

Complexity of Tick Size Change When Stocks Are Traded on Multiple Venues

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This study examines the impact of the tick size between markets on the competitive dynamics and the extent to which traders are influenced by the tick size. When a venue changes its tick size table, it generates complex effects on market quality and trading activities on the changing venue as well as on competing venues. We investigate the impact of the reduction in the minimum tick size for mid-liquidity stocks on the Tokyo Stock Exchange in June 2023 and show that stocks traded on the private trading system (PTS) with indifferent tick size table suffer large deteriorating effects on market quality and trading activity, but those traded on the PTS with tick size difference are deteriorated modestly. We identify that the most significant factor causing the decline in volume in the competing venue is the frequency of quote matching, which is one of the intermarket trading strategies triggered by the tick size difference between the venues. Removal and reduction of tick size between venues eliminates an important trading activity not only from smaller venues but also from the main board.