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Comment on 24-hour Trading in U.S. Equity Markets (File No. 4-913)

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To the Offices of the SEC,

We appreciate the opportunity to comment with regard to the Commission's roundtable on 24-hour trading in U.S. equity markets. Our recent research studies how traders respond to changes in trading hours, what the costs and benefits of extended hours are, and which market participants are likely to gain or lose from changes in market hours. The most recent version of our work, *Is 24/7 Trading Better?*, can be found on SSRN at `https://ssrn.com/abstract=4942934`. We feel it would be useful to summarize the findings most relevant to the roundtable.

We study a dynamic model in which large traders manage risky inventory positions and internalize the price impact of their trades. A daily closure is directly costly because overnight shocks leave traders far from desired positions at the open. However, a closure also coordinates liquidity, as traders are willing to incur price impact at the close to reduce the inventory they hold overnight, thereby endogenously coordinating trade at the close. With 24/7 trade, no such coordination point exists, and liquidity is spread thinly throughout the day, leading to large price impact and slower trade. In the model, a daily closure of some length, possibly very short, always improves trader welfare relative to 24/7 trade.

The optimal length of closure increases as the number of traders in the market and the frequency of shocks to trading needs decrease. In large and active markets, lengthy closures are costly. Welfare is nearly flat in the length of closure near zero, so traders benefit from extending hours to near 24/7, but the precise timing of extended hours trade matters little. In small markets with infrequent shocks, a long closure is optimal, and welfare can even be maximized by a single daily auction, consistent with several European exchanges moving their least active stocks to one or two call auctions per day.

Exchanges, not a social planner, choose trading hours, and they compete for volume. In our model, the unique equilibrium of this competition is 24/7 trade for all exchanges, whether or not it benefits traders. The recent wave of exchange announcements is consistent with this force and is not itself evidence that longer hours serve investors. For large stocks, the competitive outcome and trader welfare roughly coincide. For thin markets, they conflict, and our model suggests that this conflict is where regulatory attention is potentially most valuable.

Extensions of the model in which traders differ in participation hours, trading needs, market power, and information identify who gains and loses from extended hours. The largest effects fall on traders who participate during only part of the day, plausibly retail and international investors, as they benefit when trading hours align with their participation windows and are harmed when hours extend elsewhere, while always-present traders adjust their strategies and are largely unaffected. Similarly, traders whose trading needs arrive mostly during current market hours prefer longer closures, while those with round-the-clock needs prefer extended hours. When some traders are price takers who do not internalize price impact, they supply liquidity throughout the day, and the coordination benefit of a closure shrinks. Private information works in the opposite direction, as adverse selection raises price impact and lengthens the optimal closure.

A further consideration follows from these extensions. Extended hours put pressure on the closing price, which anchors economically important quantities and events such as mutual fund net asset values, derivative settlement, and margin accounts. As liquidity spreads across more hours, a reference price struck at an illiquid time is more exposed to price impact, particularly if that price does not coincide with the market close when liquidity is coordinated.

We thank the SEC for their continued efforts to enhance market efficiency and protect the interests of all market participants. We hope that our research may help to improve the understanding of the link between market hours, liquidity, and welfare.

Sincerely,

Patrick Blonien & Alexander Ober

[1]The opinions expressed are those of the authors and not those of their institutions.