Mechanism design of Make-Take fees platforms.

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Abstract

We consider an exchange who wishes to set suitable make-take fees to attract liquidity on its platform. Using a principal-agent approach, we are able to describe in quasi-explicit form the optimal contract to propose to a market maker. This contract depends essentially on the market maker inventory trajectory and on the volatility of the asset. We also provide the optimal quotes that should be displayed by the market maker. The simplicity of our formulas allows us to analyze in details the effects of optimal contracting with an exchange, compared to a situation without contract. We show in particular that it leads to higher quality liquidity and lower trading costs for investors.