



ISM SEMINAR

Summer Term 2014

Speaker: Professor Yuval Millo, University of Leicester

Title: Where do Electronic Markets Come From? Regulation and the Transformation of Financial Exchanges

Date: Tuesday 20 May 2014

Venue: M2, MBA Teaching Centre

Time: 14.00

Abstract: The recent history of the stock exchange as an institution is portrayed frequently as that of precipitous decline and destabilization. The widely accepted reason for this decline is the automation of trading of financial assets and contracts. In this paper we aim to add a theoretical and empirical basis to this broad explanatory narrative, and suggest that traditional exchanges were not simply marginalized by competition from electronic trading platforms, but that a more sophisticated historical and sociotechnical process was at play. Our research indicates that interactions between the regulatory discourses and technological materialities led to a reconfiguration of the nature of competition among US exchanges; to an increased fragmentation of market share; and, ultimately, to a dramatic change in the nature of financial exchanges. This paper focuses its analysis on the Securities and Exchange Commission's regulation of Exchanges and Alternative Trading Systems (Regulation ATS) – which threatened, disrupted and formally redefined the ontology of the exchange.

Exchanges compete across various dimensions: most importantly, trading facilities and new listings. However, our findings show that Reg ATS contributed to a dissolution of the distinction between exchanges and broker-dealers, which used to be the customers of exchanges. The later – via the technological affordances of electronic communication and transaction-processing database systems but also through the increased (and SEC-mandated) standardization of trade reporting, quotes, and orders – began to pragmatically provide functionality previously unique to exchange trading floors.

This radical equivalence between “broker” and “exchange” cannot be attributed only to technological progress or the intentional outcome of regulatory action, but its history is the fulcrum of the transformation in the nature of financial exchange.

Biography: Yuval Millo is a professor of Social Studies of Finance and Management Accounting at the University of Leicester School of Management. Prior to this he held positions at the London School of Economics and the University of Essex. Yuval's background is in sociology of science and technology, economic sociology and accounting. Yuval is a leading contributor to the emerging field of Social Science of Finance (SSF), which develops a unified analytical framework that includes elements from accounting, financial economics and sociology and analyses dynamics in and around financial markets. SSF pays particular attention to the technological and organizational infrastructure that affects price formation. Yuval recently published in *Harvard Business Review* and *Journal of Business Finance and Accounting*. Using a combination of qualitative and quantitative methods, Yuval's current research includes the emergence of electronic trading in financial exchanges, the evolution of accounting standards for testing the impairment of assets and the rise of the Social Return on Investment Methodology.

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