General Discussion*

Mark Zelmer suggested that transparency may have different effects upon liquidity and market functioning during normal times and during times of crisis. Thus, he added, if the effect of transparency is positive during crises, even as it might have a somewhat negative effect during normal trading, we could look at it from a systemic risk point of view as an “insurance premium” of sorts.

Ananth Madhavan added that looking at the effect of transparency on market liquidity from a market perspective, a limit order is a free option to the market at large. In times of stress, he said, the value of that option increases.

Jon Cockerline said that when the TSE moved from CATS1 to CATS2, there was a change away from hidden orders. Since the group of securities remained constant, this episode might serve as a good “controlled experiment” to test the impact of a change in transparency.

Ananth Madhavan responded that this sounded like a good suggestion, although he was not sure that the data were available. He pointed out that here, as elsewhere, it is always possible to extend the work, expand the data set, and so on. He encouraged others to pick up where this paper left off.

* Prepared by Charles Gaa.