WORLD FEDERATION OF EXCHANGES

‘When is liquidity’ – A WFE Regulatory Affairs white paper on intraday trading and investor protection in equity markets

October 30th, 2026

When is liquidity?

Investor protection and the way share trading functions

The more that trading is allowed to leak out of multilateral exchanges and towards bilateral trading, the harder it becomes for the rest of us to know *when* we can trade without the price moving away from us.

That quickly turns into a vicious circle, as the market makers who try to bring buyers and sellers together find it harder to hold things together. At that point, the promise of liquidity is in danger of turning into a mirage and the gold standard that multilateral, public markets represent is in danger of being debased.

This paper is part of a series written by the Regulatory Affairs department at the World Federation of Exchanges on issues of market design and investor protection. It argues that policy makers should consider **market design,** in light of some clear and worrying trends and reverse the trend towards the splintering of liquidity. They need to look more carefully at what liquidity is truly 'addressable'. To whom, in other words, are quotes actually accessible in practice and on what terms? If they are not genuinely available, as they generally are on multilateral platforms, then the policy needs to change to protect meaningful price formation.

In a related issue, the role of exchanges in creating data that has marketable value needs to be recognised, rather than allowing it to be exploited for the benefit of a small subset of the participants, thereby creating a hidden subsidy from the rest of us.

A real-world effect

Damage to price discovery is not an abstract problem. It harms individual investors and undermines public markets – the very public markets on which financial systems more broadly are built and on which people, companies and investors depend.

Nor is this a problem purely for newer or smaller markets. The issue can be significant in the most liquid capital markets in the world – the US.

There is little exchanges themselves can do about this situation regarding liquidity-timing. As a long-term strategy, they can and do urge policy makers to be extremely careful when they deliver extreme fragmentation masquerading as competition. But any discussion on that has been a brick wall for decades.

In the meantime, exchanges can incentivise the market makers who form the bridge between buyers and sellers. These intermediaries are, however, in persistent danger of being picked off by better informed participants – especially those who trade not just rapidly but bilaterally, while using the market-price information that exchanges create.

So, market makers have an invidious choice. They can adopt an approach of 'If you can't beat them, join them' (ie, in private trading) or try to get out of the way of the toxic flow. Neither is good for price formation and active participation in all-to-all markets.

Brokers can also offer retail aggregation. This can help deliver price improvement, but equally the flows may end up being sectioned off from the central price-discovery process, precisely because it may be easier to manage if off-exchange.

A further factor is that the asset management industry is incentivised in various ways to cluster round the trading day's closing price and become ever more passive. In such an environment, the middle of the day can becoming like a desert, in terms of liquidity.

How much volume needs to be transacted?

Most of us probably think of liquidity as a plentiful and indeed costless constant. But how well is it distributed across the trading day; why; and what does that imply public policy choices?

We see figures suggesting that the equivalent of roughly $650bn per day is traded on the world's regulated share markets – apparently more liquidity than we would know what to do with.[1]

