Lower tick sizes and futures pricing efficiency: evidence from the emerging Malaysian market

ABSTRACT

We provide robust evidence of the impact on spot market liquidity and the pricing efciency of FBM-FKLI index futures following the introduction of lower tick sizes for the stocks listed in the Bursa Malaysia. Our fndings show a signifcant increase in unexpected trading volume and the speed of mean reversion of the futures mispricing. We fnd that the increase in the unexpected trading volume of the underlying stocks helps in reducing intermarket price discrepancies. The fndings ofer new evidence that lowering of tick sizes improves pricing efciency in the Malaysian futures market.