

ESMA assesses EU financial market impact of circuit breakers

Sudden and drastic price swings in financial markets can be a source of market instability and are a concern for market participants, supervisors and regulators. Circuit breakers are key instruments used by trading venues to regulate markets and interrupt excessive price movements.

Based on Morningstar Real Time data ESMA has created a unique database of circuit breakers triggered between 1 April 2016 and 31 December 2016 on a sample of 10,000 financial instruments traded on EU trading venues, to analyse the impact they have on the market.

The study finds that that price volatility is significantly lower after the use of a circuit breaker. At the same time, bid-ask spreads widen and the price discovery process is not negatively affected. The cross-venue character of ESMA's database also allows the assessment of coordination of circuit breakers across venues.