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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
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IOSCO publishes Principles for Direct Electronic Access to Markets

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published a Final Report – [Principles for Direct Electronic Access to Markets](#) (DEA Principles) – containing principles designed to guide intermediaries, markets and regulators in relation to the areas of pre-conditions for direct electronic access (DEA), information flow and adequate systems and controls.

The Final Report is based on analyses of market and regulatory developments and of the responses received to the original Consultation Report – *Policies on Direct Electronic Access* – which identified and discussed the benefits, potential risks and concerns associated with DEA.

The Final Report is available on the IOSCO [website](#).

Principles for Direct Electronic Access to Markets

The DEA Principles set out in the report are based on the recognition that markets, intermediaries and regulators must each play a role in addressing the potential risks posed by DEA. In addition regulators should retain the power to allow or prohibit any form of DEA as well as to establish requirements in the DEA area, including pre-trade controls and risk limits and should also exercise regulatory oversight over the decisions made by clients, intermediaries and exchanges.

1. Pre-Conditions for DEA

Principle 1 Minimum Customer Standards

Intermediaries should require DEA customers to meet minimum standards, including that:

- Each such DEA customer has appropriate financial resources;
- Each such DEA customer has appropriate procedures in place to assure that all relevant persons:
 - Are both familiar, and comply, with the rules of the market; and

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- Have knowledge of and proficiency in the use of the order entry system used by the DEA customer.

Market authorities should have rules in place that require intermediaries to have such minimum customer standards.

Principle 2 Legally Binding Agreement

There should be a recorded, legally binding contract between the intermediary and the DEA customer, the nature and detail of which should be appropriate to the nature of the service provided. Each market should consider whether it is appropriate to have a legally binding contract or other relationship itself and the DEA customer.

Principle 3 Intermediary's Responsibility for Trades

An intermediary retains ultimate responsibility for all orders under its authority, and for compliance of such orders with all regulatory requirements and market rules.

In those jurisdictions where a DEA customer is permitted to sub-delegate its direct access privileges to another party (a sub delegate), the intermediary continues to be ultimately responsible for all orders entered under its authority by the sub delegate and should require the sub-delegatee to meet minimum standards set for DEA customers in general. There should be a recorded, legally binding contract between the DEA customer and the sub-delegatee, the nature and detail of which should be appropriate to the nature of the service provided.

2. Information Flow

Principle 4 Customer Identification

Intermediaries should disclose to market authorities upon request and in a timely manner the identity of their DEA customers in order to facilitate market surveillance. In those jurisdictions where sub-delegation is permitted, the intermediary also has such responsibility to the market authorities with respect to any sub-delegatees.

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Principle 5 Pre and Post-Trade Transparency

Markets should provide member firms with access to relevant pre and post-trade information (on a real time basis) to enable these firms to implement appropriate monitoring and risk management controls.

3. Adequate Systems and Controls

Principle 6 Markets

A market should not permit DEA unless there are in place effective systems and controls reasonably designed to enable the management of risk with regard to fair and orderly trading including, in particular, automated pre-trade controls that enable intermediaries to implement appropriate trading limits.

Principle 7 Intermediaries

Intermediaries (including, as appropriate, clearing firms) should use controls, including automated pre-trade controls, which can limit or prevent a DEA customer from placing an order that exceeds a relevant intermediary's existing position or credit limits.

Principle 8 Adequacy of Systems

Intermediaries (including clearing firms) should have adequate operational and technical capabilities to manage appropriately the risks posed by DEA.

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