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Exchanges' ratings may suffer as operational risk rises: S&P

(Reuters) - A spate of technical snafus at securities exchanges around the world are a sign of the growing risks they face and may trigger downgrades of their credit ratings, Standard and Poor's said.

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<http://www.reuters.com/article/2013/09/20/us-exchanges-operationalrisk-idUSBRE98J0L020130920>



Traders work on the floor of the New York Stock Exchange shortly after the opening of the market in New York September 20, 2013.

Although its credit analysis focuses more on cash flow generation, S&P said in a report published Thursday that it believed rising operational risk was becoming a more important factor in its ratings.

A three-hour trading halt sparked by a software bug at a unit of Nasdaq OMX in August and a trading halt across U.S. options markets on Monday due to a software update at a unit of NYSE Euronext once again raised questions about the reliability of U.S. markets.

Operational risk at exchanges has gradually increased over the past five to seven years because of new competitive dynamics, changes in market structure and advances in trading technology, S&P said.

While these trends affect all exchanges, those where stocks are traded are especially vulnerable because of their numerous connections to each other as well as the variety of orders they process, the report said.

Numerous types of orders increase the complexity and amplify the risk, S&P said.

Derivative and futures exchanges, such as CME Group Inc and IntercontinentalExchange Inc, tend to be vertically structured and conduct trading and clearing under one roof, reducing their number of connections.

S&P highlighted 24 incidents at exchanges around the world over the past 18 months, but said the potential financial impact from future outages and other failures at exchanges was hard to quantify.

(Reporting by Herbert Lash; Editing by Lisa Von Ahn)