

AEM RESPONSE TO EURONEXT CONSULTATION ON TRADING HOURS

This Note, prepared by AEM, the Portuguese Issuers Association, presents answers to the “Trading Hours Consultation” issued by Euronext.

We understand that Euronext is launching this consultation following the recent call from the Association for Financial Markets in Europe and the Investment Association to shorten and harmonize operating hours for European stock exchanges, for the hours between 9am and 4pm GMT.

The consultation asks some questions related to technical details for the shortening of trading hours, but it does not take into consideration a number of crucial issues.

In our view the assessment is ill conceived, and therefore we encourage Euronext to not take the consultation at face value and to not make any decisions on the matter at hand based uniquely on the answers to the consultation.

As Euronext is aware, a potential change in trading hours would necessarily mean a change in the practices of actors, thus, affecting trading operations and volumes in an unpredicted way.

Therefore, it is our view that, at the very least, before deciding to move forward with changes on trading hours, Euronext should publish a detailed report on the matter.

This report should be supported by evaluations and impact assessments, should review all the possible impacts, describing the exact cases where it would work and not work, and why, while focusing on what is truly relevant to inform decision-makers and answering the key questions.

The conclusions of this “impact assessment report” should, then, be supported by the analysis of stakeholder views, and not the other way around.

Only once this document has been published a new consultation will be acceptable, and indispensable.

In the end, conclusions should be substantiated with evidence (*e.g.* data, estimations, scientific findings, stakeholders’ views) together with the appropriate study of existing and referenced literature.

Notwithstanding the comments above, below we summarize our answers to the specific questions asked in the consultation.

However, it is not possible to review the specific questions of the present consultation without first reviewing its foundation.

The consultation focuses on certain details but does not make reference to aspects that are crucial to allow the respondents to have a larger view of the impacts and multiple point of views.

First, as Euronext manages a number of European national markets, it is very important to respondents to be informed of the main related impacts for each market; hence, Euronext must ensure that the consultees are equipped with relevant and timely information on which to base its answers.

For example, in the case of the Portuguese market, the scope of the information to be provided by Euronext should have included detailed data regarding volumes, turnover, liquidity and volatility, and its distribution along the trading day for different classes of securities.

Also, when presenting different options or alternative sets of opening and closing hours, it is very surprising that Euronext does not include the possibility of retaining the existing 8am to 4.30pm arrangement (or, by the way, the possibility of a larger period).

This is another important failure of the questionnaire, more even so because in its letter Euronext recognizes that its assessment should also take into account the increasing demand from European retail investors for longer trading hours, so that they can access the financial markets outside their own office hours.

Further to that, the questionnaire is not accompanied by any kind of evidence, comprising data/information and literature, to help support evaluations or decisions.

For all the reasons described above, consultees are not in position to understand to what extent different options would meet their objectives, with what benefits or detrimental impacts, at what cost, and with what implications for different stakeholders, and at what risk of unintended consequences.

These factors make it impossible for the consultees to know exactly the real anticipated impact of choosing between one of the proposed options.

Briefly researching the subject, we were not able to find any consensus regarding the impacts of a possible shortness of trading hours, not in specialized literature nor in documents presented by stakeholders in different occasions or to other consultations.

More importantly, the questionnaire does not address the crucial aspect of European trading hours overlap with United States and Asian trading hours.

This is a matter of utmost importance.

Europe has the geographic advantage of “bridging” between Asian and North American markets and a reduction of trading hours can reduce the interest of non-European investors in trading European equities.

This is especially true and relevant in what concerns the time overlap with the US in the afternoon session, which seems essential for market quality.

Finally, the assessment does not include any specific question regarding what the anticipated impact of adjusted trading hours would be for corporate issuers on European markets.

This is truly perplexing.

It is true that, in some cases, one can assume that there may potentially be some benefit for corporate issuers, for example when making announcements prior to market opening; but based on scarce or inexistent information it is difficult or impossible to present a fundament answer.

In any case, we must note that, if trading hours are shortened, of course, a reduction of the fees charged to corporate issuers, by the stock exchange and other parties involved in trading, will have to take place.

At the same time, Euronext must be aware that shorter exchange trading hours for shares may cause retail volume to transfer to other venues which may opt to retain longer opening hours, or to other trading environments such a systematic internalisers.

