

LONDON STOCK EXCHANGE



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July 2023



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DEMYSTIFYING LIQUIDITY

London Stock Exchange Discussion Materials

July 2023



London Liquidity is Comparable with the US

When considering a like-for-like comparison liquidity an issuer could experience in the US and UK is not as different as you might think. The misconception that London is less liquid than the US is sometimes based on incomparable and incomplete data

This perception is driven by a misunderstanding of what amounts to the total amount of liquidity in London, where many commentators rely on liquidity indicators that only tell part of the story.

The two common mistakes are:

i) The use of non-comparable metrics

Total value traded does not account for different market sizes which is important to consider as the largest US issuers are larger than those in the UK. This analysis provides no insight to the liquidity individual issuers will see in their stocks. A better method to compare like-for-like liquidity across markets of differing sizes is to use a relative metric that accounts for what is available to be traded.

ii) Not capturing complete trading volumes which are easily available on data vendors.

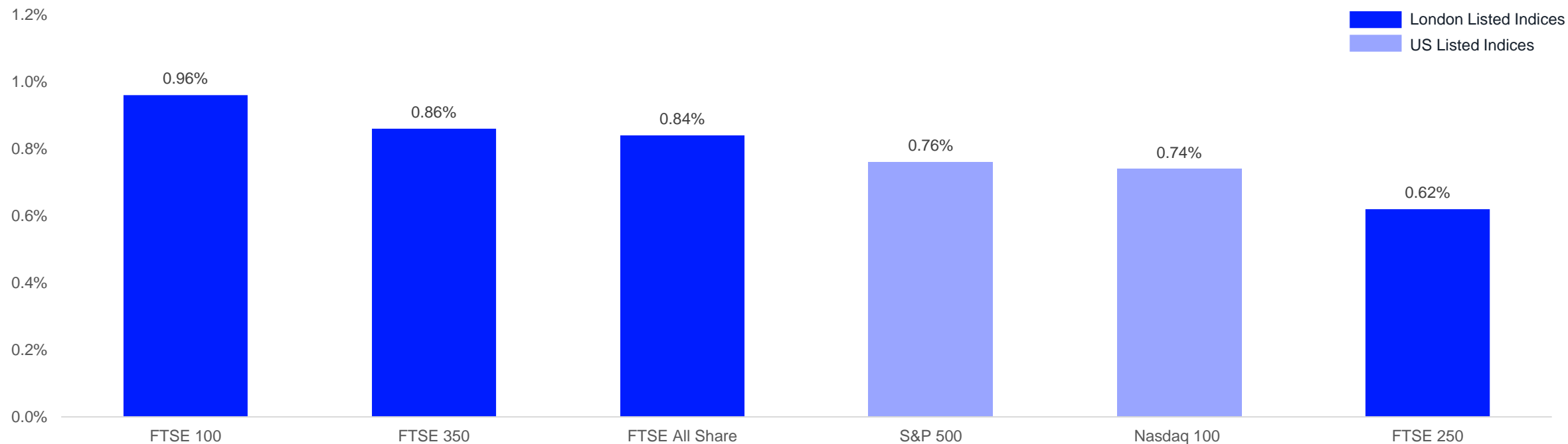
When utilising the main data vendor formulas or traditional “on-screen” liquidity values on a Bloomberg or Refinitiv terminal, only a percentage of the total trading volumes is shown. Due to the differing market structures and regulation between the UK and the US, to allow for a true comparison of liquidity across markets, we must use a wider view that includes complete trading volumes.

Full volume and value traded data is easily available through [Refinitiv’s Market Share Reporter \(MSR\) app](#) and [Bloomberg’s Fragmentation Analysis \(FRAG\) app](#).

