Chair of Financial Management and Capital Markets
TUM School of Management
Technische Universität München

Master Thesis on the Microstructure of Financial Markets

Description

Trading financial securities is very easy today, i.e., via smartphone brokerage apps. A second after an order was placed, the financial security appears in the brokerage account as if we already owned it. However, this is not the whole truth. After purchasing a security on a stock exchange, the actual transfer of ownership of the security happens at a much later point in time. This settlement process, which lies between the confirmation of a trade order and the customer ultimately receiving the security, once used to take five days (T+5), but was shortened over the years to three days (T+3), later to two days (T+2), and in the US to one day (T+1) in 2024. In our project, we are investigating the impact of shorter settlement cycles on the liquidity in the market and potential implications on the inventory costs.

Methodology

We are analyzing the switch from several European exchanges from (T+3) to (T+2) and the switch in the US to (T+1). Data is partly already available, additional data might be needed to retrieve from Bloomberg or Reuters Datastream. The empirical strategy includes a difference-in-difference analysis.

Literature

Baig, A., Breeze, S., Cox, J., and Griffith, T. (2022). Settling down: T+2 settlement cycle and liquidity. *European Financial Management*, 28(5), 1260-1282.

Bollen, N.P.B., Smith, T., and Whaley, R.E. (2004). Modeling the bid/ask spread: measuring the inventory-holding premium. *Journal of Financial Economics*, 72(1), 97-141.

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