

Trading Structure, Liquidity Rebates and Market Quality

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"Direct transaction costs incurred by traders in financial markets are often neglected, as it is usually assumed that they only have a first-order effect on the investors' welfare. This paper uses natural experiments to investigate the impact of changes in the fees' structure in Euronext Amsterdam in 2004-2005, on trading activity and on market quality. In particular, we show that order submission fees have a second-order effect on welfare, as they impact the liquidity of the market. Besides, we take advantage of asymmetric changes in the order submission costs for passive and active orders to assess whether limit order books can be defined as a two-sided market."