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

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IOSCO Consults on the Technological Challenges to Market Surveillance

The International Organization of Securities Commissions has published today a Consultation Report on the [*Technological Challenges to Effective Market Surveillance: Issues and Regulatory Tools*](#), which seeks public comments on a series of proposed high-level recommendations aimed at helping Market Authorities improve market surveillance.

This Consultation Report responds to a G20 mandate arising from the action plan it launched in 2010 to achieve strong, sustainable and balanced economic growth. The G20's commitment called for significant policy actions in several areas, including a far-reaching reform of the financial sector. With the objective of enhancing the stability of financial markets, the G20 called on IOSCO to develop recommendations to promote market integrity and efficiency, and mitigate the risks posed to the financial system by the latest technological developments. In response IOSCO published in October 2011 the report on [*Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*](#).

This Consultation Report is based upon the results of an IOSCO survey, as well as presentations made to the Organization by operators of Trading Venues, Market Authorities and industry representatives. It sets forth a number of questions for consultation and outlines proposed recommendations to assist Market Authorities in addressing the challenges posed by the latest technological developments to effective market surveillance, particularly with respect to:

- Improving surveillance capabilities on a cross-market and cross-asset basis; and
- Making more useful to Market Authorities the data collected for surveillance purposes.

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Dynamic Transformation of Securities Markets

Securities markets have experienced a dynamic transformation in recent years. Rapid technological advances and regulatory developments have produced fundamental changes in the structure of securities markets, the types of market participants, the trading strategies employed, the increase in the speed of trading and the array of products traded.

Trading of securities has become more dispersed among exchanges and various other trading venues. The markets have become even more competitive, with exchanges and other trading venues aggressively competing for order flow by offering innovative order types, new data products and other services, and through fees charged or rebates provided by the markets.

Risks posed to markets by illegal or otherwise inappropriate conduct can be substantially increased by automation, as market participants have the ability to trade numerous products and enormous volume in fractions of a second. In addition, the speed at which trading occurs impacts the ability to monitor effectively markets in the traditional sense. Moreover, because trading has become more dispersed across multiple trading centers, it has become more difficult to monitor and trace orders and transactions.

These developments pose challenges to regulators in conducting market analysis and surveillance, and in reconstructing important trading events. Current surveillance techniques, including the collection, storage and accessibility of data may be insufficient to capture in a timely manner all of the information necessary to monitor efficiently and effectively trading activity that occurs in the current highly automated and dispersed markets. The absence in many jurisdictions and within geographical zones of certain market surveillance tools (e.g., an audit trail system) seems to be one of the more significant problems facing the markets in light of these technological developments.

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Following this, the Consultation Report examines current regulatory market surveillance and audit trail capabilities of securities markets and considers the feasibility of both existing and additional regulatory tools to deal with the challenges arising for market surveillance in contemporary markets.

After its analysis of the public responses to this Consultation Report, IOSCO will issue a final report. **Comments on the Consultation Report are sought by 10 October 2012.**

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NOTES FOR EDITORS

1. As the leading international policy forum for securities regulators, IOSCO 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 its membership continues to expand.
2. 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.

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