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Closing auctions: the AMF analyses their importance in trading and the explanatory factors

As part of its remit to monitor the proper functioning of financial markets, the Autorité des Marchés Financiers has published a study on the growing importance of this end-of-trading phase on the French market, which has reached one of the highest levels in Europe.

After fluctuating for a long time between 20% and 28% through to 2015, the proportion of shares traded during closing auctions has increased steadily, and in June 2019, they accounted for 41% of amounts traded on Euronext Paris for CAC 40 stocks. The close of trading comprises a call phase of roughly five minutes during which orders are bunched together in the order book without immediately giving rise to a transaction. They are then all uncrossed at the same price, the closing price.

The increase in trading during this “fixing” phase is not specific to the French market. Nevertheless, it seems to have become more pronounced in France in the last two years, which is why the regulator has decided to conduct a more in-depth analysis.

This phenomenon can be explained by several factors:

- the expansion of passive management, whose mechanism for creating and cancelling units usually uses the net asset value at the end of day and which requires trading at the closing price for exact replication;

- the best execution obligations specified in European legislation on financial instrument markets: MiFID II has reinforced requirements concerning the information provided to clients about the analysis of transaction costs and market impact. Closing call auction trading facilitates compliance with these obligations;
- a desire to avoid facing high-frequency traders, who are usually not very present at the closing auction;
- an increase in the phenomenon as a result of order execution algorithms, since liquidity attracts liquidity.

The AMF also examined the risks that could be posed by this structural shift on the Paris financial market, in particular heightened exposure to operational incidents during the call auction and reduced liquidity for the rest of the session. Nevertheless, since 2016, the AMF has not identified a significant increase in sudden price fluctuations, which would have been the sign of a clear deterioration in the price formation process.

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>

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