbon, Oslo and Dublin, as well as our international stakeholders in the City of London. More than 100 responses were received with views ranging from global institutions to individual employees. We thank those who responded.

This consultation marked an important moment of dialogue within the European financial community. The breadth and depth of the issues discussed, under the heading of trading hours, highlighted not only the complex and challenging environment in which our industry now operates, but also emphasised the need for frequent and constructive dialogue within our community.

Broadly, the consultation highlighted that large UK buy side and sell side firms were, in general, in favour of a reduced trading day, whereas proprietary trading firms and retail stakeholders did not favour a change, and continental brokers were largely indifferent.

As a major operator of pan-European market infrastructure, we have to consider both the potential economic impact on the EU and its place in financial world, as well as the interests of all our stakeholders from all our markets. The pandemic has also accelerated changes within the industry, with new working practices and automation. We believe that the diversity issues raised are not simply a consequence of a long trading day. These issues have deep root causes that warrant a more comprehensive, industry-wide response. For these reasons, we do not consider there to be a strong enough case to reduce trading hours today and we therefore do not intend to modify the current functioning of our markets.

---

1. The consultation highlighted that a majority of UK respondents were in favour of shortening the trading day, while Continental European stakeholders had more diverse and less strong views on this topic. Regardless of the uncertainty that Brexit represents, the City of London and the UK asset management industry will remain inextricably linked with EU's capital markets. As such, we must not oversimplify the debate to one of the UK vs the EU, and this decision should be made with collaboration in mind.

2. There is no conclusive evidence as to whether a shorter trading day would lead to any material reduction in overall volumes. Natural orders will need to be executed in any event, although we may see a reduction in trading between market makers. Some respondents put forward the logical argument that implicit trading costs would decrease if the same volumes are concentrated over a shorter period. We find little empirical evidence to support this claim.

3. We agree with the unanimous view that a harmonised approach across European trading platforms is a precondition for changing trading hours. Unilateral changes would have no impact on the quality of life and would simply add friction and complexity to European market structure. Furthermore, we do not believe that opening hours should form the basis of product differentiation. If a unilateral change were adopted in one market, we should be wary of a future cycle of competitive responses with little value added for end investors.

[1] Association for Financial Markets in Europe (AFME) and the Investment Association (IA)
[2] Original deadline extended from 15th March to take account of Covid-19 disruption.

4. Largely speaking, respondents sought to allay concerns from stock exchanges that volumes would migrate OTC and Systematic Internalisers (SIs). We take careful note of the current regulation, which obliges prices published by SIs to 'reflect prevailing market conditions'. However, we should not discount the possibility that alternative pre-opening matching arrangements may emerge given (a) the prospect of future regulatory divergence between the UK and EU, and (b) the time zone difference between the City of London and other European financial centres.

5. Retail investment is a strong pillar of the Euronext mission to serve the real economy and end investors. We agree with the majority of our retail brokers, who believe that later opening times would shift volumes to alternative, bilateral venues. In particular, we agree that there is traction for retail trades to be executed around the clock, but we share the concern of many asset managers that retail investors may pay higher implicit costs in the absence of reference prices.

6. We believe that the current debate overlooks the competitiveness of Europe as a global financial centre and the economic impact on the welfare of its citizens. Europe occupies a unique geographical position between the US and Asia. We took note of the suggestion of one participant to bring the trading day forward, so that Europe can create a meaningful overlap with Asia. This would be part of a more ambitious plan to position Europe as a true centre for global trading and this deserves further debate in the context of the Capital Markets Union.

7. The trading hours debate has opened the dialogue around mental health, diversity, and new talent attraction concern across the financial industry. It is reductive to assume that a trading hours adjustment is a silver bullet solution that will solve these complex problems. The issue of diversity and inclusion is one that needs to be addressed at both the organisational level, as well as collectively as an industry. We note that the Covid-19 crisis has brought about a shift to remote working and flexibility that may go some way towards improving the work/life balance of the industry.

8. We note that the debate is heavily focused on cash equity trading. The proportion of cash equities staff across the industry is small, and that number is only getting smaller, as technology and automation continues to revolutionise the traditional workflows of traders. To address the issue properly, other asset classes including fixed income and forex trading need to also be taken into consideration.

The complex issues underlying the question of trading hours will be advanced through an open dialogue that captures a broad spectrum of perspectives. Trading hours are just one component of a far larger set of questions that involve individual and collective public welfare. Our industry must be willing to adapt to the evolving needs of investors, issuers, and the societies in which we operate. However, we must evolve with caution in order to minimise unintended consequences.

We are ready to further engage with all of our stakeholders to give renewed impetus to enhancing the competitiveness of European capital markets in a way that promotes the well-being and diversity of our people. A summary of the responses received is annexed to this document.

