

CHARTS PREPARED BY PROFESSOR COMERTON-FORDE
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Figure 1. Market share evolution for incumbent markets facing competition

This figure is provided by Equity Research Desk. It shows the market share of the incumbent market on monthly basis after the commencement of competition. The commencement of competition is shown at time zero on the horizontal axis.

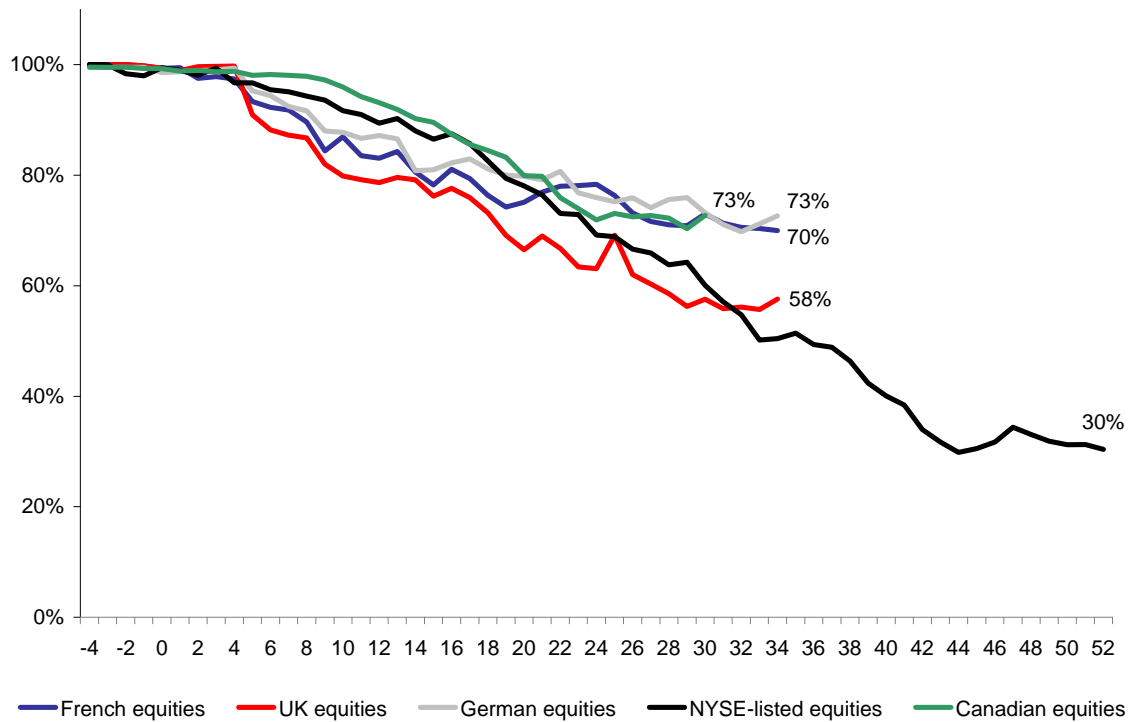


Figure 2. Retail order flow progression

This figure is an extract from a letter to the SEC from Bright Trading, a US brokerage firm. It shows the progression of retail flow in the US markets through non-transparent trading venues through to the displayed market.

Bright Trading argue that as more retail order flow is internalised the fraction of “informed” orders in the displayed market increases creating disincentives for displaying liquidity in the displayed markets.

