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Key Objectives Determining Equity Market Structure

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Objectives and Trade-offs are Central to Policy in this Area

- Policy discussions in this area can get very technical, very quickly
- This partially reflects the fact that our stock markets work well on the whole, so no one is suggesting radical overhauls, instead focusing on the mechanics
- The key for non-specialists is to focus on our overall objectives and on the trade-offs between them

Stock Ownership is Central to Modern Capitalism

- Invention of joint stock companies was critical to the creation of managerial capitalism. Together they:
 - » Raised management standards
 - » Allowed larger, more far-flung enterprises
 - » Improved opportunities for investors
 - » Improved allocation of capital within the economy

Stock Exchanges Brought Further Benefits

- Organized venues for trading shares were another important step forward
 - » Investors much prefer readily salable instruments
 - » Exchanges increase access to capital at cheaper prices
 - » Liquidity makes diversification of investments easier
 - » Trading allows stock prices to send important signals that improve allocation of capital in the economy

Four groups have different, but overlapping, objectives

- Investors
- Businesses that issue stock
- The public at large
- The operators of trading venues and related services

Objectives: Investors

- Low execution costs
- Speed
- Certainty of execution
- Fair access to the market
- Transparency on trades and bids/offers by others
- Confidentiality of their own trading intentions, especially for large investors
- Specialized investors, such as arbitrageurs, may have specific objectives

Objectives: Businesses

- Efficient, effective trading procedures that minimize the premium demanded by investors to own their shares
- Deep markets to ease the ability to issue additional shares at a good price
- Minimization of technical problems that lead to sharp share price movements

Objectives: The Public

- The public shares the objectives of the businesses that issue stock, since we want deep, efficient capital markets that avoid any unnecessary premiums in the cost of capital
- The public shares the objectives of investors, since virtually everyone is a direct or indirect investor or is otherwise affected by the stock market
- Society additionally has standards of fairness, such as the avoidance of insider trading or unfair advantages to certain investors
- Further, the economy benefits from share prices that most accurately reflect the best information available about the companies and the trading of their shares

Objectives: Service providers

- There are many service providers, with sometimes conflicting interests
 - » Stock exchanges
 - » Operators of dark pools and other trading venues
 - » Liquidity providers
 - » Information providers
- They all share an interest in a stable, efficient market, but each seeks to maximize their market share and profit

Many policy trade-offs exist

- Transparency versus confidentiality
- Free competition among trading venues versus systemic complexity
- Assurance of best price versus speed of execution
- Fairness versus many of the other objectives