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Matching Frequency, Periodical Call Auctions and Order Aggressiveness

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ABSTRACT

The Taiwan Stock Exchange (TWSE) implemented three reforms during 2013-2014 to expedite the matching frequency for periodic call auctions, the length of which is eventually shortened to 5 seconds on December 29th, 2014. The three reforms aim to enrich the disclosure of quality information by revealing the top five unexecuted quotes along with order depths contained in the limit order book (LOB) immediately after each of call auctions. By examining traders' choices of order submissions, we show that swifter matching frequency substantially brings in a wealth of information in the publicized content of the LOB, thereby mitigating the degree of information asymmetry among market participants. Though order arrival rate increases after each of the three reforms, individual investors decrease their order aggressiveness, revealing that the policy of high frequency auctions steps up their expectations of order executions. These expectations may further cause the 'wait-and-see' effect among participants, and discourage them from submitting aggressive orders. Moreover, institutional investors tend to submit smaller orders, implying that quicker matching frequency stimulates their behavior of order splitting. The conservatism in trading behavior as a result of the three reforms could partially defeat the TWSE trading volume.

KEYWORDS Taiwan Stock Exchange; Call Auction; Duration; Limit Order Book; Order Aggressiveness

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