Without any further information, we have to note that shortened trading hours may have a detrimental impact for the participation of retail investors, as a reduction in trading hours would have a negative impact on their ability to access the market.

In the case of the Portuguese market, shortened hours may have significant negative implications in reduced liquidity, namely in what concerns smaller caps and in less liquid stocks.

As a conclusion, and again, without further information, we believe the envisaged reduction of 90 minutes in European markets would not bring any significant benefits to the market structure, may dilute liquidity, may not allow adequate time to absorb and react to corporate

announcements, and, as a whole, will be detrimental to transparency, fairness and resiliency of the market.

Also, it seems to be sensible to consider, and investigate, if such an initiative will have the unintended consequence of concentrating the trade and market activities outside the working hours and outside of the regulated markets, increasing the use of dark pools and OTC which would be detrimental for markets, issuers and investors.

Hence, as explained above, we encourage Euronext to further assess, study, and investigate the impacts of shortening trading hours before making any decision regarding this subject, and to come back to respondents with new and significant information.

Anyway, at this point, because there is a risk that shortening trading hours will negatively impact the Portuguese market and Portuguese companies, AEM would recommend maintaining the current hours.

One must also keep in mind that, in any case, if Euronext were to change its trading hours, it should implement such changes in a harmonized and consistent way with all other equity markets in Europe.

Therefore, we would encourage Euronext to work closely with FESE and individual exchanges and MTFs to seek a full harmonized and consistent approach.

If it is decided to change the hours, that decision must be justified by an impact assessment paying particular attention to the impact on mid and smaller caps that are already suffering from a lack of liquidity.

Further to that, the Portuguese Issuers Association considers that any trading hours change, if decided, must be implemented within the scope of an interim and pilot program of no more than one year so that the impact can be monitored and assessed whilst retaining the ability to reverse if unintended consequences emerge.

This said, we must emphasize that, in our view, and in any case, the main priority for Euronext must be to present plans to improve liquidity, namely the liquidity of smaller and mid-cap securities, and to strengthen trading in all its national markets and listed securities which have seen a reduction in the number of specialist brokers and advisers.

Namely, we are highly concerned about the potential impact of CSDR on the liquidity of mid and small cap securities, and price volatility, as its introduction is likely to have a significant impact on the ability of smaller listed companies to raise capital, as well as on the functioning

of capital markets for these companies, as market making in less liquid securities may become uneconomical.

At the same time, the introduction of MiFID II caused concerns for the quantity and quality of research on small and mid-cap securities because of changes in the rules for payment of research, exacerbating the reduction in both the quantity and quality of research on such securities with strongly adverse impact on liquidity within small and mid-cap stocks.

These are only two examples of subjects which seem much more relevant than the question about shortening trading hours and where we expect Euronext to focus and work together with corporate issuers in order to help us stop the further decline in the use of public equity markets, creating better incentives for investors and encouraging companies to seek listing, or remain listed, on stock exchanges.

EURONEXT QUESTIONNAIRE

1. IMPACT

1.1 Liquidity

Liquidity is not evenly spread out across the trading day. It varies based on a number of different elements that all influence liquidity one way or another. The length of the trading day is one of these elements, and we are looking to better measure the impact that trading day length can have on liquidity.

- *In your view, what are the main elements impacting liquidity?*

Without further evidence available, we believe that information, number of markets participants, attractiveness of the market, and trading/custody/settlement costs are the main factors.

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

Without further information, we do not believe that shorter trading hours would inevitably increase demand for any securities.

On the opposite.

Shorter trading hours may have detrimental consequences for turnover and liquidity, and exacerbate volatility, especially in what regards the trading of mid and small caps or securities with already low trading volumes.

It is possible that compressing the demand into a shorter time period might improve the quality of price discovery but there is also a risk of increasing price volatility.

Further to that, there is no evidence that such a change would have the benefit of concentrate liquidity within the new trading hours, and the current market hours in Europe seem to be beneficial during periods of heightened volatility (e.g., caused by news events).

Of course, a shorter trading day will also mean less opportunities for investors to react to market news and events.

