

## LIQUIDITY MEASUREMENT AND MONITORING IN THE RUSSIAN STOCK MARKET

*Covered market segment*

Liquidity measurement and monitoring is performed for the Securities Market Of the Moscow Exchange (<http://moex.com/s338>) in the segment of constituent stocks of the MICEX Index (<http://www.moex.com/s775>). The MICEX Index is one of the Moscow Exchange's principal broad indices; it constitutes of the stocks of home issuers with economic activities related to the main sectors of the Russian economy. Thus, the market segment covered represents **actively traded stocks of established large-cap companies or of fast growing companies**.

*Input data*

The market segment covered includes the MICEX Index common stocks. An exception is TRANSNEFT preferred stocks (TRNFP) due to the fact that the total TRANSNEFT common stocks outstanding are state-owned and depositary receipts RDR United Company RUSAL Plc. (RUALR). Since the MICEX Index constitutes of 50 common and preferred stocks, liquidity measurement and monitoring is performed for 45-48 stocks depending on the list compiled on a quarterly basis. The input data are obtained from the market data at the end of a trading session in the Securities Market (main market / main trading mode) o a daily basis.

*Methodology*

Liquidity is assessed along its three dimensions – **tightness (trading costs)**, **immediacy (trading activity)**, and **elasticity**, which are measured by a number of liquidity proxies – **bid-ask spread**, **trading volume and modified AMIVEST ratio (from 09.2014 through 09.2015)** and the **HUI & HEUBEL Liquidity Ratio (from 10.2015)**. More details on liquidity dimensions and liquidity proxies can be found in guidance materials «Методических материалах по расчету показателей ликвидности» available at [http://fmlab.hse.ru/liquidity\\_diagnostic](http://fmlab.hse.ru/liquidity_diagnostic) (in Russian only). Liquidity proxies are computed as monthly averages for every stock and for the market segment covered in total. Stocks are further ranked in a descending level of liquidity. Liquidity proxies are given in an absolute form (suitable for dynamic analysis of stock liquidity for one stock) and in a relative form (suitable for cross-sectional analysis of stock liquidity). There are two approaches towards computing trading activity, one is being normalized by total stocks outstanding and the other one being normalized by total stocks outstanding adjusted for free-float. Stock ranking in trading activity is performed based on the first approach since low free-float coefficients effectively reduce liquidity level while technically they increase the magnitude of stocks' relative trading volumes which results in a biased liquidity assessment in its immediacy dimension (trading activity).