

Impact of Policy Tightening on Order Execution Patterns - June 2025

Category: Analysis | Model: POLICY-EXEC-2025-06-08 | Document Path: [interim report.pdf](#)

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1. Introduction

This report presents a comprehensive analysis of the impact resulting from the enforcement of recent policy modifications implemented in June 2025. The central objective of the policy update was to tighten the internal risk thresholds concerning VAR (Value at Risk) limits and gamma exposure ($\Delta\gamma$). The effects of these changes on order execution patterns, liquidity costs, and trading behavior are thoroughly evaluated.

The analysis draws upon multiple data sources, including execution metrics, order flow data, and governance documents associated with Northbridge Capital and its parent organization, Fairfax Financial Holding.

The findings herein are intended for stakeholders involved in operational risk management, compliance, and portfolio oversight, to

inform future policy adjustments and operational strategies.

2. Policy Context and Implementation

2.1. Policy Objectives

The primary goal of the policy update was to reduce excessive risk-taking during volatile market conditions by tightening VAR and gamma thresholds. These measures aim to prevent large unhedged exposures and reduce potential systemic risk.

2.2. Policy Details

Parameter	Previous Threshold	Updated Threshold	Description
VAR Threshold	150% of daily VaR	100% of daily VaR	Limit on maximum allowed VAR relative to daily risk
Gamma Threshold ($\Delta\gamma$)	± 0.05	± 0.03	Allowed gamma exposure limit to control delta-gamma risk

2.3. Implementation Timeline

- **2025-06-01:** Policy draft approval by governance committee.
- **2025-06-08:** Official enforcement of policy thresholds across trading systems.
- **2025-06-18:** Dated incident note published, documenting initial impact.

3. Risk Policy Summary

3.1. Governance Structure

The risk policies are overseen by the Risk Governance Committee, comprising senior risk officers, compliance officers, and executive management. Key roles include policy formulation, approval, and

periodic review.

3.2. Policy Escalation Procedures

Any breaches or deviations from the thresholds are automatically flagged in the risk management system, triggering escalation workflows for review and approval of corrective actions.

3.3. Compliance and Audit

All trading activities are subject to regular audits to ensure adherence to the policies. Breach codes such as `BR-20250618-0001` identify specific incidents, detailed in section 6.

4. Impact Analysis on Order Execution

4.1. Metrics and Data Sources

The analysis uses execution data metrics such as `slippage_bps` (basis points of slippage), `quote_spread_bps`, and order flow attributes pre- and post-policy implementation.

4.2. Changes in Order Types

Post-policy tightening, there has been a notable shift towards marketable orders, reflecting a preference for immediate execution to stay within the new risk limits. The following table summarizes order type distributions:

Order Type	Pre-Policy (%)	Post-Policy (%)	Change
Market Orders	45%	62%	+17%
Limit Orders	55%	38%	-17%

4.3. Execution Behavior Analysis

The increased reliance on market orders has led to higher average slippage, as seen in the following metrics:

- **Average slippage (bps):** increased from 2.5 to 4.0 basis points
- **Quote spread (bps):** widened from 1.8 to 2.7 basis points

4.4. Scenario-based Case Study

Example: During a volatile session on 2025-06-18, a large market order executed at a slippage of 6 bps, compared to typical levels below 3 bps, indicating increased market impact due to heightened risk controls.

5. Liquidity Cost Implications

5.1. Metrics and Definitions

Key metrics include:

- **Slippage (bps):** price deviation from expected execution price.
- **Quote Spread (bps):** difference between best bid and ask prices.

5.2. Trend Analysis

The tightening of VAR and gamma thresholds has been correlated with increased liquidity costs, as evidenced by a 35% rise in average quote spreads during the monitored period.

5.3. Strategic Implications

Elevated liquidity costs necessitate adjustments in execution strategies, such as increasing the use of algorithmic trading to mitigate market impact.

6. Incident Notes and Governance Updates

6.1. Incident Note: 2025-06-18 VAR/Gamma Update

On 2025-06-18, an incident was recorded documenting the initial impact of tightening thresholds. Key points include:

- **Breach Code:** BR-20250618-0001
- **Summary:** Multiple large orders exceeded the new VAR limit, prompting system alerts.
- **Root Cause:** Sudden market volatility leading to rapid risk limit breaches.
- **Actions Taken:** Manual intervention to authorize exceptions, review of risk controls.

6.2. Governance Updates

Post-incident, governance reviews led to updates in escalation procedures and stricter monitoring thresholds.

6.3. Breach Codes Catalog

Breach Code	Date	Description	Status
BR-20250618-0001	2025-06-18	VAR threshold breach during volatile session	Resolved
BR-20250618-0002	2025-06-18	Gamma limit exceeded in illiquid market conditions	Under review

7. Technical Definitions and Data Metrics

7.1. Key Terminology

- **VAR (Value at Risk):** statistical measure of potential loss within a specified confidence level and time horizon.
- **Gamma ($\Delta\gamma$):** measure of curvature in the option's delta, indicating change in delta concerning underlying price movements.
- **Breach Code:** unique identifier for policy violations or incident reports.

7.2. Data Metrics Definitions

Metric Name	Definition	Measurement Units	Source
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slippage_bps	Difference between expected and actual execution prices, expressed in basis points	bps	Execution Data Logs
quote_spread_bps	Difference between best bid and ask prices, in basis points	bps	Market Data Feeds
order_type	Classification of order as market, limit, or other	-	Order Entry System

8. Appendices and Supporting Data

8.1. Policy IDs and Incident References

Identifier Type	ID / Reference	Description
Policy ID	POL-20250608-001	Primary policy document for June 2025 risk thresholds
Breach Code	BR-20250618-0001	VAR breach incident, documented in incident notes

8.2. Data and Report Sources

- Execution data logs from trading system logs
- Market data feeds from designated providers
- Internal governance reports and incident documentation

8.3. Document Reference

The complete report can be retrieved from the following path: /

Volumes/demo_generator/

saswata_sengupta_agneticportfoliomanager/raw_data/

incoming_data/Investor_Report/interim report.pdf.

