

Impact of Regulation on Trading in Financial Derivatives in Europe

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Abstract : Financial derivatives are considered to be risky investment instruments which could possibly bring another financial crisis. As prevention, European Union and its member states have released new legal acts adjusting this area of law in recent years. There have been several cases in history of capital markets worldwide where it was shown that legislature may affect behavior of subjects on capital markets. In our paper we analyze main events on selected European stock exchanges in order to apply them on three chosen markets - Czech capital market represented by Prague Stock Exchange, German capital market represented by Deutsche Bourse and Polish capital market represented by Warsaw Stock Exchange. We follow time series of development of the sum of listed derivatives on these three stock exchanges in order to evaluate popularity of those exchanges. Afterwards we compare newly listed derivatives in relation to the speed of development of these exchanges. We also make a comparison between trends in derivatives and shares development. We explain how a legal regulation may affect situation on capital markets. If the regulation is too strict, potential investors or traders are not willing to undertake it and move to other markets. On the other hand, if the regulation is too vague, trading scandals occur and the market is not reliable from the prospect of potential investors or issuers. We see that making the regulation stricter usually discourages subjects to stay on the market immediately although making the regulation vaguer to interest more subjects is usually much slower process.

Keywords : capital markets, financial derivatives, investors' behavior, regulation

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