

Capstone Project

Summary

MS in Finance

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***Global Financial Market Structures and Broker Impact:
Comparative Insights from the US, Canada, UK, and France***

BY

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1. Project Overview

The report focuses on a comprehensive analysis of financial markets in the United States, Canada, the United Kingdom, and France. This analysis was conducted to bolster BrokerChooser's broker scoring system by integrating detailed insights into various market structures, regulatory landscapes, and investment environments. The end goal is to enhance the platform's credibility and offer investors improved tools to make informed decisions.

2. Introduction

The financial markets of different countries operate under varied regulatory frameworks, market structures, and investment environments, significantly impacting investor experiences and outcomes. BrokerChooser, aiming to aid investors in selecting the best brokerage services, initiated this project to analyze and map the financial markets of four prominent regions: the United States, Canada, the United Kingdom, and France. The core objective is to refine BrokerChooser's scoring system by incorporating these comparative insights, thus enabling more accurate and relevant evaluations of brokerage services across different regions.

3. Creating a Comprehensive Database

3.1 Data Collection and Description

The collected data covered:

- **Market Capitalization and Infrastructure:** Insights into the depth and liquidity of financial markets in each country, including primary exchanges and settlement entities
- **Brokerage Firms:** Comparison of major brokerage players and their roles in different market structures
- **Regulatory Bodies:** Overview of the regulatory frameworks governing financial markets in the respective countries
- **Payment for Order Flow (PFOF):** Examination of the prevalence and impact of PFOF practices across the markets
- **Industry Composition:** Analysis of the market capitalization distribution across different industries in each country

4. Empirical Investigation of Brokers and Market Liquidity

4.1 Theoretical and Empirical Framework

The report delves into the theoretical context and empirical data to evaluate brokers' impact on market liquidity. By constructing an empirical framework, the study aimed to measure how these elements varied between markets.

I developed a regression model to isolate the effect of brokers on market liquidity, controlling for economic factors in each country. The Amihud measure of illiquidity was used to determine market liquidity.

The following model was used:

$$ILLIQ = \alpha + \beta_1 \cdot Brokerages + \beta_2 \cdot GDP + \beta_3 \cdot Inflation + \beta_4 \cdot risk$$

ILLIQ is the Amihud measure for liquidity : the absolute return on the index divided by turnover

Brokerages are the variable that represents brokers' performance.

GDP variable is the growth rate of GDP.

Inflation is the change in CPI for each country.

Risk is the overall risk associated with each country

The project involved running a linear regression.

4.3 Key Findings :

- United States: Brokerage activities significantly improve market liquidity, with higher brokerage index prices correlating with reduced illiquidity.
- Canada: Increased brokerage index prices are marginally associated with decreased market illiquidity, suggesting a positive impact on liquidity.
- France: The relationship between brokerage index prices and market liquidity is not statistically significant.
- United Kingdom: Higher brokerage index prices may slightly improve market liquidity, but the impact is relatively weak

5. Conclusions and Recommendations

Market Liquidity Metrics and Regional Customization

The study concludes that incorporating market liquidity metrics and customizing scoring criteria regionally, based on comparative analysis findings, is essential for enhancing BrokerChooser's platform. The recommended changes will align the scoring system closely with the local market realities and regulatory environments, thereby improving its accuracy and reliability.

6. Limitations and Future Considerations

The report also identifies certain limitations, suggesting areas for further research to fill existing gaps and reinforce the project's conclusions.

By implementing the findings and recommendations from this report, BrokerChooser seeks to enhance its broker scoring system, making it a robust tool that reflects market realities accurately. This will significantly improve the investment decision-making process for users globally.