

Brokerage Commissions and Institutional Trading Patterns

[Get access >](#)

Michael A. Goldstein, Paul Irvine, Eugene Kandel, Zvi Wiener

The Review of Financial Studies, Volume 22, Issue 12, December 2009, Pages 5175–5212, <https://doi.org/10.1093/rfs/hhp083>

Published: 24 October 2009

Abstract

The institutional brokerage industry faces an ever-increasing pressure to lower trading costs, which has already driven down average commissions and shifted volume toward low-cost execution venues. However, traditional full-service brokers that bundle execution with services remain a force and their commissions are still considerably higher than the marginal cost of trade execution. We hypothesize that commissions constitute a convenient way of charging a prearranged fixed fee for long-term access to a broker's premium services. We derive testable predictions based on this hypothesis and test them on a large sample of institutional trades from 1999 to 2003. We find that institutions negotiate commissions infrequently, and thus commissions vary little with trade characteristics. Institutions also concentrate their order flow with a relatively small set of brokers, with smaller institutions concentrating their trading more than large institutions and paying higher per-share commissions. These results are stable over time, are consistent with our predictions, and cannot be explained by cost-minimization alone. Finally, we discuss the evolution of the institutional brokerage market within the proposed framework and make informal predictions about future developments in the industry.

© Oxford University Press 2009

JEL: G23 - Non-bank Financial Institutions; Financial Instruments; Institutional Investors, G24 - Investment Banking; Venture Capital; Brokerage; Ratings and Ratings Agencies

Issue Section: Article

Collection: SFS Journals

You do not currently have access to this article.

Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

[Sign in >](#)

[Register](#)

Institutional access

 [Sign in through your institution](#)

 [Sign in through your institution](#) >

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Brokerage Commissions and Institutional Trading Patterns - 24 Hours access

EUR €53.00

GBP £44.00

USD \$58.00

Rental



This article is also available for rental through DeepDyve.