Editorial

A theme of some of the papers in this issue is the understanding of volatility in derivatives and underlying markets. This is a big question in the academic world, but it is also of interest to practitioners, since it leads to trading and risk management models. The practitioner models tend to inhabit the darker regions of the sea of information, because of either concerns over secrecy or feelings of reticence or modesty; it is hard to tell.

It is my surmise, based on some years of consulting and advisory experience, that many of these models are more similar than their owners realise. Interestingly, knowledge of the extent to which one's model overlaps with the models of other players would be commercially valuable information, since it would, at least to some degree, allow an assessment of the liquidity of planned transactions going forward.

There does not appear to be a global register of trading risk models in existence

at the moment, although one can imagine some future regulatory environment where such a register might exist and be held by the supervisory authority. The supervisors could use this information for market simulations, stress tests and scenario analysis, allowing them to assess the current stability of the market.

I wonder if a commercial version of this would be possible, similar to the pooling of analysts' forecasts of earnings, where analysts have an incentive to participate because of the value of the aggregate information. Model information could be analysed, anonymised and pooled, with the aggregate information being made available to contributors and sold to non-contributors. I welcome any discussion on these issues of model information from readers.

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Editor

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