

# **A Resolution on Principles for the Oversight of Screen-Based Trading Systems for Derivative Products**

**Passed by the Presidents' Committee  
November 1990**

The Presidents' Committee approves the following Principles for the Oversight of Screen-Based Trading Systems approved by the Technical Committee at its meeting in June 1990:

## **Principles for the Oversight of Screen-Based Trading Systems for Derivative Products**

The regulatory authorities responsible for oversight of screen-based trading systems for derivative products<sup>1</sup>, 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<sup>2</sup>. 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. 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 systems 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 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.

The Presidents' Committee encourages all members of IOSCO to apply these principles in considering regulatory approaches to screen-based trading systems.

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<sup>1</sup> 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.

<sup>2</sup> These 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 anti-competitive rules and practices, margin levels, or capital requirements).

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# RESOLUTION ON PRINCIPALS FOR THE OVERSIGHT OF SCREEN-BASED TRADING SYSTEMS FOR DERIVATIVE PRODUCTS

## Technical Committee June 1990

Jurisdiction	Name of the Organization	Signed
<b>REGULAR MEMBERS</b>		
1 - ALGERIA	Commission d'Organisation et de Surveillance des Opérations de Bourse	
2 - ARGENTINA	Comisión Nacional de Valores	
3 - AUSTRALIA	Australian Securities and Investments Commission	Yes (N-3) (93-07-30)
4 - AUSTRIA	Austrian Securities Authority	Yes (98-07-31)
5 - BAHAMAS	Securities Board (The Commonwealth of The Bahamas)	
6 - BAHRAIN (State of)	Bahrain Stock Exchange	
7 - BANGLADESH	Securities and Exchange Commission	
8 - BARBADOS	Securities Exchange of Barbados	
9 - BELGIUM	Commission bancaire et financière	Yes (N-9) (91-09-20)
10 - BERMUDA	The Bermuda Monetary Authority	Yes (N-10) (93-08-16)
11 - BOLIVIA	Superintendencia de Valores	
12 - BRAZIL	Comissão de Valores Mobiliários	Yes (N-12) (93-08-31)
13 - BULGARIA	Securities and Stock Exchanges Commission	
14 - CHILE	Superintendencia de Valores y Seguros	Yes (N-14) (91-03-21)
15 - CHINA (People's Republic of)	China Securities Regulatory Commission	
16 - COLOMBIA	Superintendencia de Valores	
17 - COSTA RICA	Superintendencia General de Valores	
18 - CROATIA (Republic of)	Securities and Exchange Commission	

19 - CYPRUS (Republic of)	Central Bank of Cyprus	
20 - DENMARK	Finanstilsynet	Yes (N-20) (92-05-11)
21 - DOMINICAN REPUBLIC	Banco Central de la República Dominicana	
22 - ECUADOR	Superintendencia de Compañías	
23 - EGYPT	Capital Market Authority	
24 - EL SALVADOR	Superintendencia de Valores	
25 - FINLAND	Financial Supervision Authority	Yes (N-25) (94-09-02)
26 - FORMER YUGOSLAV REPUBLIC OF MACEDONIA	Securities and Exchange Commission	
27 - FRANCE	Commission des Opérations de Bourse	Yes (N-27) (96-07-01)
28 - GERMANY	Bundesaufsichtsamt für den Wertpapierhandel (BAWe)	Yes (N-28) (91-09-04)
29 - GREECE	Capital Market Commission	
30 - GUERNSEY	Guernsey Financial Services Commission	No (N-30) (93-11-12)
31 - HONG KONG	Securities and Futures Commission	Yes (N-31) (93-07-23)
32 - HUNGARY	Hungarian Banking and Capital Market Supervision	
33 - INDIA	Securities and Exchange Board of India (SEBI)	Yes (N-33) (98-08-17)
34 - INDONESIA	Indonesian Capital Market Supervisory Agency	
35 - IRELAND	Central Bank of Ireland	Yes (N-35) (95-05-10)
36 - ISLE OF MAN	Financial Supervision Commission	
37 - ISRAEL	Israel Securities Authority	
38 - ITALY	Commissione Nazionale per le Società e la Borsa	Yes (N-38) (91-04-24)
39 - JAMAICA	Securities Commission	
40 - JAPAN	Financial System Planning Bureau of the Ministry of Finance	Yes (N-40) (93-07-13)
41 - JERSEY	Jersey Financial Services Commission	No (N-41) (96-02-12)

