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A Competing Risk Analysis of Executions and Cancellations in a Limit Order Market

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Abstract


The competing risks technique is applied to the analysis of times to execution and cancellation of limit orders submitted on an electronic trading platform. Time-to-execution is found to be more sensitive to the limit price variation than time-to-cancellation, even though it is less sensitive to the limit order size. More importantly, investors who aim to reduce the expected time-to-execution for their limit orders without inducing any significant increase in the risk of subsequent cancellation should submit their orders when the market depth is smaller on the side of their orders or when the market depth is greater on the opposite side of their orders. We also provide a new diagnostic plots method for evaluating the goodness-of-fit of different competing risks models.

Keywords: Market microstructure, limit order, competing risks, hazard rate, frailty

JEL Classification: G14, G23

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