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Volatility Interruption Mechanism

- applicable from December 2nd, 2019 -



Volatility Interruption Mechanism (VI)

- starting **December 2, 2019**, BVB will apply the VI mechanism for *shares included in BET and BET-FI indices, as well as for the international shares traded on the regulated market*
- this is a way of protection, which contributes to the improvement of the continuity of prices, ensuring a qualitative degree of the prices, as well as premises for executing orders
- it offers protection in case of steeper fluctuations of the market price for a financial instrument, registered in a very short period of time, also having *the role of signaling the registration of a certain degree of price volatility, based on the demand and supply for a financial instrument*
- it can be activated for a financial instrument in the auction type stages and continuous trading on its main market, consisting in an *unprogrammed auction stage*, which will allow participants to react to the new market conditions, as follows:
 - *changing the market from a continuous trading status (Open type) to a auction status (Pre-opening type) for a short period of time, when the potential price of a transaction exceeds a certain limit*
 - *the extension of the auction status, when the potential fixing price exceeds a certain limit*

Types of price tunnels (variation limits) used for VI mechanism

<i>maximum tunnel</i>	is represented by the maximum price variation, outside of which no orders can be placed (<i>the tunnel type applied previously</i>)
<i>static tunnel</i>	is a price tunnel that has as reference <i>the price of the last fixing recorded in the current session</i> or, if it does not exist, <i>the reference price</i>
<i>dynamic tunnel</i>	<p>is a price tunnel that has as reference <i>the price of the last trade</i> or, if it does not exist, <i>the reference price</i>.</p> <ul style="list-style-type: none">▪ <i>the price of the last trade</i> represents the price of the last trade before processing the current order (which could determine the transition to the <i>Volatility Interruption (Vi)</i> state)<ul style="list-style-type: none">○ the transition to <i>Vi</i> does not change the dynamic tunnel reference valid in <i>Vi</i>○ if there is no trade in the current session, the dynamic tunnel reference will be the reference price

Types of dynamic price tunnels

Depending on the state of a symbol-market entity , the following tunnels can be activated:

<i>dynamic tunnel in Preopen</i>	<ul style="list-style-type: none">○ if the potential opening price is outside this tunnel, the symbol-market enters the Pre-Open Extended (PreopenXT) state for a period of time, after which it then enters in the Open state, regardless of the value of the new potential opening price
<i>dynamic tunnel in Open</i>	<ul style="list-style-type: none">○ if the potential price of a trade is outside this tunnel or outside the static tunnel, the symbol-market enters in the Volatility Interruption Vi state (so the trade is not executed) for a period of time, subsequently changing to Volatility Interruption Extended (ViXT) or Open
<i>dynamic tunnel in Volatility Interruption (Vi)</i>	<ul style="list-style-type: none">○ if the potential opening price is outside this tunnel, the symbol-market enters the state of Volatility Interruption Extended (ViXT) for a period of time, followed by the Open state, regardless of the value of the new potential opening price

New symbol – market states

- regarding operations with orders:

<i>Pre-open (PreopenXT)</i>	○ equivalent to the <i>Pre-open</i> status
<i>Volatility Interruption (Vi)</i>	○ equivalent to the <i>Pre-open</i> status
<i>Volatility Interruption Extended (ViXT)</i>	○ equivalent to the <i>Pre-open</i> status

- during a trading session, the succession of the symbol-market entity states for which the volatility interruption mechanism is applied, are the following (*the marked states are optional*):

Closed, Pre-Open, [*Pre-Open Extended*], Opening, Opened, [*Volatility Interruption*,
Volatility Interruption Extended], *Opening*, *Opened*], Pre-Close, Closing, Trading at Last,
Closed

Close -> Preopen -> [*PreopenXT*] -> Fixing -> Open -> [*Vi* -> [*ViXT*] -> *Fixing* -> *Open*] ->
Preclose -> Fixing -> TAL -> Close

- in order to ensure a high degree of orderly trading, BVB will apply a *random duration* for *PreopenXT*, *Vi* and *ViXT* states

The behavior of orders in the new market states

<i>Market order</i>	<ul style="list-style-type: none">○ if it activates Vi it will remain in the orderbook at price M with the unexecuted volume
<i>Unpriced order</i>	<ul style="list-style-type: none">○ if it activates Vi it will remain in the orderbook at the price of the opposite matching order
<i>FOK/IOC orders</i>	<ul style="list-style-type: none">○ they can't activate Vi○ If the potential execution price of any of the possible trades would be outside the dynamic or static tunnels, the order will be rejected in full
<i>Cross order</i>	<ul style="list-style-type: none">○ it can't activate Vi○ If the order price is outside the dynamic or static tunnel the order is rejected; but if accepted, the price of the trade will update the dynamic tunnel reference
<i>VFO, VFA, VFC orders</i>	<ul style="list-style-type: none">○ when there is a transition into Vi, ViXT, PreopenXT no such order will be activated○ when there is a transition out of Vi sau ViXT no such order is eliminated○ when there is transition out of PreopenXT the eligible active orders will be eliminated

- In case the aggressive order is partially filled before it triggers **Vi**, the dynamic tunnel reference is not changed. This way, during **Vi**, the dynamic tunnel reference will be the one valid before the triggering order was processed.
- when a symbol-market enters the **Open** or **TAL** state the dynamic tunnel reference will be updated with the last trade price (if it's not the case the main market reference price will be used).



Other specific elements related to the VI mechanism

- for the financial instruments for which the VI mechanism is applied, static variation limits will be applied in the related Deal market:
 - the variation limits applicable to the financial instrument in the the related Deal market are calculated having as reference the *static tunnel reference price in the main market* of the respective instrument

- VI mechanism:
 - it represents an efficient way of price discovery

 - it is a market risk management tool that prevents market price disturbances, which can be determined by its volatile and rapid evolutions

 - It is fully automated, implemented in the trading system developed in-house by BVB, having attributes of flexibility and robustness, so that it works and adapts to dynamic market conditions
 - the full automation of this mechanism ensures a transparent and equitable framework that allows an immediate reaction to more volatile market price trends of a financial instrument

Applicable parameters for the VI mechanism at symbol-market level

Symbol – main market (REGS)		
Parameter		Value
1.	maximum tunnel	+/- 25%
2.	dynamic tunnel in Open	+/- 3%
3.	dynamic tunnel in Preopen	+/- 6%
4.	static tunnel	+/- 10%
5.	dynamic tunnel in Volatility Interruption (Vi)	+/- 6%
6.	minimum duration (seconds) for Volatility Interruption (Vi)	180
7.	minimum duration (seconds) for Volatility Interruption Extended (ViXT)	180
8.	minimum duration (seconds) for Pre-open Extended (PreopenXT)	180
9.	random duration (seconds) for PreopenXT, Vi si ViXT – added to the minimum duration indicated in sections 6 - 8	minimum 0 maximum 30

Symbol – deal market (DEALS)		
Parameter		Value
1.	maximum tunnel	+/- 25%
2.	static variation limits applicable to a symbol in the deal market	+/- 10%

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BURSA DE VALORI BUCURESTI SA • Bulevardul Carol I nr. 34-36, Etaj 13-14, Sector 2, 020922, Bucuresti, Romania • Tel.: +40 21 307 95 00 • Fax: +40 21 307 95 19 Website: www.bvb.ro • E-mail: bvb@bvb.ro • Registrul Comertului: J40/12328/2005 • CUI: 17777754 • Capital social, integral subscris si varsat: 76.741.980 lei
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