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The AMF has published an impact analysis on the liquidity of French equity options following the introduction of a speed bump on the Eurex trading venue

This study analyses changes in the liquidity of French equity options following the implementation of a speed bump on Eurex, the German derivatives market, in June 2019. Based on transaction data between January and December 2019, the AMF has noted the beneficial effects of such a mechanism, with improved spreads and increased depth at the best limit.

Options are derivatives that give the right to buy or sell a quantity of an underlying asset (shares, currencies, etc.) during a given period and at a pre-agreed price. These options can be used, not only for hedging purposes, but also for speculating on the price and volatility of the underlying shares.

A significant improvement in liquidity following the introduction of a speed bump

In June 2019, Eurex launched a pilot programme to provide passive liquidity protection (PLP) for market makers. The mechanism, known as an asymmetric mechanism, has the distinctive feature of slowing down by a few microseconds only those aggressive orders that consume the liquidity available in the order book, but not passive orders, i.e. orders that cannot be executed immediately. This mechanism provides liquidity providers with additional time to update their price following new information without the risk of being executed in the

meantime by high-frequency traders who have an advantage due to the faster technology at their disposal. By thus minimising latency arbitrage, Eurex intended to generate a virtuous circle that would increase the presence of liquidity providers in the order book.

After a first document describing the options market, the AMF focused its analysis on the study of speed bumps.

The analysis assessed the effects of speed bumps on both Eurex and Euronext between June and December 2019.

It was found that the implementation of the mechanism had a significant effect on the liquidity of the Eurex market and also on the Euronext market. It can be seen that:

- there is a decrease in the quoted spread, i.e. difference between the best bid price and the best offer price: for the options concerned, it varies between -10 and -13 basis points;
- an improvement in depth, i.e. a greater quantity of contracts available at the best prices at the time of the transaction measured in value from €1.55 to €1.85;
- However, the speed bump effect is not statistically significant on trading volumes, which indicates that this mechanism is mainly aimed at impacting the quality of liquidity and not necessarily at increasing volumes.

The results of this study show an improvement in the liquidity of French equity options following the implementation of the first asymmetric speed bump in Europe, demonstrating its relative effectiveness. However, this mechanism must continue to prove itself over the longer term. Furthermore, the extension of this mechanism by Eurex in August 2020 to all equity and more recently on index options traded on its platform should make it possible to measure its impact on other markets and products.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website <https://www.amf-france.org> URL = [https://www.amf-france.org/]

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