



MANAGED FUNDS  
ASSOCIATION



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By email: [trading-hours@euronext.com](mailto:trading-hours@euronext.com)

15 May 2020

Dear Sir or Madam,

The Alternative Investment Management Association<sup>1</sup> ("AIMA") and Managed Funds Association<sup>2</sup> ("MFA"), together the ("Associations"), welcome the opportunity to respond to the Euronext consultation on trading hours ("the Consultation").

The majority of the Associations' members support the move to shorten trading hours on the trading venues operated by Euronext, 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 through supporting staff wellbeing and mental health and improving gender equality and work/life balance in the industry. 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
- Need to be implemented in coordination with trading venues across Europe and in a synchronised manner to prevent dislocation of liquidity.

We believe that setting trading hours from 10:30 to 17:30 Paris/Berlin/Rome time would be the optimal approach, preserving an overlap between the European and US markets while giving staff greater flexibility in how they use their time in the morning. We also note the importance trading hours may

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<sup>1</sup> 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.

<sup>2</sup> 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.



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have for asset managers in setting their own policies on working hours and the potential for fostering a more positive work culture.

We strongly urge Euronext to work with other venues and relevant representative bodies in moving towards a shorter trading day. We believe it is important for Euronext and other European trading venues, including the London Stock Exchange Group, to take a coordinated approach with respect to trading hours.

In consideration of the current environment, we urge that exchanges take a coordinated approach to shorten trading hours only after the COVID-19 pandemic subsides and regular order returns.

Detailed responses to the questions raised in the Consultation can be found in the Annex to this letter.

Yours truly,

/s/ Adam Jacobs-Dean

/s/ Jennifer W. Han

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## **Annex**

### **1.1 Liquidity**

**Would a shorter trading day concentrate or dilute liquidity? Please give examples or quote research or studies.**

AIMA and MFA believe that a shorter trading day would concentrate liquidity and that this would be positive for market functioning.

Shorter hours could make the market more efficient, with participants actively providing/consuming the same amount of liquidity over a shorter timeframe. Since the level of liquidity and turnover would remain the same over reduced trading hours, per unit of time, turnover and liquidity would increase.

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. By way of example, Japanese market liquidity is very good despite having shorter 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, 09:00-15:00).

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%

The Associations believe the current 8.5 hours of trading activity could easily be achieved in 7 hours. 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 trading hours would help preserve the quality, depth, and utility of continuous trading.

## 1.2 SMEs

### **How does the impact of a shorter trading day for SMEs differ to the impact of a shorter trading day for Blue Chips?**

AIMA and MFA believe that a shorter and more concentrated trading session would lead to enhanced liquidity and market quality and have a positive impact for both SMEs and Blue Chips.

### **Currently, some SMEs trade by double auction at 11:30 and 16:30. Would later opening / earlier closing make it necessary to also change auction times to maintain the same time period between the two auctions?**

AIMA and MFA believe that opening later would not make it necessary to also change the midday auctions timing. Better intraday liquidity on main markets will contribute to improved price discovery during the midday SME auction. The Associations are of the view that an earlier closing would make it necessary to change the 17:30 auction to occur during continuous trading hours.

## 1.3 Retail Investors

### **If the exchanges were to close earlier, would you expect to also shorten the trading day for retail investors?**

AIMA and MFA do not expect a need to also shorten the trading day for retail investors if exchanges were to close earlier.

The Associations believe that concentrating intraday liquidity by shortening trading hours will help distribute trading volume throughout the day, resulting in greater depth and tighter spreads. As market quality and efficiency improves, retail investors will benefit from enhanced trading conditions.

Furthermore, shortened trading hours are unlikely to impact the participation of retail investors in the market. Retail investors will continue to have the ability to place limit orders outside of market hours, thus are less likely to be constrained by shorter trading hours. Moreover, orders from retail investors add a very small percentage of trading to overall liquidity in the European markets.

## 1.4 Trading Activity

### **Do you expect that a shorter trading day would reduce, increase or have no effect on the volume of your trading activity? Please give examples.**

AIMA and MFA expect that a shorter trading day would have no effect on the volume of firms' trading activity.

