

Seminar series

## Securities markets: trends, risks and policies

### Information and optimal trading strategies with dark pools

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2021, 27 January - 03:00 pm (CET)



#### Abstract:

We examine the competition between a transparent exchange organized as a limit order book and an opaque dark pool in the presence of asymmetric information. We show that the coexistence of a dark pool with an exchange not only enlarges traders' strategy set, but may also induce trading venue substitution, a change in the order type, and an increase in market participation. Consequently, dark trading affects market quality and traders' profits. These effects depend on stock market characteristics (fundamental volatility, liquidity, and adverse selection) and traders' characteristics (immediacy and information). We derive new empirical and policy implications from our analysis.

**Keywords:** trading venues, dark liquidity, limit order book, price risk, adverse selection, double volume cap

**JEL Classification:** G12, G14, G18

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