

The Impact of Pennies on the Market Quality of the Toronto Stock Exchange

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Abstract

Using detailed order flow data from the Toronto Stock Exchange, this paper finds no evidence that a smaller tick size lessens market liquidity for either small or large traders. Rather, there is evidence of lower trading costs, faster time to order execution, and greater price continuity. Consistent with a penny tick allowing a finer pricing grid search, there is an increase in the number of Change Former Orders and cancellations.

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