Exchange Initiatives and Market Efficiency: Evidence from the Australian Securities Exchange

A dissertation submitted for the Degree of Doctor of Philosophy

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Certificate of authorship

I certify that the work in this dissertation has not previously been submitted for a degree and nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the dissertation has been written by me. Any help that I have received in my research work and the preparation of the dissertation itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Signature of Student

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Abstract

The stated objectives of most market regulators are to ensure the fair and efficient operation of capital markets. In this dissertation, the focus is on the latter regulatory objective. We define market efficiency as minimising transaction costs while maximising price discovery and assess the efficiency effects of 3 Australian Securities Exchange (ASX) market design initiatives.

The first essay examines the effect of the broker anonymity rule on trading patterns. We find that following the introduction of broker anonymity, the price discovery process is inhibited as information asymmetry levels increase. We also determine that the need for stealth trading, identified by Frino et al. (2010 b), is reduced.

The second essay assesses the market efficiency effects of the Equity Research Scheme. Consistent with the prior literature, we find the stocks exhibit greater informational efficiency as a result of the Scheme. In addition to increased price discovery, we find positive liquidity and price reaction effects.

The third essay examines the liquidity and profitability effects of the ETF Marker Making Scheme. Hence, we support the fact that the scheme was effective in decreasing the bid-ask spread and increasing depth for selected stocks. Further analysis shows that market makers are net suppliers of liquidity; however, they are willing to sacrifice liquidity profits to make position-taking gains.

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