

PRINCIPLES FOR THE OVERSIGHT OF
SCREEN-BASED TRADING SYSTEMS

INTERNATIONAL ORGANIZATION
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SECURITIES COMMISSIONS
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OF SCREEN-BASED TRADING SYSTEMS
FOR DERIVATIVE PRODUCTS

The regulatory authorities responsible for oversight of screen-based trading systems for derivative products ^{1/}, whether governmental, quasi-governmental, or private ("relevant regulatory authorities"), should articulate the jurisdictional interest and supervisory principles applicable to the organizations responsible for the system such as an exchange ("system sponsor"), the organization or organizations which provides or provide the hardware, software, and/or the communications network and related services ("system providers"), the persons authorized to execute transactions on the system such as a broker-dealer ("system users"), and persons with financial exposure to the system ("system customers"). These principles should reflect the shared objectives of ensuring that, among jurisdictions, the levels of investor protection and regulation are adequate. ^{2/}

To that end, it is suggested that jurisdictions adopt the following ten non-exclusive, general principles for the oversight of screen-based trading systems for derivative products which identify areas of common regulatory concern. It is understood that individual jurisdictions will take account of differences in national legal standards, regulatory policies, and market custom or practice in addressing these concerns.

^{1/} For purposes of these Principles, the term "derivative products" refers to those products in which the exchange or market ("market") itself is the issuer, which are subject to the rules of the issuing market, and for which a clearing organization is used to settle profits and losses, make deliveries, and guarantee cleared trades.

^{2/} The Principles set out in broad terms regulatory considerations arising from cross-border screen-based trading, and not the specific concerns of some members in respect of the particular laws applying to their jurisdiction (e.g., those dealing with anticompetitive rules and practices, margin levels, or capital requirements).

1. The system sponsor should be able to demonstrate to the relevant regulatory authorities that the system meets and continues to meet applicable legal standards, regulatory policies, and/or market custom or practice where relevant.
2. The system should be designed to ensure the equitable availability of accurate and timely trade and quotation information to all system participants and the system sponsor should be able to describe to the relevant regulatory authorities the processing, prioritization, and display of quotations within the system.
3. The system sponsor should be able to describe to the relevant regulatory authorities the order execution algorithm used by the system, i.e., the set of rules governing the processing, including prioritization, and execution of orders.
4. From a technical perspective, the system should be designed to operate in a manner which is equitable to all market participants and any differences in treatment among classes of participants should be identified.
5. Before implementation, and on a periodic basis thereafter, the system and system interfaces should be subject to an objective risk assessment to identify vulnerabilities (e.g., the risk of unauthorized access, internal failures, human errors, attacks, and natural catastrophes) which may exist in the system design, development, or implementation.
6. Procedures should be established to ensure the competence, integrity, and authority of system users, to ensure that system users are adequately supervised, and that access to the system is not arbitrarily or discriminatorily denied.
7. The relevant regulatory authorities and the system sponsor should consider any additional risk management exposures pertinent to the system, including those arising from interaction with related financial systems.
8. Mechanisms should be in place to ensure that the information necessary to conduct adequate surveillance of the system for supervisory and enforcement purposes is available to the system sponsor and the relevant regulatory authorities on a timely basis.
9. The relevant regulatory authorities and/or the system sponsor should ensure that system users and system customers are adequately informed of the significant risks particular to trading through the system. The liability of the system sponsor, and/or the system providers to system users and system customers should be described, especially any agreements that seek to vary the allocation of losses that otherwise would result by operation of law.
10. Procedures should be developed to ensure that the system sponsor, system providers, and system users are aware of and will be responsive to the directives and concerns of relevant regulatory authorities.

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