All things being equal, shorter trading hours will not change the underlying factors that cause liquidity to concentrate at the close, *i.e.*, the difficulty for many participants to have a full view of the market in the absence of a real-time, post-trade consolidated tape, leading them to favor the closing session so as to evidence best execution.

Therefore, for any of the contemplated aspects mentioned above, one would not know what exactly would happen without further assessment, more profound study, investigation, and evidence which are completely lacking at this point of discussion, and we again encourage Euronext to identify the relevant examples, research and studies, and to come back to consultees with meaningful information.

1.2 SMEs

*Not all **SMEs** trade in continuous mode throughout the trading day. For example, Euronext runs a single or double auction mechanism for some stocks. We are interested to know your views on the difference in trading behavior between auction-only and continuous trading. The mechanism is different based on liquidity criteria, or auction(s) that tend to concentrate the liquidity more.*

We are also interested to hear your view on the potential impact of a later opening / earlier close for auction-only instruments.

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

In our view, it will probably impact both.

- *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?*

Not necessarily.

We believe the most important it is to maintain at least two auction periods, one at least one hour after market opening, in order to give investors time to incorporate daily news, and the second at least 30 minutes before closing in order to avoid competition with Blue Chips attention.

- *Will a shorter trading day improve SME trading?*

We cannot find any evidence that it will be the case.

1.3 Retail investors

The trend observed over the last few years is to extend the hours of trading to give the retail investor community the possibility to trade outside their own working hours. As such, some exchanges or venues offer extended trading hours until 22:00 Paris/Berlin/Rome time.

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

Necessarily, yes, which would create a lag on investors quality that is not desirable and goes against the foundational principle that all investors, retail or not, should be given equal treatment in what concerns market access.

- *Would such a move prevent the extension of trading hours for the retail community in the future?*

Necessarily, yes.

- *What alternatives could be put in place to satisfy the retail community if a shorter trading day was implemented?*

That does not seem possible.

1.4 Trading activity

A shorter trading day may change trading habits, reduce or increase the volume of flow on exchanges. Investors may not find the same trading opportunities or might identify new ones. Some investors have no regard for the trading hours when it comes to executing their orders, but behaviors can differ between players.

- *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.*

Without further information, we believe a shorter trading day will result in fewer trading opportunities, less liquidity, increase price volatility and, generally, greater detrimental market impact.

2. IMPLICATIONS

2.1 Synchronisation of trading hours

Most of the European markets today open and/or close at a similar time. Not maintaining this synchronisation may lead to a race to the bottom, with some venues opening earlier than others.

- *Would there be any benefits to venues opening or closing at different times?*
None that we can see.
- *How would we ensure that all venues or Systematic Internalisers (SIs) open and close at the same time?*

Changes to market hours not consistently implemented across all equity markets and trading venues in Europe, as well as the related equity options and single stock futures segments, would be hugely detrimental to the good operation of markets and market quality.

We firmly believe in Europe capital markets as "one market only", although with respect for national specificities.

Therefore, it is unthinkable to give up on synchronicity between European markets, which will introduce undue complexity in the markets such as additional operational and execution risk for participants (including retail investors).

Thus, in any case, any changes in trading hours would have to result from a coordinated approach by all European exchanges.

Unfortunately, the only way to ensure that all venues or Systematic Internalisers (SIs) open and close at the same time seems to be through mandatory regulation.

2.2 Benchmarks

The current benchmark calculation was designed taking into account the existing trading hours.

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

Probably, huge changes, that we also encourage Euronext to assess in a thorough and complete manner.

2.3 Settlement and Reference price

Settlement prices for derivatives use either an auction, or the average price over a certain period of time, to determine the price of the underlying asset. Euronext uses the second mechanism, where the settlement price for expiry of contracts is calculated over a 30-minute period.

- *Should the timing of the calculation of reference or settlement prices be moved to reflect the change in opening or closing time?*

Necessarily, yes, in order to allow investors to process and absorb the data and brokers to cope with more concentrated flow periods.

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

It is not a question of expectation but of detailed and complete assessment that we again encourage Euronext to deliver to consultees.

2.4 Options trading

Options trading currently has different hours to cash trading. A change in the opening times of cash products could affect interest in trading derivatives either in a positively (participants would trade derivatives rather than the underlying asset) or negatively (participants would wait for the underlying asset to start trading).