London Liquidity is Comparable with the US

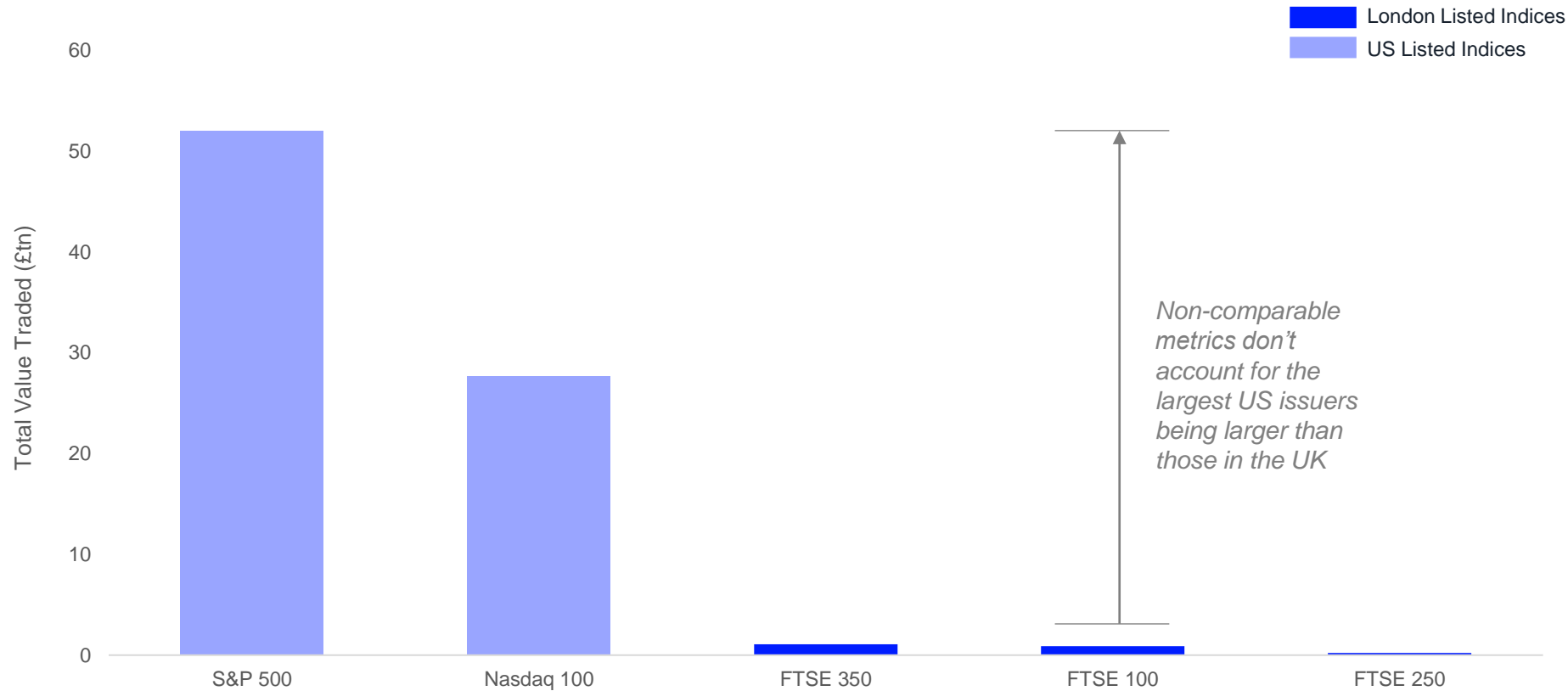
When using a metric which accounts for market size, and that uses fully comparable volume data, liquidity in London and New York is broadly on par.

Average Daily Free-Float Adjusted Turnover Ratio by Index, 2022 (12 months)



Unadjusted Liquidity Analysis is Misleading

Total Value Traded (£ trillions), 2022



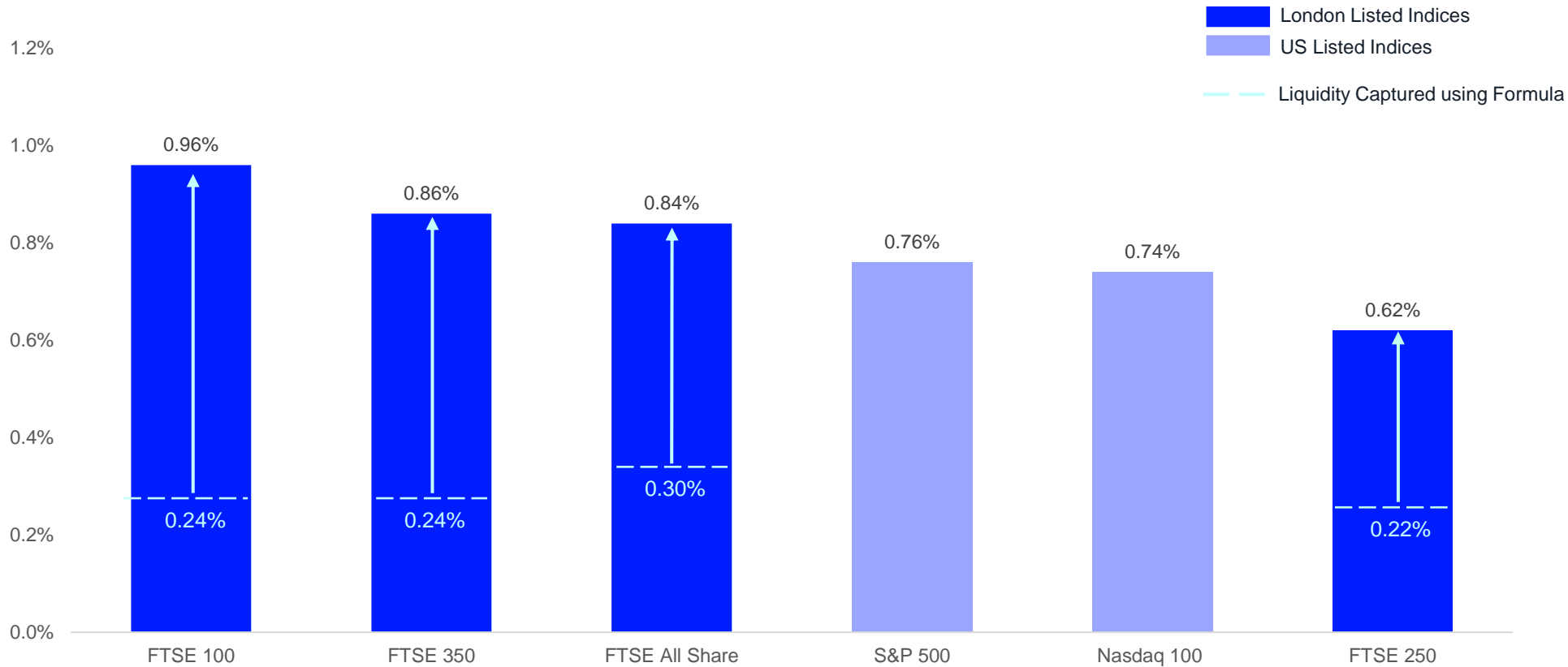
A simplistic look at the total value traded across markets will show a gap in the liquidity in London compared to New York given the largest US issuers are larger than those in the UK, and therefore the S&P 500 is larger than the FTSE 100.

