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Mr Werner Bijkerk
Senior Policy Advisor
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
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12 August 2011

Dear Mr Bijkerk

Re: Consultative Report - Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency

We are writing to respond to the Consultative Report, "Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency", dated July 2011. We welcome the opportunity to comment on this paper. Wide ranging dialogue between professionals, academics and regulators is essential if the impact of technology on financial markets is to be thoroughly understood.

Nomura is a leading financial services group and the preeminent Asia-based investment bank with worldwide reach. Nomura is listed in Japan, New York and Singapore, and offers a full range of products supported by over 27,000 employees in over 30 countries.

Nomura is a world leader in Equities. We are #1 on the London Stock Exchange and Tokyo Stock Exchange and top 10 ranked across the key European exchanges. We are also top 10 ranked in Global Equity and Equity-Linked league tables.

Nomura was the first investment bank to establish an MTF dark pool. This product - NX MTF - is now a top 5 dark pool liquidity provider. NX MTF is live in Japan, Europe, Hong Kong and the US. In Europe alone, Nomura trades up to $10bn per day across 40 lit and dark venues. We are able to analyse this diverse experience and actively engage in market structure developments.

We would emphasise three themes in response to IOSCO's paper.

1. **Regulatory action should focus on misuse of technology rather than attempting to restrict technological developments:** Any assessment of technological advances in financial markets should recognise the ongoing development in the sector. Regulators and industry participants must assess whether any concerns which they might have are in respect to the technology itself, or to the inappropriate behaviour of the individuals using that technology. Where it is the latter – which is more likely – regulators must ensure that it is the behaviours which are targeted rather than restricting technological development more generally.

2. **Future regulatory proposals should be based on a robust evidence base:** A key theme throughout the Consultation Report is the need for additional research in this area. We strongly agree with IOSCO's view that there is not enough evidence to make dramatic changes to the trading regulatory environment.

3. **Effective regulation depends on an informed dialogue between regulators and industry:** Nomura is actively engaged in the debate on the impact of technological developments on markets. Nomura is pleased to be involved in the UK Government's Foresight Project on the Future of Computer Trading in Financial Markets: Dame Clara Furse (Non-Executive Director, Nomura Holdings) is the Chair of the study's Lead Expert Group, and Andrew Bowley (Head of Electronic Trading Product Management) is a

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member of the High Level Stakeholder Group set up to advise the project. We believe that the project will make a significant contribution to policy discussions by providing much needed data and analysis on the impact of technological change on financial markets.

We look forward to active engagement and full discussion on the topics covered here. Nomura remains available for further discussion at any time and is happy to contribute further perspectives as required.

Yours sincerely

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London

Sanjoy Choudhury
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New York

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Consultation Responses

(1) What impact have the technological developments in the markets in recent years had on your own trading? Has it encouraged, discouraged or had no impact on your willingness to participate on the lit markets, and how does this differ between asset classes and/or instruments?

Nomura operates a broker/dealer business. We are participating in the markets on behalf of clients primarily and are not consciously choosing to not trade in the markets, nor are we aware that there are fundamental investors choosing not to participate based on market structure. Technological developments are a part of the market evolution and we do not believe that they fundamentally change asset class investment decisions.

(2) What are your views on the suggestion that proprietary trading firms (including HFT firms) that are not currently subject to registration/authorisation by a regulator should be required to obtain such a registration/authorisation? Are there specific regulatory requirements you believe such firms should face? To what extent do your answers differ if the proprietary trading firm accesses the market as the customer of an intermediary firm through DEA (i.e. under that intermediary's trading rules/codes) rather than as a direct member of the market itself?

Nomura strongly believes that there should be someone in a regulated capacity responsible for all interaction with exchanges. That responsibility could be a principal trading firm as a regulated entity interacting directly as an exchange member, or the responsibility could be with a broker / dealer. With respect to exchange market access, we do not see the need for double regulation where a proprietary firm goes through a broker.

(3) What recommendations, if any, would you propose to strengthen the regulatory requirements around pre- and post-trade risk controls? In particular, what measures, if any, do you think regulators should introduce that relate specifically to the use of and risks posed by algorithmic trading and/or HFT?

We believe it is important to distinguish between behaviours/strategies (such as market making) and technology/automation. Automation brings with it benefits of clarity of instruction relative to manual trading, and also brings risks that should be subjected to electronic validation. Pre and post trade risk controls play an important role in automated trading and should be applied generally.