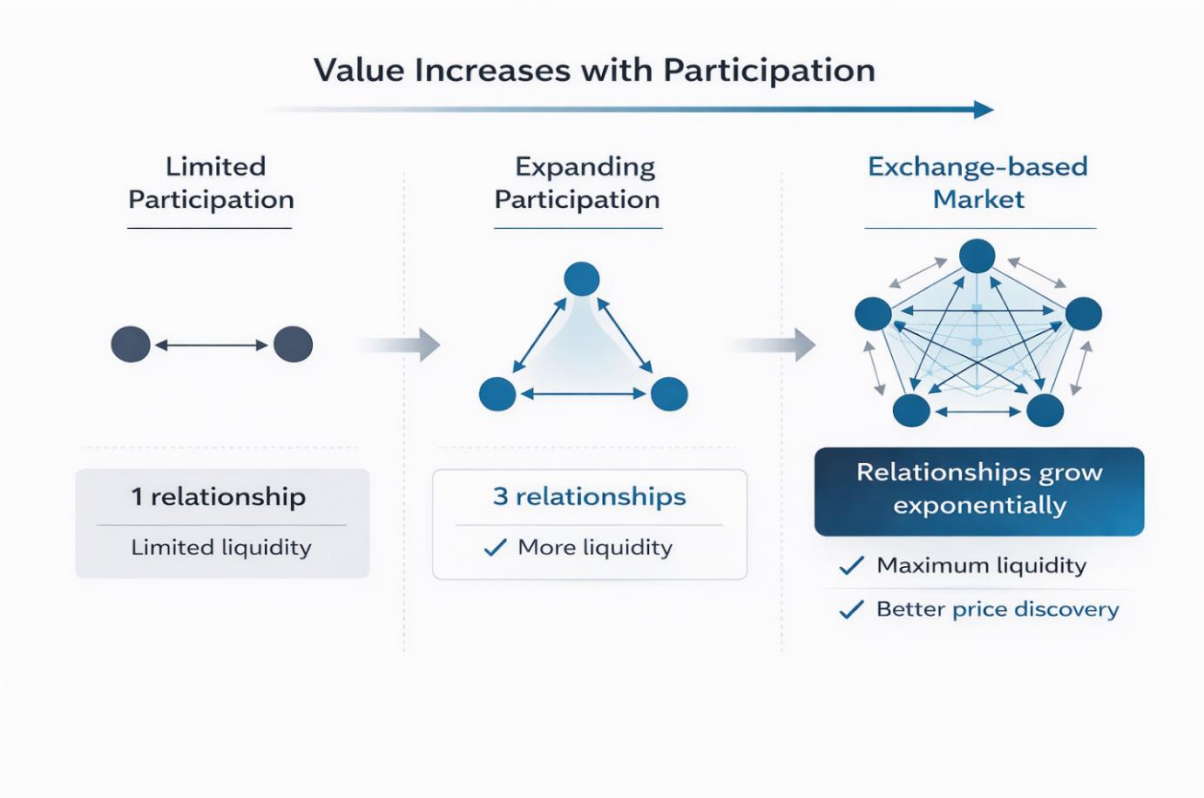
But while it is indeed a lot of activity, we need to put this into some sort of perspective. Even that number translates into only $27,000 per millisecond on average. And even then, for a big trading house with powerful IT, a millisecond is actually a very long time, potentially allowing multiple trades to flicker back and forth. So, the trading may be spread even more thinly. Also, the trading day has been getting longer, so the average dollar trading amount could be even lower, unless those extended hours tap significant new activity.

Remember that the great advantage of centralised exchanges is their network effects (illustrated below[2]), combined with strong and transparent rules. Note that in the diagram, 'limited liquidity' in practice means a combination of two things:

1) limited opportunity to find a counterparty, as contrasted with the reduction in 'cost of search' that a multilateral exchange provides;
2) a lack of the price discovery that exists on exchange and which, in a virtuous cycle, encourages more and wider participation in that trading venue.

[1] WFE database. Stock exchanges globally trade over $150 trillion (equivalent) in a year. Averaged over 230 business days, that makes $0.65tr.

[2] For more details, see 'Key attributes of exchanges: harnessing network effects' – WFE Regulatory Affairs, April 2026



Admittedly, the daily average of $650bn mentioned above is not necessarily spread evenly over all exchanges all the time. So, the amount trading at any one moment may be larger than that figure of $27K per millisecond; especially, say in the most famous shares in leading tech economies. And there also appear to be flurries – or clusters – of trading activity around such transactions as do occur in the middle of a given time zone's trading day.

So, all in all, the average is not necessarily meaningful number. But the trend does appear to be clear, hence the May 2026 IOSCO consultation on intraday liquidity.[3] And even the biggest trades in the biggest shares are not immune from the trends described above, relating to the tension between public price formation and private, bilateral transacting.

The clustering of transactions to a large extent exploits new-information trades, reducing the ability of the average participant to trade cost-effectively, without suffering from price impact (ie, the tendency of the price to move away from you when you are in the process of trading).[4]

[3] See IOSCO news

[4] A complicating factor for any analysis of the trading landscape is that the biggest individual trades – most of them based on data provided by those exchanges – may not happen anywhere near any form of exchange, but in new, hyper-dark private rooms. These push trading close to a bilateral model. If the objective is not to impact the observed market price by avoiding any post-trade disclosure to the market as a whole, it threatens to make the market price meaningless for investors as a whole.

