

Post-Reform Market-Order Execution Quality: Multidimensional Comparisons Across Market Centers

Brian Hatch , Robert Battalio, Robert Jennings

First published: 09 March 2005

<https://doi.org/10.1111/j.1540-6288.2001.tb00023.x>

Citations: 5

We thank two anonymous referees for suggestions that have clearly improved the paper. Earlier versions of this paper were entitled *The Quality of Trade Execution on Regional Exchanges* and were produced for presentation at the Chicago Stock Exchange on May 20, 1997, and for the Conference on the Search for the Best Price sponsored by the New York Stock Exchange on March 15, 1996. All views expressed in the paper are those of the authors.

Abstract

We use market-order data to determine execution quality on the NYSE, four regional stock exchanges, and the Nasdaq InterMarket. We examine a sample period after the reduction in the minimum price variation and after the SEC imposed new order-handling rules, and analyze dimensions of execution quality in addition to trade prices. We find that in the postreform environment, the NYSE offers execution prices that are more favorable to the investor. However, the regional exchanges and the InterMarket offer executions that are faster and that more frequently allow investors to execute orders with sizes exceeding the quoted depth at the quoted price.

References

Admati, A. and P. Pfleiderer, 1988. A theory of intraday patterns: Volume and price variability, *Review of Financial Studies* 1, 3–40.

[Web of Science®](#) | [Google Scholar](#)

Angel, J., 1994. Who gets price improvement on the NYSE Working paper FINC-1377–12–694, Georgetown University.

[Google Scholar](#)

Arnold, T., P. Hersch, J. Mulherin, and J. Netter, 1999. Merging markets, *Journal of Finance* 54, 1083–1107.

[Web of Science®](#) | [Google Scholar](#)

Bacidore, J., R. Battalio, and R. Jennings, 2000. Depth improvement and adjusted price improvement on the NYSE. Working paper, New York Stock Exchange.

[Google Scholar](#)

Bacidore, J., K. Ross, and G. Sofianos, 1999. Quantifying best execution at the NYSE. Working paper, New York Stock Exchange.

[Google Scholar](#)

Barclay, M., W. Christie, J. Harris, E. Kandel, and P. Schultz. 1999. The effects of market reform on the trading costs and depths of Nasdaq stocks, *Journal of Finance* **54**, 1–34.

[Web of Science®](#) | [Google Scholar](#)

Battalio, R., J. Greene, and R. Jennings, 1997. Do competing specialists and preferencing dealers affect market quality *Review of Financial Studies* **10**, 969–994.

[Web of Science®](#) | [Google Scholar](#)

Battalio, R., J. Greene, and R. Jennings, 1998. Order flow distribution, bid-ask spreads, and liquidity costs: Merrill Lynch's decision to cease routinely routing orders to regional stock exchanges, *Journal of Financial Intermediation* **7**, 338–358.

[Web of Science®](#) | [Google Scholar](#)

Battalio, R., B. Hatch, and R. Jennings, 2000. All else equal? A multidimensional analysis of retail market order execution quality. Working paper, Indiana University.

[Google Scholar](#)

Bessembinder, H., 1999. Trade execution costs on Nasdaq and the NYSE: A post-reform comparison, *Journal of Financial and Quantitative Analysis* **34**, 387–407.

[Web of Science®](#) | [Google Scholar](#)

Bessembinder, H. and H. Kaufman, 1996. Quotations and trading costs on the domestic equity exchanges. Working paper, Arizona State University.

[Google Scholar](#)

Easley, D. and M. O'Hara, 1987. Price, trade size, and information in security markets, *Journal of Financial Economics* **19**, 69–90.

[Web of Science®](#) | [Google Scholar](#)

Ellis, K., R. Michaely, and M. O'Hara, 2000. The accuracy of trade classification rules: Evidence from Nasdaq, *Journal of Financial and Quantitative Analysis* **35**, 529–552.

[Web of Science®](#) | [Google Scholar](#)

The Exchange, 1996. *The auction market versus preferencing*, June, page 3.

[Google Scholar](#)

The Exchange, 2000. *Committee reports on market structure*, April, page 2.

