

Executive Summary for the Exchange Volatility Controls Paper

In today's rapidly evolving financial landscape, characterized by global uncertainties and unforeseen market events, the efficient management of financial market volatility is paramount.

During recent crises, FIA has noted the pivotal role VCMs have played in preserving market integrity. Consequently, FIA engaged with global derivatives exchanges and market participants to explore the most effective ways to mitigate disruptions while ensuring transparent price discovery.

The primary objective of this paper is to present principles-based, flexible and adaptable best practices for the development of derivatives exchange VCMs. While not exhaustive, the paper covers a range of VCM tools including pre-trade price bands, daily price limits, and various mechanisms used to interrupt continuous trading. It also addresses exchange rulesets that offer remedial measures for erroneous trade events.

The paper acknowledges the various challenges contributing to extreme market volatility and emphasizes the significance of well-designed and transparent exchange-provided VCMs in maintaining market integrity, reliability, and utility.

FIA makes specific recommendations for each type of VCM, in addition to high level recommendations for all VCMs. Some examples include:

- VCMs should be designed to avoid unduly disrupting markets and interfering with price discovery.
- Exchanges should focus on keeping markets trading and trading interruptions should only be triggered sparingly.
- Design features of a VCM should be based on the specific characteristics of the market or the prevailing market environment, such as time of day effects.
- Information on VCMs and how they operate in practice should be publicly available and replicable.

GMAC Recommendation:

The GMAC recommends that the Commission use the best practices as a tool for understanding exchange market risk controls and when engaging with global regulators and international standard setters.