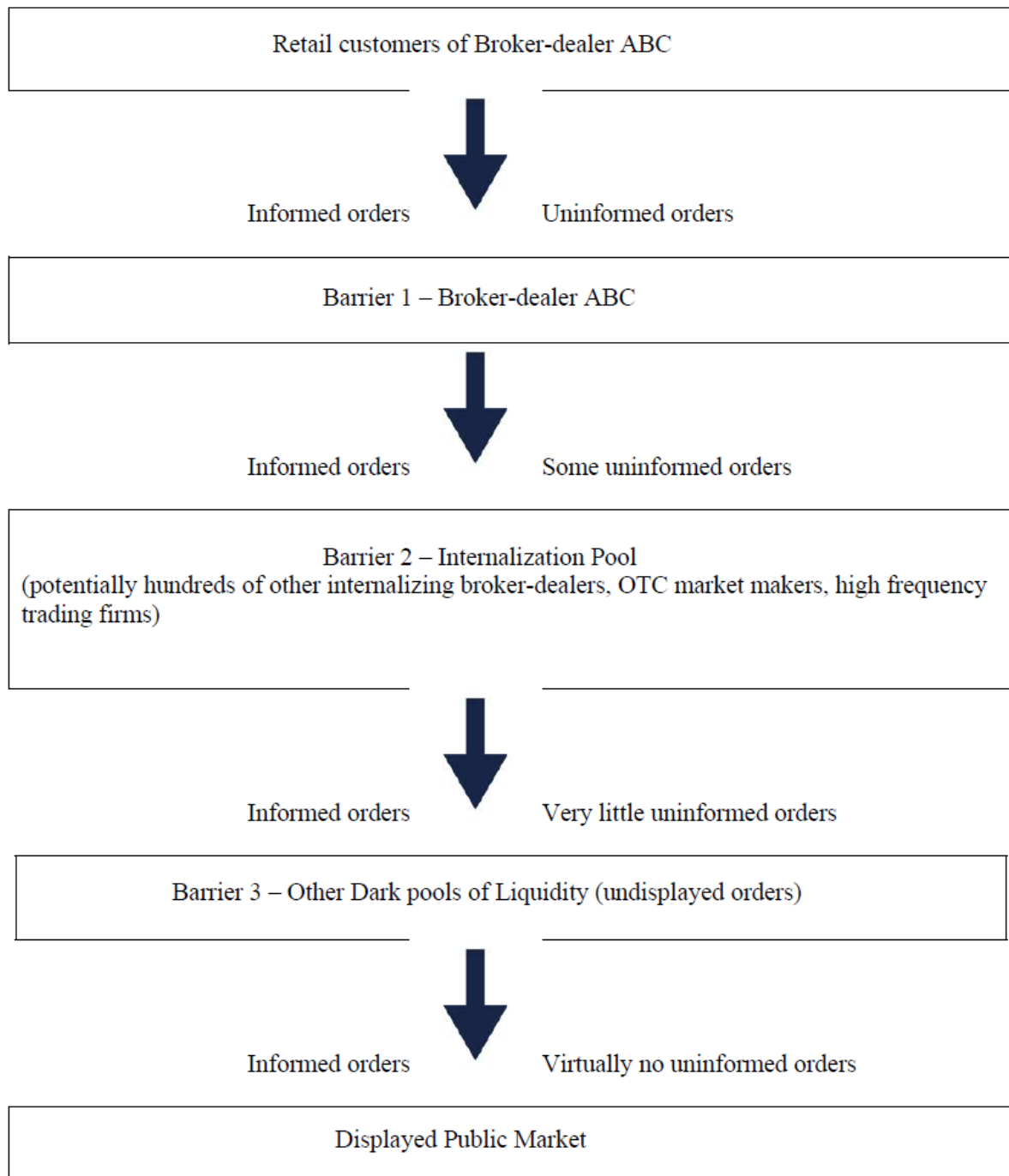


Figure 3. Market share Chi-X, high-frequency trader participation, and bid-ask spread

This figure and text are an extract from Menkveld A., 2011, High Frequency Trading and The New-Market Makers, Working paper VU University Amsterdam.

“This figure plots three time series based on trading in Dutch index stocks from January 2, 2007, through April 23, 2008. The top graph depicts the market share of the entrant market Chi-X based on the number of trades; Chi-X started trading Dutch stocks on April 16, 2007. The graph also depicts the high-frequency trader’s participation in trades, based on its trading in both the entrant (Chi-X) and in the incumbent market (Euronext). The bottom graph plots the average bid-ask spread of Dutch stocks relative to the spread of Belgian stocks. The incumbent market is the same for both sets of stocks (Euronext) but the Belgian stocks get delayed ‘treatment with Chi-X’; they started trading in Chi-X one year later (April 24, 2008). The bid-ask spread is calculated based on the best bid and ask quotes in the incumbent market but adjusts for entrant market liquidity if the entrant features strictly better quotes. For example, the adjusted ask is €29.99 if the incumbent ask is €30.00 with depth €100,000 and the entrant ask is €29.98 with depth €50,000. The bid-ask spread is calculated daily as a cross-sectional weighted average where weights are equal to stock weights in the local index.”

