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Into the Light: Dark Pool Trading and Intraday Market Quality on the Primary Exchange

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James Brugler (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2184688)

University of Melbourne - Department of Finance

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Abstract

This paper uses regulator-provided transaction data to investigate how trading in dark pools affects intraday market quality on the limit order book of the primary exchange for members of the FTSE 100 index. Using trading patterns from execution algorithms as instrumental variables, I show that dark trading leads to improved liquidity on the primary exchange, both in absolute terms and relative to trading on the limit order book. Although these relationships differ across stocks of different sizes, dark trading does not lead to worse market quality at the intraday level for either small or large stocks during the sample period.

Keywords: Dark pool, dark trading, market quality**JEL Classification:** G10, G12, G14, G18[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2630676_code2184688.pdf?abstractid=2554621&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2630676_code2184688.pdf?abstractid=2554621&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2630676_code2184688.pdf?abstractid=2554621&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2630676_code2184688.pdf?abstractid=2554621&mirid=1&type=2)

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