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## **Master Thesis: Liquidity Provider Incentives in the German Mid-Cap Securities Market**

Since the introduction of the Markets in Financial Instruments Directive (MiFID I) in Europe, incumbent exchanges and alternative trading venues compete for investors' order flow in fragmented securities markets. Besides competing on explicit transaction fees, market operators also implemented specific fee schedules, which aim to incentivize liquidity providers to increase liquidity, thereby reducing implicit transaction costs and thus total transaction costs for market participants. Transaction costs represent one of the key factors in market participants' choice of trading venues and also influence cost of capital for listed companies. Deutsche Boerse recently announced the enhancement of the Xetra Liquidity Provider Program by MDAX60 stocks, after the program showed positive effects for liquidity and market share of Xetra, the electronic trading platform of Deutsche Boerse, concerning blue-chip stocks of the German DAX30 index (Clapham et al., 2017). While the requirements and refunds for liquidity providers are slightly different for MDAX60 stocks, Deutsche Boerse anticipates similar effects. Nevertheless, the enhanced program will start in a pilot phase from September 2, 2019 to February 28, 2020 and it needs to be evaluated, whether the enhanced program yields the desired effects.

The goal of this master thesis is to review the existing academic literature on market making and the influence of market maker/liquidity provider incentives on the quality of financial markets. Furthermore, the student is expected to conduct an empirical analysis on the impact of introducing liquidity provider incentives on market quality in the German mid-cap securities market. The student should have advanced programming skills and needs to be able to deal with large amounts of data. The thesis can be written either in English or German.

### **Supervisor:**

Jens Lausen

### **Literature:**

- Clapham, Benjamin, Peter Gomber, Jens Lausen, and Sven Panz (2017). "Liquidity Provider Incentives in Fragmented Securities Markets." In: *Working Paper*.
- Colliard, Jean-Edouard and Thierry Foucault (2012). "Trading Fees and Efficiency in Limit Order Markets." In: *Review of Financial Studies* 25.11, pp. 3389-3421.

- Deutsche Boerse Group (2017). Xetra Liquidity Provider Programme. <https://www.xetra.com/xetra-en/trading/trading-fees-and-charges/liquidity-provider-programme>
- Deutsche Boerse Group (2019). Xetra Circular 061/19: Enhancement of the Xetra Liquidity Provider Programme by MDAX60 shares, effective from 2 September 2019 until 28 February 2020. <https://www.xetra.com/xetra-en/newsroom/circulars/xetra-circulars/circular-test-1589142>.