

Seminar series

Securities markets: trends, risks and policies

Regulation and stock market quality:
the impact of MiFID II on liquidity and
efficiency of European stocks

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Abstract:

This paper investigates the effects produced by the unbundling of analyst research costs required by MiFID II on market quality, as measured by stock liquidity and price efficiency. We find a reduction in analyst coverage in the EU. Unexpectedly, the reduction is stronger for large cap stocks. For mid- and large-cap stocks analyst coverage is still greater than in the US. The reduction in analyst coverage in the EU is part of a downward trend that initiated prior to MiFID II and contributes to close the gap between the two regions. We also find no change in the bid-ask spread for large cap stocks, and a slight increase for micro-, small- and mid-cap stocks. We observe no significant change in price efficiency.

Keywords: MiFID II; analyst coverage; sell-side research; liquidity; price efficiency

JEL Classification: G14, G24, G28

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