Press release – Trading Hours for Equities

Wednesday, 1st July 2020

In November 2019, the Association of Financial Markets in Europe (AFME), and the Investment Association (IA) called for European equity trading venues to review market opening hours across Europe.

Prior to even considering any changes to trading hours for equities, which could be detrimental to European markets, a number of complex issues need to be thoroughly examined to fully understand the effects any changes would have which includes:

- the needs of end investors;
- the interactions between different markets during the length of the trading day;
- the potential threat to liquidity;
- the cross jurisdictional impact across markets and linked products; and
- the competitiveness of the markets

These points alone suggest that a shortening of the European trading day could be a move in the wrong direction and overall detrimental to European markets and end investors.

The Covid-19 crisis has shown that regulated markets are central in times of uncertainty (high volatility and high traded volumes). Transparent, fair and resilient markets offer management of risks and liquidity across global geographies with high integrity and are of the utmost importance. From a liquidity perspective, it is important to underline that there are currently no liquidity issues on European regulated markets, especially at the beginning and at the end of the trading day, that would motivate a change of trading hours. The amount of liquidity present on European markets in the early trading hours and during the latter part of the afternoon demonstrates that the length of the trading day currently reflects investors' needs.

Shortening the trading hours of transparent lit exchange markets would further facilitate an unlevel playing field since Systematic Internalisers (SIs) or OTC markets, which already transact a large part of their business outside of exchanges' main trading hours, would not be subject to such a change.

An important issue raised is that of employee well-being. Given that SIs and OTC markets already operate outside current exchange opening hours and that their trading desks are therefore staffed to accommodate these markets and other asset classes, a shortening of the European trading day would have no impact on employee well-being. Other measures at an enterprise level would be necessary to facilitate improved work-life balance (e.g. working in shifts, flexible working hours).

The negative impact on the interplay of markets and the economy in Europe has been left aside in this debate. Consideration must be given to the enormous size of the markets and economies affected, not forgetting the symbiotic relationship between trading hours and the real economy. Given the challenge of recapitalising our economies due to the Covid-19 crisis, efficient, competitive, and well-functioning European markets are of paramount importance to ensure our economies recover from the current crisis. As such, it is crucial that they remain available for market participants according to their needs.

1. The length of the trading day in Europe caters to investors' needs

The length of the trading day in Europe is designed to serve investors as well as issuers and to cater to their preferences and trading needs. Current trading hours in Europe allow investors to manage their positions and risks over the day in very liquid, transparent and efficient central limit order books. Equity markets operated by exchanges provide concentration of addressable liquidity and transparent price formation throughout the course of the trading day. The potential negative impact that a shortening of the trading day could have on these two core functions cannot be overlooked.

The impact of a shortening of the trading day on exchanges' price formation function should also be taken into consideration. Shortening trading hours would further increase the number of trades taking place away from the lit space since only trading venues are included in the scope of the proposal whilst SIs and OTC would not be impacted. This could, in turn, restrict the exchanges' ability to act as a reference market and drive even more flow away from transparent markets which is something legislators already accept as an unintended outcome of MiFID II and are seeking to remedy in further amendments to the legislation

In such a scenario, investors would face both stale prices (no price formation) and higher costs (retail clients, for example, are exposed to wider spreads during markets' off-hours) for longer periods. Shortening trading hours would also have an impact on the flow diversity as there would be less interaction between retail and institutional flow. This would be against the spirit of the CMU and go against the objective of stimulating an equity culture in European markets.

2. The length of the trading day in Europe provides for interaction with other markets

The evolution of the length of the trading day in Europe was conceived to facilitate investors' needs and allow European markets to interact with other key markets in the US and Asia. Some markets in Europe offer longer trading hours to allow for interaction with markets in other jurisdictions. One of Europe's advantages in this regard is that it is uniquely situated to span both the Asian close and the US open. The reduction of trading hours in Europe would have an impact on this unique status and potentially offer competitive advantages to other jurisdictions to expand their trading hours to compensate for this new gap between market close in Asia and market opening in Europe. Such a decision would place European markets at a competitive disadvantage.

In addition, index and equity derivatives markets rely on price formation of the underlying cash equity markets that are operated by exchanges. Shortening the trading day for equity markets would translate into the loss of basis for index calculation and of the underlying market for equity and index derivatives (on and off exchange) when trading venues are closed. Similarly, corporate bonds markets and equity markets would not trade in a synchronised manner.

3. Trading hours need to be able to reflect the diversity of various ecosystems

Throughout Europe, trading hours have been set and, in certain cases, adapted, to suit the local ecosystem for a given market. Currently, there is a certain amount of divergence in the trading hours observed across European exchanges with some trading days being shorter and some longer[1]. This stems from regional specificities and investor preferences. Trading hours need to be able to reflect these differences and accommodate local habits, time zones, retail activity and historical solutions with the aim of maintaining liquidity distributions. Due to the demand of end investors to trade longer (and some FinTechs intending to move to a 24/7 ability to trade financial assets) we have seen an extension of evening trading hours in several local markets.

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Trading hours that cater to regional specificities and preferences are vital to achieving the objective of CMU, while still ensuring that the diversity of markets and investors in the EU can be nurtured and prosper in the future.

4. The length of the trading day in Europe does not directly impact working hours

Whilst exchanges recognise the need to ensure the well-being of employees in the industry, the length of the trading day, in itself, does not have a negative impact on the working culture of trading. Moreover, trading desks today are already operating longer than exchange equity trading hours for other asset classes and Systemic Internalisers and OTC trading. The claims of better work-life balance are based on the premise that narrowing the time frame in which stocks are traded on regulated markets would open the door to a better work-life balance in the industry. Exchanges would reject this premise and note that other measures would need to be deployed at an enterprise level to improve the well-being of employees.

Conclusion

This is a complex issue that warrants serious reflection in terms of the competitiveness of Europe, market quality, depth of liquidity, the participation of investors in the market whilst also recognising the need to ensure the well-being of employees. Given the considerations outlined above, FESE believes current trading hours best serve the interest of investors and that a shortening of the European trading day would be a move in the wrong direction and detrimental to European markets.

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Information for the Editor:

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 18 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of May 2020, FESE members had 8,778 companies listed on their markets, of which 14% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1,146 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

FESE is registered in the European Union Transparency Register: 71488206456-23.

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