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

Fewer, as less time to trade will result in less option to trade.

Potential greater divergence between shares and other trading products in terms of trading hours, of course, would be problematic.

- *How would your derivatives trading activity change before market open/after market close?*

Due to lack of information, we have no comments on this point.

2.5 Futures trading

Likewise, future contracts have different trading hours to cash products.

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

Fewer, because of potential greater divergence between shares and other trading products in terms of trading hours.

- *Should the trading hours for derivatives products be changed to reflect the potential change in cash trading hours? Please give details of the reasons for your answer.*

Necessarily, yes; if not, a greater divergence will increase, even more, the existing gap between retail investors and professional traders.

2.6 Equity and Economic Research – Publication

Some economic indicators are currently published at 10:00 Paris/Berlin/Rome time (09:00 London time). Opening later might then coincide with the publication of these indicators which could impact the price formation.

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

Auctions and the publication of economic indicators should not be coincident as investors need time to process and digest information.

Such coincidence will contribute to an even larger gap between retail investors and professional traders.

- *Should publication of economic indicators or company results be regulated?*

This question does not seem relevant in the context of this assessment.

In any case, a change in trading hours shall not be used as justification to increase, even more, the already excessive overregulation over companies.

2.7 Post Trade

Post trade is a complex and vital mechanism for the industry, as it allows for the settlement and delivery of assets against payment. Time is an important constraint, and changing trading hours could affect the current balance of operations in terms of clearing and settlement.

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

Without further information, we cannot identify significant impacts (which does not mean they do not exist).

2.8 Middle Office, Back Office, Settlement Teams

The post-trade chain includes the operations run by the Middle Office departments at trading firms to settle the trades executed during the day. A different closing time could change the way post-trade operations are currently managed.

- *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)?*

As far as we are aware, the answer should be no, because, nowadays, procedures are or should be almost completely automatic.

3. CHOICE OF TIMING PROPOSALS

3.1 Open later (continuous trading)

Please select your preferred opening time:

- *09:00 London time – 10:00 Paris/Berlin/Rome time*
- *09:30 London time – 10:30 Paris/Berlin/Rome time*
- *10:00 London time – 11:00 Paris/Berlin/Rome time*
- *Other (please specify)*

It is not possible or adequate to choose between different possibilities without a full assessment and thorough evidence regarding each and every one impacts.

We consider very surprisingly that, when presenting alternative sets of opening and closing hours, Euronext does not include the possibility of retaining the existing 8am to 4.30pm arrangement (or, by the way, the possibility of a larger period).

If there is a risk that shortening trading hours will have negative impacts for the Portuguese market and Portuguese companies, AEM will recommend maintaining the current hours.

3.2 Close earlier (continuous trading)

Please select your preferred closing time:

- *15:00 London time – 16:00 Paris/Berlin/Rome time*
- *15:30 London time – 16:30 Paris/Berlin/Rome time*
- *16:00 London time – 17:00 Paris/Berlin/Rome time*
- *Other (please specify)*

Please see answer to 3.1

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*

Please see answer to 3.1

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*

Please see answer to 3.1

4. OTHER INFORMATION

4.1 Arrival time

- *At what time do you currently arrive at your office? (please confirm London time or Paris/Berlin/Rome time)*

This seems to be the wrong question, as it is irrelevant to the matter at hand, even more in a post COVID-19 environment.

If the question intends to regard at what time work starts or one starts being connected, we would say that the common answer would be 07:00.

4.2 Alternative to reducing trading hours

- *What other initiatives can be taken to improve work/life balance and gender equality in the financial industry?*

Work/life balance should be achieved by firms through automatization of operations and sensible and adequate operations organization, enabling trading across multiple time zones and products.

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?*

The goal to improve work/life balance, better organizational culture, and diversity is admirable and is one that the AEM and its members are fully supportive.

However, without further evidence, it is difficult to see why and how the proposed shorter hours would make a difference for staff diversity or to allow firms to attract a wider variety of talent, and why those goals cannot be achieved through other mechanisms and initiatives than the reduction of trading hours.

4.4 Open comment

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

We have no further comments.