

Pragma Securities calls for FX market to adopt universal definition of a ‘flash crash’

Tick-by-tick analysis of 11 currency pairs identifies the characteristics of a flash crash

Pragma’s methodology provides a useful way for regulators and market participants to measure market events

4th December 2017 – New York/London: Pragma Securities (Pragma), a multi-asset quantitative trading technology provider, has published new research exploring the phenomenon of flash crashes in the foreign exchange (FX) market.

Flash crashes – sudden and dramatic ‘v-shaped’ price changes – have broken into the public consciousness over the past few years, with high profile events including the aftermath of Swiss National Bank unpegging the Swiss franc (CHF) in January 2015 and the sell-off in sterling (GBP) in October 2016.

Pragma’s research paper, entitled ‘[Defining a flash crash](#)’, provides a clear, objective definition and identifies the characteristics of a flash crash. Its criterion includes a large price move, strong reversion, and widening spreads. Using this definition and tick-by-tick analysis of data from 11 currency pairs, the paper identified more than 97 similar, albeit smaller, events during 2015 and 2016.

The note asserts that flash crashes are usually triggered when liquidity providers can’t keep up with sudden demands of heavy but informationless directional volume. By contrast, market moving news and events may cause sudden changes in price, and spikes in volatility and spreads, but they should not be considered to be a ‘flash crash’. In such events, the price generally does not revert but converges to a new level, reflecting the new information absorbed by the market.

David Mechner, CEO of Pragma Securities, comments, “This note is part of our ongoing research effort. We use quantitative tools to understand market microstructure, both to help us deliver the highest quality trading tools to our clients, and to contribute to industry dialog about market structure.

“Writing on flash crashes in FX has, to date, tended to be anecdotal, looking at individual events in isolation. We took a more systematic approach, and came up with an index that could help regulators, trading institutions and individual market participants track market quality.”

For information and to access the full report, please click [here](#).

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About Pragma Securities

Pragma is an independent, quantitative trading technology provider specializing in algorithmic and analytical services. Pragma’s broker-neutral, multi-asset trading solutions power traditional asset managers, hedge funds, broker-dealers, global banks, and exchanges. Pragma does not trade proprietarily or internalize order flow. For more information, please visit <http://www.pragmatrading.com/>

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