

## Press Release

### **Multi-venue trading increases liquidity in EU equity markets despite duplicate orders, ESMA says**

The European Securities and Markets Authority (ESMA) has issued today an economic report on order duplication and liquidity measurement in EU equity markets. Order duplication means that traders replicate the same order on multiple trading venues at the same time. The report, which takes into account high-frequency trading (HFT), finds that overall multi-venue trading has increased the liquidity in EU equity markets. But the report also shows that 20% of orders across European venues are duplicated and 24% of duplicated trades are immediately cancelled if unmatched.

ESMA found that order duplication and immediate cancellation is used by traders to ensure execution across multiple trading venues. This strategy is commonly used for market makers' activities and by institutional investors seeking liquidity and it contributes positively to liquidity. However, for measuring liquidity the ESMA report found that duplicated orders and immediate cancellation lead to the overestimation of available liquidity in fragmented markets. This means that a certain percentage of the liquidity visible in order books is ultimately not available to the markets.

#### **More duplicated orders for HFT**

The duplication of orders varies between the types of trades, the market capitalisation of the underlying stock and the trading fragmentation in a stock. In addition, order duplication is more recurrent for HFT. ESMA's report finds different levels of duplicated orders by:

- *Type of trades*: HFT traders (34%) vs non-HFT traders (12%);
- *Market capitalisation*: 22% for large caps vs 12% in small caps; and
- *Trading fragmentation*: 23% of stocks with high fragmentation vs 13% with low fragmentation;



### **More cancellations in multi-venue stocks**

Regarding the extent to which duplicated orders are immediately cancelled, ESMA's report finds that the proportion of immediate cancellations after the trade's execution is higher than the average for:

- HFT traders (28%);
- large caps (27%); and
- stocks with high fragmentation, e.g. multi-venue trading (31%).

In general, the ESMA report shows that multi-venue trading increases liquidity in equity markets. ESMA proposes, on the basis of its findings on the overestimation of liquidity due to the duplicated orders and subsequent cancellations, to take duplicated orders into account when measuring liquidity.

### **Background**

This report follows an earlier ESMA report on the size of HFT activity in European equity markets whose findings and datasets were reused for this report. ESMA considered a sample of 100 stocks across 12 European trading venues in nine EU countries for May 2013.



## Notes for editors

1. [ESMA report on order duplication and liquidity measurement](#)
2. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

1. assessing risks to investors, markets and financial stability;
  2. completing a single rulebook for EU financial markets;
  3. promoting supervisory convergence; and
  4. directly supervising specific financial entities.
3. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board (ESRB), and with national authorities with competencies in securities markets (NCAs).

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