Liquidity provision, information and inventory management in limit order markets: An analysis of order revisions

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- The paper analyses an important class of order submission strategies, namely order revisions in the context of an electronic limit order book market.
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  - Order revisions help reduce adverse selection risks as market participants are actively able to manage the high information uncertainty during earnings announcements (H4a).

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- The main contributes to the literature in many ways.
  - Provide evidence in favour of existence of inventory management effects (Ho & Stoll (1983)) in the case of LOB markets.
  - Order revisions help institutions 'time' their trades thereby reducing costs of execution, more than individuals can (H6a).

Comments

- The "Who" of order revisions.
  - NSE voluntary dealers not the same as the designated market makers (NYSE) nor the same as "defacto" market-makers.
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- The 'Why' of order revisions.
  - Each ‘defacto’ market maker provides liquidity to more than one stock. Shared capital and information within the market maker firm makes the order revisions in his portfolio of stocks correlated. (Coughenour & Saad(2004))
  - The risk of providing inventory should be negatively related to the degree of market maker’s portfolio diversification.
  - Coughenour and Deli (2002) show that the specialist firm organizational structure influences liquidity provision.
  - Financial institutions having maximum modifications - access to low cost capital and having the ability to bear the risk.
  - The relative importance of market conditions versus inventory management for different kinds of trader categories.

Comments

- The 'Who benefits' from order revisions.
  - What effect does the order revision activity of financial institutions have on the execution probability of other traders' orders?

Suggestions

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  - What is the position of the order being cancelled in the queue at each price level?
- Comparison of results using data post 2010.

Thank You