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The dark side of liquidity: shedding light on dark pools' marketing and market-making

Andrea Lagna & Marc Lenglet

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ABSTRACT

In this article, we explore the case of dark pools of liquidity, which are trading venues that do not display order books and other trading-related data. We argue that, in a context where liquidity remains essentially invisible, dark-pool providers use visual advertisements that iconically represent liquid markets. In so doing, they defuse the idea that dark liquidity is harmful to market efficiency and fair pricing. We use Barthesian and Greimasian semiotics to study how a major bank advertised its dark-liquidity services through iconic visual signs. We contribute to economic sociology and social studies of finance by foregrounding the role of visual advertising in the construction of liquid markets. To do so, we draw on insights from market studies and visual culture.

KEYWORDS:

Algorithmic trading | dark pools of liquidity | market studies | semiotics | social studies of finance | visual culture

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Notes on contributors

Andrea Lagna is an assistant professor at the School of Business and Economics, Loughborough University. He's currently conducting research on the management of fintech innovations. He has previously published work on the governmental use of derivatives in New Political Economy and Competition & Change. His Twitter handle is @a_lagna.

Marc Lenglet is an associate professor in the Strategy and Entrepreneurship Department at NEOMA Business School (France). His research roots in the social studies of finance tradition, with a focus on compliance and regulation. He is the co-editor, with Isabelle Chambost and Yamina Tadjeddine, of The Making of Finance. Perspectives from the Social Sciences (Routledge, 2019).

Notes

1 Dark pools emerged while the financial crisis of 2007–2008 unfolded. The crisis originated in the United States and had nothing to do with the implementation of MiFID. However, it contributed to the rising of uncertainty on European financial markets concomitantly with the structural changes brought by the directive. Furthermore, the 2007–2008 financial crisis exposed significant weaknesses in the functioning of financial markets in the United States and Europe. European policymakers tried to address such weaknesses when they began to discuss a revised version of MiFID (MiFID II) and the Market in Financial Instruments Regulation (MiFIR). The European Commission adopted MiFID II and MiFIR in June 2014. Both regulations became applicable as of January 2018 and introduced caps on the volume of trades that can be executed through dark pools (Hadfield 2017).

2 We use market-making in the wider sense of building financial markets. Hence, we do not intend to refer solely to the professional figure of the market-maker, namely the broker-dealer who guarantees to buy and sell securities at all times in order to keep markets liquid.

3 Investors use dark pools to trade company shares. However, several dark pools also offer dark-trading services for corporate bonds (Mooney 2015).

4 For instance, if pension fund ABC wanted to buy 100,000 shares of company XYZ, other investors would surely notice such large order by a pension fund and rush to buy XYZ shares. Such action would move price upwards and ABC would end up buying part of those 100,000 shares at a higher price than expected. By executing the buy order through a dark pool, ABC is instead able to reduce the market impact of its trade (Banks 2014, 6).

5 To put it differently, market liquidity is the degree to which a market – e.g. a stock market – allows assets to be bought and sold without significantly pushing asset prices upward or downward. Accordingly, a liquid asset is one which investors can easily buy or sell without influencing the price of that asset dramatically. For example, an investor who wants to buy a large amount of shares at a certain price might struggle to find other investors willing to sell all those shares at that price level. In this case, we would say that the market is not liquid enough for all those shares to be traded at that specific price. Most likely, the investor would need to buy part of those shares at a higher price. Liquidity is measured in terms of: immediacy (the extent to which a trade can be executed at the current time); breadth (the cost of executing a trade); depth (the

number of shares that can be bought or sold at a given price level); resiliency (the degree to which the share price returns to its previous level once trade is completed) (Banks 2014, 60–63).

6 We focus on studies about the visualization of financial markets. However, the growing importance of visual practices and technologies goes beyond the realm of finance (Boxenbaum et al. 2018; Meyer et al. 2013).

7 See Sebeok (2001) for an introduction to semiotics as an academic discipline. See Beasley and Danesi (2002) for an overview on semiotics of advertising.

8 Barthes drew primarily on the Saussurean tradition of semiotics. For his understanding of semiotics, see Barthes (1957, 1964a, 1964b).

9 The octagon logo could also be seen as an iconic message. We prefer to analyze it as part of the linguistic message.