(4) To what extent do you believe the use of trading control mechanisms such as circuit breakers and limit-up/limit-down systems by trading venues should be mandated? If you believe they should be mandated, should venue operators be permitted to design their own controls or should they be harmonised/coordinated across venues (including between interrelated instruments such as a derivative and its underlying)?

Circuit breakers based on price volatility play an important role in the management of electronic order books and have proved to be very successful where applied in the past. Mandatory circuit breaks applied to all trading venues would strengthen the global equity markets and should be considered as a policy option.

In Europe specifically the market has previously been governed by exchange set volatility interruptions, but the effectiveness of these is undermined by venue competition as alternative venues (MTFs) do not stop trading. It is now possible for the primary exchange to halt trading but for the market to continue an up or down trend through the MTFs. Coordinated volatility interruptions as a replacement for those on primary exchanges are needed.

(5) To what extent do you believe market maker schemes offered by trading venues should be subject to mandatory minimum criteria? Should the criteria be determined by the trading venue alone? To what extent do you agree with the suggestion that the use of stub quotes should be prohibited?

We do not believe this should be set by regulation. Market making regimes are part of the commercial DNA of competitive venues, and common regulatory imposed standards make it harder to create that differentiation and hence support competition.

Any analysis of the competitive dynamics of market making regimes will have to take into account the full economics of trading, given that tariff regimes are increasingly playing a role in the total economics of market making.

Discussion of minimum criteria is often suggested in the context of the US Flash Crash, and we are strongly of the view that it is (and would have been then) inappropriate to force market makers to stand in front of large outsized market orders such as the sell order that triggered that crash.

(6) Do you have suggestions for improvements to regulators' surveillance capabilities with respect to the markets and modern trading techniques? Please elaborate. Who should bear the cost of investing in such capabilities and the cost of operating and supervising the markets in order to ensure fairness among market participants? Please elaborate.

Greater technology in the market will certainly mean greater technology needs within the regulators. Robust programmes for trade pattern detection must be implemented. Technology should make regulation more efficient and effective so does not necessarily increase the costs longer term.

(7) What do you perceive as the major causes of settlement indiscipline and settlement failures? What steps, if any, do you believe regulators should take to address these causes?

We are not aware of settlement problems in the equities markets.

(8) Have the appropriate steps been taken to limit or manage conflicts of interest that arise where an investment firm simultaneously conducts client-serving activities and proprietary trading or a trading participant is also a shareholder in a venue on which it trades? If you believe conflicts management is inadequate, please explain how this manifests itself and any recommendation you have for how conflicts management could be improved.

Yes. Management of conflicts of interest is a critical part of the internal management within banks. We do not believe there are issues in this area.

(9) Do you think existing laws and rules on market abuse and disorderly trading cover computer generated orders and are relevant in today's market environment?

The balance of market abuse monitoring needs to shift from individual venues to cross venue regulators. Market abuse opportunities are as likely to arise cross venue as within a venue, and a single venue operator is not going to be in a position to perform a full set of checks.

(10) Are there any strategies employed by HFT firms that raise particular concerns? If so, how would you recommend that regulators address them?

No, we do not have specific concerns.

(11) Should charges or fees be imposed on messages, cancellations or high order-to-trade ratios? If so, how should the fees or charges be determined and on what basis?

No. Such a charge would limit market making and therefore make less liquidity available. It is not clear from the consultation that a reduction in market making is being sought.

(12) Should market operators be required to make their co-location services available on a fair and non-discriminatory basis?

Yes, it is important that fair and open access is provided to all market participants. However, care should be taken that this does not necessarily mean that all regulated trading venues must offer co-location. There are many trading venues operating where this is not the case.

(13) Should market operators be required to provide testing environments to enable participants in stress test their algorithms? If so, what kind of minimum requirements are reasonable?

These services should be defined and established as a part of the commercial proposition of a trading venue.

(14) To what extent do you have other comments related to the risks to market integrity and efficiency raised by the issues in this report?

As outlined in our introduction, it is important that there is a strong recognition of ongoing technological development in this, as with many other industries. It is important to assess whether any concerns are in respect to the technologies or to behaviours; behaviours that are inappropriate should be curtailed specifically rather than trying to restrict technology generally. It is also extremely important that proper assessments are made. To this end, further research is clearly required in this area.