

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

IOSCO/MR/11/2011

Madrid, 20 October 2011

IOSCO publishes recommendations on market integrity

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published its Final Report on [*Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*](#), containing *Recommendations* aimed at promoting market integrity and efficiency and to mitigate the risks posed to the financial system by the latest technological developments including high frequency and algorithmic trading.

The Report analyses the most significant technological developments that have arisen in financial markets in recent years and their impact on market integrity and efficiency, and sets out *Recommendations* to assist securities markets regulators in mitigating these effects. These are designed to:

- help regulators to identify the practical impact that technological developments have had and the regulatory issues to which they may give rise;
- promote a consistent approach amongst global regulators to the latest technological developments; and
- mitigate the risk that technological change may pose to the integrity and efficiency of financial markets.

The *Recommendations* were developed in response to the G20 Leaders request in November 2010 that IOSCO should “develop recommendations to promote markets’ integrity and efficiency to mitigate the risks posed to the financial system by the latest technological developments”.

Masamichi Kono, Chairman of IOSCO’s Technical Committee, said:

“Markets are evolving rapidly and it is important for regulators not only to monitor

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

developments in technology and market structure, but also to continue to assess the impact of these changes on market integrity and efficiency and to address any risks identified.

“I welcome the G20 Finance Ministers’ and Central Bank Governors’ recent endorsement of this Report’s *Recommendations* whose implementation will assist regulators in identifying what impact developments such as high frequency and algorithmic trading have on the markets they oversee, will promote a globally consistent approach by regulators in addressing these issues and contribute to regulators’ ability to mitigate the risks that these activities may pose to the integrity and efficiency of global capital markets.

“The G20 Finance Ministers and Governors have asked for further work by IOSCO by mid-2012 on the subject. IOSCO will focus upon such issues as development of recommendations for market surveillance and an analysis of the evolving new market structure in its next stage of work.”

"It is also noted that, in addition to the above report, a broad range of work has already been completed by IOSCO in relation to market integrity and efficiency, particularly through the development of recommendations and principles in the areas of short selling, structured finance products, direct electronic access, OTC derivatives and dark liquidity. The implementation of these principles, alongside today’s *Recommendations*, would be key in achieving the G20’s objectives.”

IOSCO Recommendations on Market Integrity and Efficiency

The *Recommendations* set out high level guidance to address issues in two specific areas:

Trading venue operators and trading participants

Recommendation 1: Regulators should require that trading venue operators provide fair, transparent and non-discriminatory access to their markets and to associated products and services;

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Recommendation 2: *Regulators should seek to ensure that trading venues have in place suitable trading control mechanisms (such as trading halts, volatility interruptions, limit-up-limit-down controls, etc.) to deal with volatile market conditions. Trading systems and algorithms should be robust and flexible such that they are capable of dealing with, and adjusting to, evolving market conditions. In the case of trading systems, this should include the ability to adjust to changes (including sudden increases) in message traffic;*

Recommendation 3: *All order flow of trading participants, irrespective of whether they are direct venue members or otherwise, must be subject to appropriate controls, including automated pre-trade controls. These controls should be subject to the regulatory requirements of a suitable market authority or authorities. In addition, regulators should identify any risks arising from currently unregulated direct members/participants of trading venues and, where any are identified, take concrete steps to address them;*

Regulators

Recommendation 4: *Regulators should continue to assess the impact on market integrity and efficiency of technological developments and market structure changes, including algorithmic and high frequency trading. Based on this, regulators should seek to ensure that suitable measures are taken to mitigate any related risks to market integrity and efficiency, including any risks to price formation or to the resiliency and stability of markets, to which such developments give rise.*

Recommendation 5: *Market authorities should monitor for novel forms or variations of market abuse that may arise as a result of technological developments and take action as necessary. They should also review their arrangements (including cross-border information sharing arrangements) and capabilities for the continuous monitoring of trading (including transactions, orders entered or orders cancelled) to help ensure that they remain effective.*

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

IOSCO's future work plan

In support of the Report's *Recommendations* IOSCO will carry out work in the following two areas:

a) Development of recommendations on market surveillance

IOSCO will assess the new challenges that technological changes pose for regulators in their market surveillance, which include: the fragmentation of markets; the dispersal of trading information; the increased speed of trading; and the ability to gather and process the increased volume of trading data. It will consider the feasibility of regulators having additional tools to deal with the challenges arising from market surveillance, some of which may include:

- additional audit trail or surveillance data consisting of all orders and trades by market participants in a given instrument;
 - a single reporting point for all orders and for all transactions, by jurisdiction or geographical zone and across asset classes; and
 - unique legal entity identifiers.
- In addition, IOSCO will build on its work on supervisory cooperation to consider how best to enhance operational contacts and cooperation between regulators in order to more flexibly share information and views for day-to-day market supervision.

b) An analysis of the new market structure and its impact on market efficiency/integrity

- IOSCO will analyse the evolving markets' structure, in order to assess what specific issues such structural developments raise with regard to market efficiency and integrity; and consider whether and what recommendations may be needed to address any risks.

IOSCO will provide an update on the progress of this work in mid-2012.

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

NOTES FOR EDITORS

1. Final Report FR09/11 [*Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*](#).
2. Consultation Report CR02-11 [*Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*](#)
3. IOSCO is the leading international policy forum for securities regulators and is recognised as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in 115 jurisdictions and it continues to expand.
4. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of 18 agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial Services Agency of Japan (JFSA), is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.
5. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
 - to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

MEDIA ENQUIRIES

David Cliffe

Outside office hours

Email:

Website:

Follow IOSCO on Twitter [here](#).

+ 34 91 787 0419

+ 34 679 969 004

d.cliffe@iosco.org

www.iosco.org

Calle Oquendo 12

28006 Madrid

ESPA A

Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68

mail@oicv.iosco.org - www.iosco.org