[Google Scholar](#)

Finucane, T., 2000. A direct test of methods for inferring trade direction from intra-day data, *Journal of Financial and Quantitative Analysis* 35, 553–576.

[Web of Science®](#) | [Google Scholar](#)

Handa, P., R. Schwartz, and A. Tiwari, 1999. Price improvement and price discovery on a primary market. *The Journal of Portfolio Management* 25, 55–64.

[Web of Science®](#) | [Google Scholar](#)

Harris, L. and J. Hasbrouck, 1996. Market vs. limit orders: The SuperDOT evidence on order submission strategy, *Journal of Financial and Quantitative Analysis* 31, 212–232.

[Web of Science®](#) | [Google Scholar](#)

Investment Dealer's Digest, 1995. Smith Barney and A.B. Edwards study Merrill's NYSE Program. November 6, page 8.

[Google Scholar](#)

Klock, M., 1999. The SEC's new Regulation ATS: Placing the myth of market fragmentation ahead of economic theory and evidence. *Florida Law Review* 51, 753–797.

[Google Scholar](#)

Knez, P. and M. Ready, 1996. Estimating the profits from trading strategies, *Review of Financial Studies* 9, 1121–1163.

[Web of Science®](#) | [Google Scholar](#)

Lee, C., 1993. Market integration and price execution for NYSE-listed securities. *Journal of Finance* 48, 1009–1038.

[Web of Science®](#) | [Google Scholar](#)

Lightfoot, L., P. Martin, M. Peterson, and E. Sirri. 1998. Preferencing and market quality on U.S. equity exchanges. Working paper, Securities and Exchange Commission.

[Google Scholar](#)

Macey, J. and M. O'Hara, 1997. The law and economics of best execution. *Journal of Financial Intermediation* 6, 188–233.

[Web of Science®](#) | [Google Scholar](#)

McInish, T. and R. Wood, 1996. Competition, fragmentation, and market quality. In Andrew T. Lo, Ed., *The Industrial Organization and Regulation of the Securities Industry*. (The University of Chicago Press, Chicago , IL).

[Web of Science®](#) | [Google Scholar](#)

New York Stock Exchange Fact Book. 1999. (New York Stock Exchange, Inc., New York , NY).

[Google Scholar](#)

Petersen, M. and D. Fialkowski, 1994. Posted versus effective spreads: Good prices or bad quotes, *Journal of Financial Economics* 35, 269–292.

[Web of Science®](#) | [Google Scholar](#)

Ross, K., J. Shapiro, and K. Smith, 1996. Price improvement of SuperDOT market orders on the NYSE. Working paper. New York Stock Exchange.

[Google Scholar](#)

Securities and Exchange Commission, 1994. Market 2000 Report: Study III, Market Fragmentation, Competition, and Regulation.

[Google Scholar](#)

Securities and Exchange Commission, 1997. Report on the Practice of Preferencing. April 11.

[Google Scholar](#)

Securities and Exchange Commission, 2000. Release No. 34-42450, Commission request for comment on issues relating to market fragmentation, February 23.

[Google Scholar](#)

Securities and Exchange Commission. 2000. Release No. 34-43084, Disclosure of order routing and execution practices, July 28.

[Google Scholar](#)

Securities Week, 1997. SEC warns Big Board to be 'fair' in best execution probe of member firms. March 31, 1.

[Google Scholar](#)

Stoll, H., 2000. Friction. *Journal of Finance* **55**, 1479–1514.

[Web of Science®](#) | [Google Scholar](#)

U.S. Court of Appeals for the Third Circuit, 1998. Decision in re: Newton v. Merrill Lynch, Pierce, Fenner & Smith Inc., **135 F.3d** 266.

[Google Scholar](#)

Van Ness, B., R. Van Ness, and S. Pruitt, 1999. An empirical examination of the Nasdaq/CHX dualtrading experiment. *The Financial Review* **34**, 65–78.

[Google Scholar](#)

Van Ness, B., R. Van Ness, and W. Hsieh, 1999. Nasdaq and the Chicago Stock Exchange: An analysis of multiple market trading. *The Financial Review* **34**, 145–158.

[Google Scholar](#)

Wall Street Journal. 1995. *Merrill shifts on small investors' orders*. November 10, C1.

[Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2024 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY