MANAGED FUNDS ASSOCIATION

AIMA

Brian Schwieger
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By email: clients@lseg.com

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Dear Brian,

The Alternative Investment Management Association[1] ("AIMA") and Managed Funds Association[2] ("MFA", together with AIMA, the "Associations") welcome the opportunity to respond to the London Stock Exchange's ("LSE") consultation on market structure and trading hours ("the Consultation").[3]

The majority of the Associations' members strongly support the move to shorten trading hours on the LSE, noting that a reduction in trading hours would:

- Lead to more concentrated liquidity during the trading day, which would be positive for market functioning;

- Give firms additional time to digest research and company announcements ahead of the market opening, potentially allowing them to make more informed trading decisions on behalf of their investors;

- Improve the working environment for staff in both trading and operational roles, supporting staff wellbeing and making it easier for staff to balance work and family commitments. Over the medium term, we believe this can play a positive role in broader efforts to improve diversity, and notably gender balance, in the industry; and

[1] The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 2,000 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in hedge fund and private credit assets.

[2] Managed Funds Association ('MFA') represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has cultivated a global membership and actively engages with regulators and policymakers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

[3] Online at: https://www.londonstockexchange.com/traders-and-brokers/rules-regulations/change-and-updates/stock-exchange-notices/2019/n1819_attach1.pdf.

- Need to be implemented in a coordinated manner with trading venues across Europe to ensure that it doesn't lead to dislocation of liquidity.

We believe that setting trading hours from 09:30 to 16:30 would be the optimal approach, preserving an overlap between the UK and US markets, while giving staff greater flexibility in how they use their time in the morning – for working parents, this could mean the ability to complete the school run.

We strongly urge the LSE to work with other venues and relevant representative bodies in moving toward a shorter trading day. We believe it is important for the LSE and other European trading venues to take a coordinated approach with respect to trading hours.

We also note the importance of asset managers themselves considering how their own policies and working patterns, including shift working, can foster a more positive working culture.

In the Annex we provide our detailed responses to the questions raised in the Consultation.

Yours sincerely,

/s/ Adam Jacobs-Dean

/s/ Jennifer W. Han

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Annex

1. **A) Do you consider the longer hours in Europe a benefit to liquidity?**

No, we do not believe that longer trading hours in Europe leads to greater benefits in liquidity. Using figures obtained from Bloomberg comparing major indices (S&P500, Nikkei225, Stoxx600, FTSE100), turnover (Average value traded / Market Cap) appears to be similar across all markets, regardless of trading hours. The Nikkei225 appears to have the highest average turnover despite Tokyo Stock Exchange having the shortest trading hours (5 hours, after lunch break deducted, 9am-3pm).

Index	No. Trading Hours	Average FF Turnover
Nikkei225	5	0.55%
S&P500	6.5	0.22%
Stoxx600	8.5	0.35%
FTSE100	8.5	0.26%

1. **B) Would the concentration of trading hours increase turnover and liquidity? (please cite, where possible, any studies or academic research).**

We believe that the level of liquidity and turnover would remain the same over reduced trading hours, so per unit of time, turnover and liquidity would increase.

As noted above, Japanese market liquidity is very good despite having shorter hours. Shorter hours could make the market more efficient, with participants actively providing/consuming the same amount of liquidity over a shorter timeframe. We believe the current 8.5hrs of trading activity could easily be achieved in 7hrs. The Oslo Stock Exchange, for example, shortened its trading hours and it did not suffer a reduction in liquidity. A high concentration of volume in European stocks occurs in the closing auction (around 25% of volume on average), so removing hours in the middle of the day will unlikely have material consequences for liquidity/turnover.

Indeed, while the present situation can partially be accounted for by the shift from active to passive management, it also indicates a lack of confidence in the depth of liquidity during continuous trading. Concentrating the continuous trading liquidity in a shorter time frame should increase confidence in markets and improve the willingness to trade during the day. Shorter hours would help preserve the quality, depth, and utility of continuous trading.

2. **Would a reduction of trading hours reduce the interest of non-European investors in trading European equities?**

It is unlikely that shifting the opening and closing auctions by 1-1.5hrs respectively would dissuade international investors from trading in Europe. For example, a UK open of 09:30 would equate to 17:30 in Hong Kong (where the majority of Asian investors trading Europe are based), and a UK close of 16:30 would equate to 11:30 in New York (where the majority of

North American investors trading Europe are likely based), providing a two hour overlap with the NYSE.

If any reduction in non-EU trading were to occur, this would likely be in the morning due to the greater time zone disparity with Asian markets. However, London already opens as the Hong Kong stock exchange closes, and after the Tokyo Stock Exchange closes, thus the impact should not be significant. Furthermore, we believe that the most important overlap is with US trading hours, which in our opinion contributes a much greater share of the non-EU origin liquidity.

3. What would be the anticipated impact for corporate issuers on European markets of adjusted trading hours?

We do not envisage any impact on corporate issuers of adjusted trading hours, beyond the ability to delay RNS disclosures which currently go out from 7am (see response to question 6 regarding the need to delay RNS start time alongside the market open).

4. What would the implications be for equity options and futures markets if equity trading hours were shortened?

The equity options market is closely linked with the cash equities market. Most participants in the equity options market will be referencing and hedging in the cash equities market, so it would make sense to align the trading hours of the two. However, reducing the respective hours would likely have little impact on liquidity. Some futures markets currently trade until 21:00 and OTC markets are active 24 hours-a-day, so we do not anticipate that shortening the cash trading day by 1.5 hours would have any negative impacts.

5. Would shortened trading hours impact the participation of retail investors in the market?

No. Moreover, orders from retail investors add a very small percentage of trading to overall liquidity in the European markets – although they may be more important in AIM stocks. In any case, retail investors will continue to have the ability to place limit orders outside of market hours and, thus, are less likely to be constrained by shorter trading hours.

6. Are there any other implications that might need to be considered when shortening market hours? (timing of Exchange Delivery Settlement Price (EDSP) auctions, impact on benchmarks, etc).

<u>Coordination with Europe:</u> It is important to ensure that changes in trading hours are made in coordination with other European trading venues.

<u>EDSP auctions:</u> EDSP auctions tend to be carried out intraday, so moving the open and close are unlikely to impact them.

<u>RNS:</u> In order to generate diversity and inclusivity benefits of the shortened market hours, these shortened market hours should be passed on to trading and investment professionals.

An important way to do this would be to adjust the start time for the RNS from its current 7:00, to at least 8:00.

Benchmarks: We expect benchmarks to be able to adjust to the new market hours and cannot think of any negative implications here.

7. Finally, considering the proposals outlined above, what would you consider to be the best choice in terms of market hours? Please answer by stating one only of A, B, C, D, or E, supporting the answer with your views.

We believe that the trading day does not need to be any longer than 7 hours. To maximize the soft benefits of the time changes, which will generally relate to working parents, we believe that the adjustments need to be made in a way that actually enables the time to be used effectively. In particular, we are concerned that a half-hour delay at the start and beginning of the day would present the same problems as the current trading day for traders and investment staff with children, as schools would still open after the market, and close before the market.

Accordingly, we recommend that market hours be set from **09:30 - 16:30**. This would enable working parents to take children to school in the morning, whilst also preserving the current overlap with US. trading hours.