Under current conditions, the typical continuous trading session in Europe can be described as long and patchy. Volumes on EU markets are subject to a regular cycle characterised by thinner liquidity and wider spreads at the open, low volumes and limited price discovery until the afternoon, steadily increasing volumes as the afternoon progresses and a high-volume closing auction. The periods of minimal trading activity throughout the day undermine investor confidence in the intraday price

discovery process contributing further to lower order placement. Shortening the continuous trading session would help distribute volume throughout the trading day rather than reduce trading activity.

Moreover, the Associations think it is unlikely that pushing back the market open by 1.5 hours would dissuade international investors from trading in Europe or reduce the volume of firms' trading activity on behalf of foreign investors. For example, a market open of 10:30 Paris/Berlin/Rome time (DST) would equate to 16:30 in Hong Kong (where the majority of Asian investors trading Europe are based), and a close of 17:30 Paris/Berlin/Rome time (DST) would equate to 11:30 in New York (where the majority of North American investors trading Europe are likely based), providing a 2-hour overlap with the New York Stock Exchange.

Firms rarely experience a reduction in volumes when markets alter in response to regulatory or technological changes and instead find different methods of sourcing volume. For example, following the introduction of MiFID II, firms saw a rise of crossing venues and a significant rise in periodic auction volumes and the use of systematic internalisers and block trading. The Associations anticipate that shortening the trading day would be no different.

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, since European markets already open as the Stock Exchange of Hong Kong closes and after the Tokyo Stock Exchange closes, the impact of any reduction of trading volume should not be significant. The Associations believe that the most important overlap is with US trading hours, which contributes a much greater share of non-EU origin liquidity.

## 2.1 Synchronisation of Trading Hours

### **Would there be any benefits to venues opening or closing at different times?**

AIMA and MFA do not believe there would be any benefits in venues opening or closing at different times.

It is important to ensure that changes in trading hours are made in coordination with the London Stock Exchange Group and other European trading venues (including in Switzerland) and implemented in a synchronised manner to prevent dislocation of liquidity.

In addition, the Associations do not expect that a shortening of trading hours will result in any increase in off-exchange trading outside continuous trading hours. Market participants generally favour trading when markets are open due to greater transparency, liquidity, pricing, and risk. Systematic internalisers and MTFs also align their trading hours with the opening hours of exchange trading.

## 2.2 Benchmarks

### **What changes would be required for benchmark calculation in the case of trading hours being modified?**

AIMA and MFA expect benchmarks to be able to adjust to the new market hours without any negative implications.

## 2.3 Settlement and Reference Price

### **Do you expect different trading hours to have a positive, negative or no influence on the calculation of the reference or settlement price?**

AIMA and MFA expect different trading hours to have no influence on the calculation of the reference or settlement price. Since Exchange Delivery Settlement Price auctions tend to be carried out intraday, moving the open and close times are unlikely to impact them.

## 2.4 Options Trading

### **Would you expect to trade more or fewer options contracts if the underlying were trading for a shorter period of time?**

AIMA and MFA expect fewer options contracts to be traded when the cash equity market closes but do not expect an overall reduction in the volume of options contracts traded.

The Associations expect the volume of options contracts traded to be spread over a shorter period or aligned with equity market hours. The equity options market is closely linked with the cash equities market as most participants in the equity options market reference and hedge in the cash equities market. It would make sense to align the trading hours of the two to minimise any impact on the volume of options contracts traded. Reducing the respective hours would likely have little impact on liquidity.

## 2.5 Futures Trading

### **Would you expect to trade more or fewer futures contracts if the day was shorter?**

AIMA and MFA do not anticipate that shortening the cash trading day by 1.5 hours would have any negative impact on futures contracts, as some futures markets currently trade until 21:00 and OTC markets are active 24 hours-a-day.

## 2.6 Equity and Economic Research – Publication

### **How much of a concern would it be to run an opening auction at the same time as the publication of economic indicators? How can this be mitigated?**

AIMA and MFA find that the short timeframe in Europe between the release of important information and the opening of the market may hamper accurate price formation at the open, which

could lead to volatility and higher costs. The Associations believe that improvements in market quality and liquidity arising from more concentrated market hours would have a positive investment effect for corporate issuers.

