

BIG DATA & ALGORITHMIC FINANCE



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SECURING PASSIVE LIQUIDITY: THE IMPACT OF EUROPE'S FIRST ASYMMETRIC SPEED BUMP ON OPTIONS MARKET QUALITY

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Speed bumps are an innovative market design response to high-frequency trading, aiming to safeguard market makers from the possible externalities of latency arbitrage. This study evaluates the impact of an asymmetric speed bump implemented on Eurex in 2019 on market quality. Utilizing a matched database of French equity option transactions, the liquidity changes are assessed through a difference-in-difference model, taking into account possible spillover effects. The delay had significant and positive impact on Eurex liquidity, confirming that the asymmetric speed bump effectively mitigated adverse selection against liquidity providers, but it also improved the liquidity of its competing platform.

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