

IFM Publishes Four Research Studies that Address Contemporary Financial Market Issues

Story Highlights:

- "Hot topic" studies include a look at prescriptive measures to thwart a "Flash Crash"; impacts of high-frequency trading; clearinghouse margins and systemic risk; as well as, DMA and the effects of algorithmic trading on liquidity on popular contracts traded at CME Group exchanges.
- Independent research conducted by scholars from Yale, EDHEC Business School; Singapore Management University, Simon Frazer University, University of Delaware, HEC Paris and Hofstra University.

Washington DC – June 30, 2011 – The Institute for Financial Markets (IFM) has published four new studies on high-priority issues whose understanding and potential resolutions are of critical importance to financial market participants and regulators worldwide. The studies, published in a special edition of the Review of Futures Markets, have been completed by internationally-recognized academics in the field.

The IFM studies being released today are intended to educate market users, policy makers, regulators, and others. Although research was funded by the IFM, each study was subjected to a blind peer-review – a painstaking process that encourages scholarly standards and avoids the dissemination of superfluous findings, claims, interpretations, or personal views. The new studies include;

- **Would Price Limits Have Made Any Difference to the “Flash Crash” on May 6, 2010?**
Bernard Lee; Shih-fen Cheng and Annie Koh, Singapore Management University.

This study looks at the "Flash Crash" and explores the results of nine different simulations created by using a large-scale computer model to reconstruct the

critical elements of the market events of May 6, 2010. This type of simulation avoids “over-fitting” historical data, and can therefore provide regulators with deeper insights on the possible drivers of the “flash crash,” as well as what type of policy responses may work or may not work under comparable market circumstances in the future. The results of the study lead to a natural question: if certain prescriptive measures have a low probability of meeting their policy objectives on a day like May 6, will there be any other more effective counter measures without unintended consequences?

- **Clearing House, Margin Requirements, and Systemic Risk**

Jorge A. Cruz Lopez, Simon Fraser University; Jeffrey H. Harris, University of Delaware; and Christophe Pérignon, HEC Paris.

This study looks at an alternative method for setting margin requirements that accounts for interdependencies among clearing members. The alternative method presented would generalize the SPAN system by allowing individual margins to increase when clearing firms are more likely to be in financial distress simultaneously.

- **High-Frequency Trading: Methodologies and Market Impact**

Frank J. Fabozzi, Yale School of Management; Sergio M. Focardi, EDHEC Business School; and Caroline Jonas, The Intertek Group.

This research paper discusses the state of the art of high-frequency trading (HFT), its requisite input, high-frequency data (HFD), and the impact of HFT on financial markets. The study looks at high frequency and how forecasting opportunities differ from those present at lower frequencies – which may call for new strategies and a new generation of trading algorithms. The paper also discusses new risks associated with the speed of HFT, the interaction between algorithms and design considerations of electronic markets.

- **Direct Market Access in Exchange-Traded Derivatives: Effects of Algorithmic Trading on Liquidity in Futures Markets**

Ahmet K. Karagozoglou, Hofstra University.

This study breaks new ground to provide empirical evidence for the positive effects of algorithmic trading afforded by direct market access (DMA) on liquidity in the U.S. futures markets. The research further analyzes the potential effects of electronic trading, and presents evidence that algo trading decreases

spreads (market width), and increases market depth in the Crude Oil, Euro FX, Eurodollar, S&P 500 E-mini, and 10-year U.S. Treasury Note futures contracts traded at CME Group exchanges.

A complimentary copy of the studies found in the special edition of the Review of Futures Markets, are available for free online at www.theIFM.org. Funding for these IFM research studies was made possible by an endowment from The Clearing Corporation Charitable Foundation.

About the Institute for Financial Markets:

The Institute for Financial Markets (IFM) is a nonprofit Section 501(c)(3), educational foundation, and an independent affiliate of the Futures Industry Association. Headquartered in Washington DC, the IFM's mission is to promote professional knowledge, judgment and integrity by providing research, educational resources and training to financial services industry participants and to interested constituencies including investors, journalists, academicians and public-policy makers. IFM educational programs are provided globally, and customized courses are delivered in-house to exchanges, firms and regulatory personnel.

The IFM provides market participants the daily data needed to conduct business and meet their regulatory responsibilities. The Institute also provides historical intra-day tick data on major futures contracts and U.S. equities and monthly global volume.

As a nonprofit organization, the Institute funds its activities from two principal sources: the generous support of a broad range of financial institutions, exchanges, brokerage firms and other participants from a variety of market sectors and the sale of its products and services.

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