42 – JORDAN	Jordan Securities Commission	
43 – KAZAKHSTAN (Republic of)	National Securities Commission	
44 – KENYA	Capital Markets Authority	
45 - KOREA	Financial Supervisory Commission	No (N-45) (91-06-19)
46 – KYRGYZ REPUBLIC	National Commission on Securities Market	
47 - LITHUANIA	Lithuanian Securities Commission	
48 - LUXEMBOURG (Grand Duchy of)	Commissariat aux Bourses	
49 - MALAYSIA	Securities Commission	Yes (N-49) (96-10-03)
50 - MALTA	Malta Stock Exchange	
51 - MAURITIUS (Republic of)	Stock Exchange Commission	
52 - MEXICO	Comisión Nacional Bancaria y de Valores	Yes (N-52) (91-09-18)
53 - MOROCCO	Conseil Déontologique des Valeurs Mobilières	No (N-53) (97-07-15)
54 - NETHERLANDS (The)	Stichting Toezicht Effectenverkeer	
55 - NEW ZEALAND	Securities Commission	Yes (95-05-23)
56 - NIGERIA	Securities and Exchange Commission	
57 - NORWAY	Kredit Tilsynet	Yes (N-57) (91-07-03)
58 - OMAN (Sultanate of)	Muscat Securities Market	
59 - ONTARIO	Ontario Securities Commission	
60 - PAKISTAN	Corporate Law Authority / Government of Pakistan	
61 - PANAMA	Comisión Nacional de Valores	
62 – PAPUA NEW GUINEA	Securities Commission	
63 - PARAGUAY	Comisión Nacional de Valores	
64 - PERU	Comisión Nacional Supervisora de Empresas y Valores	
65 - PHILIPPINES	Securities and Exchange Commission	Yes (N-65) (91-02-08)

66 - POLAND	Polish Securities and Exchange Commission	
67 - PORTUGAL	Comissão do Mercado de Valores Mobiliários	Yes (N-67) (96-07-20)
68 - QUEBEC	Commission des valeurs mobilières du Québec	Yes (N-68) (91-07-10)
69 - ROMANIA	Romanian National Securities Commission	
70 - RUSSIA	Federal Commission for the Securities Market of the Russian Federation	
71 - SINGAPORE	The Monetary Authority of Singapore	Yes (N-71) (91-03-12)
72 - SLOVENIA	Securities Market Agency	
73 - SOUTH AFRICA	Financial Services Board	Yes (N-73) (97-07-24)
74 - SPAIN	Comisión Nacional del Mercado de Valores	Yes (N-74) (95-05-22)
75 - SRI LANKA	Securities and Exchange Commission of Sri Lanka	
76 - SWEDEN	Finansinspektionen	
77 - SWITZERLAND	Commission Fédérale des Banques	Yes (N-77) (91-06-25)
78 - CHINESE TAIPEI	Securities and Futures Commission	
79 - TANZANIA	Capital Markets and Securities Authority	
80 - THAILAND	Office of the Securities and Exchange Commission	No (N-80) (93-09-13)
81 - TRINIDAD AND TOBAGO	Trinidad and Tobago Securities and Exchange Commission	
82 - TUNISIA	Conseil du Marché Financier	
83 - TURKEY	Capital Market Board	
84 - UKRAINE	Ukrainian Securities and Stock Market State Commission	Yes (96-06-18)
85 - UNITED KINGDOM	Financial Services Authority	Yes (N-85) (91-05-20)
86 - UNITED STATES OF AMERICA	United States Securities and Exchange Commission	Yes (N-86) (95-05-23)
87 - URUGUAY	Banco Central del Uruguay	
88 - VENEZUELA	Comisión Nacional de Valores	

89 - ZAMBIA Securities and Exchange Commission

**ASSOCIATE MEMBERS**

90 - ALBERTA Alberta Securities Commission

91 - BRITISH COLUMBIA British Columbia Securities Commission

92 - JAPAN Ministry of Agriculture, Forestry and Fisheries

93 - JAPAN Ministry of International Trade and Industry (MITI)

94 - JAPAN Securities and Exchange Surveillance Commission

95 - LEBANON Banque du Liban

96 - LUXEMBOURG (Grand Duchy of) Institut Monétaire Luxembourgeois

97 - UNITED STATES OF AMERICA Commodity Futures Trading Commission Yes (N-97)  
(91-08-27)

98 - UNITED STATES OF AMERICA North American Securities Administrators Association, Inc. (NASAA) Yes (N-98)  
(91-05-02)