But where's the harm?
Does any of this matter, if you or I are a conviction trader, operating on a relatively small scale, mainly on a buy-and-hold basis and not necessarily concerned about a basis point here or there?

One issue of principle with this argument is that it does not put the customer first, which is a slippery slope. Nor does it take account of the cumulative damage – to the individual investor and to the efficiency of the market as a whole. And it is well documented that the biggest issue with collective investment is how much supposedly incidental costs (including asset management fees) can erode long-term returns. If you add poor management of transaction costs to that, it starts to become a problem.

And, leaving the investor issue aside, the argument that the cost is de minimis still does not address the challenges faced by market makers, who need to be able to accommodate flows of all sizes, at short notice at any time of the day. Market makers aim to capture the spread between the buy and sell price at any given moment. They clearly cannot do so if the spread disappears the second an order is revealed to the market.

In the United States of America, there has long been an incentive to provide price quotes that are not backed by any real intention to trade. Under the system for supplying data to the consolidated tape, platforms that compete with bona fide, fully regulated exchanges are remunerated based on quotes. But those quotes can change in a trice. (It's a bit like trying to work out which cup the pea is under, in those street tricks you still sometime see.) This situation makes it easy for a genuine market maker to end up with responsibility for a transaction that it is difficult if not impossible to lay off.

In a nutshell, speed does not equal depth.

Policy
What to do in policy terms? Nobody believes that competition between venues is bad but, in the current highly fragmented environment in some jurisdictions, it is virtually impossible to determine what the best possible execution price could be. Unless and until we can measure the overall effectiveness of transaction management across the universe of end-users, all we will know is that, for some better resourced participants with access to data at the lowest latency and the ability to bypass multilateral mechanisms, there is a relative advantage in the current arrangement.

This is self evidently not the same as saying social welfare is maximised.

We do need to know more about how transaction costs build up for the end-user. A good start would be to ensure global standards on how much portfolio turnover happens in asset management and with what costs, headline and other.

Outside the vital contribution of the closing auction[5] (and, to a lesser extent the opening one), the brief spurts of activity in the rest of the trading day can be a nightmare for market makers to deal with, because in reality they represent a way to lose money very quickly to those who trade more

[5] It is food for thought that in ETFs, closing auction volume is a much lower percentage of daily activity: 2%, versus 5-10% in shares or 20% on an index-rebalancing or options-expiry day.

opportunistically. Proprietary traders have an important role to play in bringing liquidity but it is hard to escape the conclusion that the system is no longer designed for the average citizen.

The concentration rule has long since disappeared from the landscape. But it's time to think about ensuring public policy does not end up hollowing out capital markets more generally. They are too important to society to jeopardise thoughtlessly. Market structure needs to start and end with the end-customers and their needs. If that works better, more participants can feel more comfortable about participating directly and keeping a healthy level of activity in the market, rather than the increasingly inhospitable environment that appears to be emerging.

Addressable liquidity is a wonderful concept. So wonderful, in fact that there is no point in talking about liquidity if it is not truly addressable. Liquidity is a shared benefit that requires many to interact with each other. It would be nice to see more of it in action in the form of all-to-all venues. That means much more emphasis on how bilateral trading can and does actually improve the lot of the end-consumer, backing it up with hard statistics and pulling more information out of that bilateral world into the sunlight.

About the World Federation of Exchanges (WFE):

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 39% are in Asia Pacific, 42% in EMEA and 19% in the Americas region. The WFE's 74 member CCPs and clearing services collectively ensure that risk takers post some $1.4 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to over 40,000 listed companies, and the market capitalization of these entities is over $135 trillion; around $200 trillion in securities trading annually passes through WFE members (as of end-2025).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 50 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policymakers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system. If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal.

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If you have any further questions, or wish to follow-up on this paper, the WFE remains at your disposal.

Please contact:

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

or

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org.

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