CEPR-Imperial-Plato Inaugural Market Innovator (MI3) Conference

Evolving Market Structure in Europe and Beyond

29 June 2017

Conference Overview

The inaugural Plato Partnership MI3 academic conference, Evolving Market Structure in Europe and Beyond, was held in conjunction with Imperial College London and the Centre for Economic and Policy Research (CEPR).

With over 80 attendees combining a balanced mix of industry practitioners and senior academics from across the globe, the discussions were informative, in-depth and varied. Seven papers, submitted by leading academics in advance of the day, were chosen for discussion by leading industry experts.

This document provides an easily-digestible summary of session 7, led by Sven Panz, Goethe University Frankfurt (with benjamin Clapham and Peter Gomber).

Coordination of Circuit Breakers? Volume Migration and Volatility Spillover in Fragmented Markets,
Sven Panz, Goethe University Frankfurt (with Benjamin Clapham and Peter Gomber)

Keypoints:

- The best venues have implemented co-ordinated circuit-breakers to protect investors.
- There has been renewed interest in circuit breakers in light of increasing algorithmic trading and recent flash crash events.
- The accepted opinion is that if circuit-breakers are not co-ordinated, volatility will spillover elsewhere, and that un-co-ordinated circuit-breakers are not effective in fragmented markets.
- Our study found that there was actually no volume migration and no accompanying volatility spillover to alternative venues and co-ordination is not essential as long as participants agree on one main market to switch to in exception circumstances.
- The larger the levels of High Frequency Trading, the more switchover was seen to the main market, as HFTs are more likely to pursue multi-market strategies.

Key questions:

"Did you examine intraday trading as part of your study and how would this compare?"

We did not look specifically at intraday trading, but you could expect to see similar results and these findings can be generally applied to intraday trading. However, the 'everyday' factor of intraday trading would mean that they cannot be treated in the same way.

"Does the dataset used contain flags for circuit breaker activation and when regular trading resumes?"

The study used historic data that flagged when the disruption began and when continuous trading resumes.