Currently many corporates in Europe publish their quarterly earnings between 07:00 and 07:30. Often, there are multiple releases per sector each day. Given the usual timing of these releases EU-based investment professionals have limited time - approximately 30-60 minutes - to digest this new information and incorporate it into their valuations. Many of the follow-up earnings calls happen during or post-market open. As a result, EU market participants may not be adequately informed when markets open. This can increase volatility and implicit trading costs.

By contrast, in the US, investors have two or more hours to analyse earnings releases prior to the open, leading to potentially more informed decisions and better price discovery at the open. Corporate earnings are released no later than 90 minutes before the open or during after-market hours. This gives market participants greater time to process and analyse the information and may lead to better, more informed investment decisions.

Shortened trading hours in the EU would similarly provide 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. An earlier close would also allow more time for corporate and secondary stock placings, which would benefit both corporate issuers and investors.

## 2.7 Post Trade

### **What are the implications for post trade of shortening the trading day by either opening later or closing earlier?**

AIMA and MFA believe that there would not be any adverse implications for post-trade mechanisms if trading hours are shortened.

The Associations are of the view that shortening trading hours would, in fact, allow more time to carefully manage complex post-trade mechanisms, such as delivery against payment and settlement.

## 2.8 Middle Office, Back Office, Settlement Teams

### **Are Middle Office and/or Back Office operations linked to the closing times of the stock exchange (i.e. do MO and BO operators have to wait for the close of the market to begin their post-trade operations)?**

AIMA and MFA find that Middle Office and/or Back Office operations are linked to the closing times of the stock exchange.

The Associations believe that a later market opening and an earlier market close will grant traders and operational staff more time to carry out the thorough procedures and pre-open system checks that ensure the resilience and integrity of markets and trading infrastructure.

### 3.1 Open Later (Continuous Trading)

**Preferred opening time:**

09:30 London time – 10:30 Paris/Berlin/Rome time

### 3.2 Close Earlier (Continuous Trading)

**Preferred closing time:**

16:30 London time – 17:30 Paris/Berlin/Rome time

### 3.3 Keep Opening Auction, Delay Continuous Trading

**Would you be in favour of the following opening process: *Opening auction at 08:00 London time – 09:00 Paris/Berlin/Rome time then continuous trading at 09:00 London time – 10:00 Paris/Berlin/Rome time***

AIMA and MFA do not see any advantages to changing the opening process to *Opening auction at 08:00 London time – 09:00 Paris/Berlin/Rome time then continuous trading at 09:00 London time – 10:00 Paris/Berlin/Rome time*, since firms have staff coverage throughout operating hours.

### 3.4 Lunch Break

**Would you be in favour of the following alternative: *Market closed between 11:00 - 12:00 London time – 12:00 - 13:00 Paris/Berlin/Rome time***

AIMA and MFA do not see any advantages to the alternative of *Market closed between 11:00 - 12:00 London time – 12:00 - 13:00 Paris/Berlin/Rome time*, since firms have staff coverage throughout operating hours.

### 4.3 Mental Wellbeing Improvements

**Do you think that opening later will improve gender equality, mental health issues and work/life balance in the industry?**

AIMA and MFA believe that shortening market hours and opening later would improve gender equality, mental health issues and work/life balance in the industry.

Opening later would improve the working environment for staff in both trading and operational roles, support staff wellbeing and make it easier for staff to balance work and family commitments. To maximise the soft benefits of opening later, which will generally relate to working parents, the Associations believe that the time adjustments need to be made in a way that enables time to be used effectively. Solely a delay at the start 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.





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Setting trading hours from 10.30 to 17.30 Paris/Rome/Berlin time would be an 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. 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.

In order to generate diversity and inclusivity benefits of 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 07:00, to at least 08:00. 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.

#### **4.4 Open Comment**

**Please use the space below for any additional comments or input you would like to make.**

AIMA and MFA do not believe that modified trading hours will impact corporate issuers on European Markets beyond the ability to delay RNS disclosures, which currently go out from 07:00 (see response to section 4.3 regarding the need to delay RNS start time alongside the market open).