Figure 2.7. Regulation and Market Liquidity: Two Examples

Enhanced posttrade transparency, in some cases, improves market liquidity.

1. Liquidity Improves with Transparency
   (Percent improvement in liquidity measure)

   The European sovereign CDS ban was followed by a deterioration in the liquidity of EU sovereign CDSs and bonds.

2. Decrease in Liquidity due to EU Uncovered CDS Ban
   (Percent deterioration in liquidity)

Note: The figure shows estimated change in liquidity three months before and after trade dissemination. Dissemination dates are March 3, 2003 (phase 2a); April 14, 2003 (phase 2b, not shown); October 1, 2004 (phase 3a); and February 7, 2005 (phase 3b). A positive value means improved liquidity. Solid columns mean statistical significance at least at the 10 percent level. See Annex 2.2 for details. Amihud = Amihud’s (2002) price impact; IRTC = imputed round-trip cost; Roll = Roll’s (1984) price reversal.

Sources: FINRA Trade Reporting and Compliance Engine; Markit; and IMF staff estimations.