ANNEX: SUMMARY OF THE RESPONSES TO THE CONSULTATION ON TRADING HOURS

Euronext collected feedback in the form of a consultation sent to buy side, sell side, retail brokers, post trade infrastructures and trade associations throughout Europe. This was complemented through bilateral meetings conducted as part of our standard client engagement.

A. Volumes and market quality

The consensus was that volumes, with a shorter trading day, would be concentrated into a smaller time period. Some respondents pointed to days when there are market outages on the primary market: once the market in question comes back online, the same amount of business is typically transacted.

Others noted that a shorter trading day may not make any difference because volumes are so concentrated at the close. Some speculated that shorter hours would stop the trend of concentrated markets at the close.

Many respondents pointed to lower liquidity at the start of the trading day and at lunchtime. These respondents thought that shorter hours would improve market quality, as they expect the same amount of natural liquidity to be concentrated into the smaller period, thereby reducing the implicit costs of trading. Some buy side firms asserted that a lack of intraday liquidity is bad for investors, because in some instances, they have to divert money to intermediaries to execute trades.

On the other hand, some were more hesitant to accept the market quality argument, pointing to a dearth of empirical evidence on the link between trading hours and market quality.

B. Harmonisation

An overwhelming majority of respondents stated that a precondition for changing opening hours was for all major stock exchanges to do so in a coordinated manner and that equity derivative markets would have to follow. Many respondents underlined that this was important for the competitiveness of Europe as a financial centre. Respondents firmly believed that opening hours should not be a basis for competing on service offer. Many referenced the period when unregulated tick sizes were a race to the bottom for a brief period before the industry regulated itself.

There was strong support for the opening hours of SIs to be harmonised with those of primary lit markets, either under a voluntary or regulatory basis. However, many respondents stated that SIs would remain aligned with exchanges in any event, because of their obligation to ‘reflect prevailing market conditions’ on their prices.

C. News

A minority of participants highlighted that a later opening would allow more time for traders to absorb the morning’s news flow and company announcements. Of these respondents, many UK buy side firms stated that the timings of the UK’s Regulatory News Service should peg its announcements to a standard 60 or 90 minutes before the open to ensure an equal opportunity for all to absorb the information.

D. Issuers

Issuing firms expressed largely neutral opinions on the issues underlying the debate. Most saw no compelling reason to change the status quo.

E. Retail flow

While continental asset managers and brokers did not reply overall in great numbers to the consultation, a large number of responses were gathered from retail brokers (both online brokers and more traditional high street banks). These firms were opposed to any shortening of trading hours. The consensus was that the trend is towards a 24/7 model for trading and that retail should not be constrained as to when they can trade. Most firms concluded that shorter hours would push retail business away from lit price forming markets to (i) alternative non-exchange venues to be matched against market makers, and (ii) to alternative products such as CFDs.

A number of asset managers countered these arguments, purporting that the projected improvements in market quality from shorter hours would benefit retail traders with lower implicit trading costs. Some pointed to the US market, where hours are shorter and where they benefit from a high level of retail participation.

F. European Competitiveness

Overlaps with the US and Asia featured heavily in the comments. The benefits of the US overlap were uncontested, and most saw that advancing the close would not damage this. The Asian overlap was far more controversial and viewed by many respondents as a theoretical benefit. Many argued that orders from Asia are rarely generated during the overlap, and in any event, the extent of the overlap is very minor (10 minutes with Hong Kong) and non-existent for half of the year when daylight savings time is active.

One substantial contribution put forward a broader case for Europe to take advantage of its unique geographical position by opening earlier. The participant proposed a case for a European project to leverage this and increase the attractiveness of the EU as a market to trade global equities (operating two trading shifts: the first to profit from an Asia overlap, followed by a pause and then a second session).

G. Quality of life, mental health and diversity

There was a consensus from UK respondents, who formed the bulk of replies, that the current trading hours in Europe are creating constraints on family life and difficulties in recruiting female staff. Some respondents stated that starting an hour later would not be enough to make a meaningful difference to childcare in the morning and suggested that a more meaningful impact would be obtained by finishing the trading day earlier.

A number of firms stated that shorter hours would not have an immediate impact and that people would likely continue to work long hours regardless. Rather, the proposal to shorten trading hours was seen by these respondents as a first step in a longer journey to creating more gender diversity.

Some respondents suggested that the obligation to execute more trades in a shorter time would in fact increase stress on the trading floor. Arrival times at the office were part of the consultation: traders in the UK and on the Continent reported that they arrive at the same time, in their respective time zones. Many respondents complained about their ability to attract new talent when competing against technology firms with more flexible working conditions.

A number of respondents strongly believed that these issues should not be tackled by reducing trading hours, but rather through the organisation of the firms operating within these hours. Several cited shift working practices in other industries that operate for long periods of the day. All saw the need to extract lessons on work/life balance from the current Covid-19 crisis.

EURONEXT