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Call Market Trading: History, Economics, and Regulation

Chapter

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The Electronic Call Auction: Market Mechanism and Trading

Benn Steil

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Abstract

Coming on the back of well over a century's worth of development in continuous trading of securities, the relatively recent arrival of electronic call market trading is a shock to the system. Traders appear reluctant to abandon the drive for the ever more "immediate" trade, even when it is clear that immediacy is costly and often unnecessary.[1] Regulators are hard-pressed to adapt long-established market structure rules to systems that generate trades in unfamiliar ways. Similar functioning systems are subject to very dissimilar regulation: some are regulated as "exchanges" (AZX),[2] some as "facilities" *of* an exchange (Bond Connect, and the defunct Optimark and Chicago Match), and some as "brokers" (Instinet and Posit crosses). Finally, call markets pose new and complex challenges for researchers. The interaction of continuous time and discrete trading environments is difficult to

analyze, particularly when critical concepts such as “liquidity” and “immediacy” remain murky in economic theory.

See Chapter 13, Economides and Schwartz (1995) and Chapter 14, Schwartz and Steil.

The Arizona Stock Exchange (AZX) is classified by the US Securities and Exchange Commission as an exchange, but its license exempts it from the requirement of exchange registration as long as its operating volume remains low.

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