However, this type of analysis provides no insight into the liquidity that individual issuers will see in their stocks. A better method to compare like-for-like liquidity across markets of differing sizes is to use a relative metric that accounts for what is available to be traded.



Comparable Data shows Liquidity is in line with the US

Average Daily Free-Float Adjusted Turnover Ratio by Index, 2022 (12 months)



Due to the differing market structures and regulation between the UK and the US, to allow for a true comparison of liquidity across markets, we must use complete trading volumes.

Using LN equity on Bloomberg (BBG) or ISINs/RICs on Refinitiv Workspace, retrieves only the London on exchange trading volume (dotted line). Even using EU equity still does not capture a large proportion of trading volumes. US equity composite TIDMs on BBG however capture nearly all of the full volume data reported.

London liquidity can be disproportionately underrepresented when using venue or composite TIDMs/RICs.



Source: London Stock Exchange, Bloomberg Formula, Refinitiv, May 2023. 12 month traded volume (1st January 2022- 31st December 2022) used based on LN Equity or US Equity for each constituent. "LN"/"EU" and "US" tickers are not comparable measures of a stock's liquidity"

Full Liquidity Data is Easily Available

BBG FRAG Screen Input

Range and Security Settings

Date 01/01/22 - 12/31/22

Source Equity Index Name UKX Preview Securities

Include All Currencies

Calculate Value in GBP

Start and end dates are selected based on period of interest

Can be run for a single security, a full index or a selected portfolio of securities

BBG FRAG Example Report



Automatically includes only those that have more than 2% liquidity, override to 0% for full venue breakdown

FRAG returns a venue level breakdown of liquidity and sums into "Listed" and "OTC" venues, these can be summed to give total volume and value traded*

The full volume and value traded data for individual stocks, tailored portfolios and indices is easily available through **Refinitiv's Market Share Reporter (MSR)** app and **Bloomberg's Fragmentation Analysis (FRAG)** app.

The **Bloomberg FRAG** app includes comprehensive liquidity at a security, index, or portfolio level as it considers the market fragmentation of a stock's liquidity including all venues where the securities are traded.

Once you have the BBG FRAG report, simply sum the top headline numbers for "Listed" and "OTC"* volumes and value.

Refinitiv MSR Screen Input

CRITERIA

MSR Level: Stock View

Region: Europe

Instrument RIC: LSEG.L

MSR Analysis: MSR Monthly Historical

Benchmark: Volume

Date Range: Custom date range

Jan-2022 - Dec-2022

TRADE CLASS (19/19)

FILTERS

VENUE (47/47)

VENUE GROUP (13/13)

COUNTRY/REGION OF VENUE (38/38)

Update

Change to "Stock View"

Can be run for a single security

Can run for set periods or set start and end dates for a period of interest

The Refinitiv Market Share Reporter (MSR) app also includes comprehensive liquidity data for individual securities.

MSR data can be exported to excel, giving a venue level breakdown for each stock. Refinitiv MSR data additionally breaks the data for each venue into trade classes.

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