# 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

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## IOSCO proposes regulatory oversight principles for dark liquidity

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published a consultation report, *Issues Raised by Dark Liquidity*, containing principles to assist securities markets authorities in dealing with issues concerning dark liquidity. The principles are designed to:

- minimise the adverse impact of the increased use of dark pools and dark orders in transparent markets on the price discovery process;
- mitigate the effect of any potential fragmentation of information and liquidity;
- help to ensure that regulators have access to adequate information to monitor the use of dark pools and dark orders;
- help to ensure that investors have sufficient information so that they are able to understand the manner in which orders will be handled and executed; and
- increase the monitoring of dark orders and dark pools in order to facilitate an appropriate regulatory response.

Hans Hoogervorst, Chairman of IOSCO's Technical Committee, said:

> "Global equity market structure has undergone significant changes in recent years. One result is that in many jurisdictions the search for best execution by market participants now involves the consideration of multiple sources of liquidity for equity securities. These include exchanges and non-exchange trading venues, such as alternative trading systems, and multilateral trading facilities, which have developed new and innovative

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trading functionality to attract and maintain their order flow.

"One such innovation is the expanded use of dark liquidity and the development of so-called dark pools and dark orders, however while these innovations may meet a demand in the market, they also raise regulatory issues that merit examination.

"The principles we are publishing today are aimed at addressing regulatory concerns that dark liquidity poses for markets and regulators in the areas of price discovery, market fragmentation and potential risks to market integrity. The principles will provide regulators with the tools to develop and maintain an appropriate oversight regime aimed at addressing any potential risks posed by dark liquidity in their respective jurisdictions."

The Technical Committee, in developing these principles, focused on a number of areas which had been identified as possibly having adverse effects on the market, these included transparency and price discovery, market fragmentation, knowledge of trading intentions, fair access; and the ability to assess actual trading volume in dark pools.

The proposed principles were developed taking into account the potential adverse market effects and a number of other issues surrounding the use of dark pools and dark orders in transparent markets including:

- the impact on the price discovery process where there is a substantial number of dark orders and/or orders submitted into dark pools which may or may not be published;
- the impact of potential fragmentation on information and liquidity searches; and
- the impact on market integrity due to possible differences in access to markets and information.

**Draft Principles to Address Regulatory Concerns**

Despite the concept of dark pools differing across jurisdictions, the draft principles will assist

regulators, in their assessment of their regulatory regimes surrounding dark pools and dark orders. As the same approach may not be suited to all platforms or types of trading, the implementation of the proposed principles may vary according to the type of trading and platform.

**Transparency to Market Participants and Issuers**

**Principle 1***: The price and volume of firm bids and offers should generally be transparent to the public. However, where regulators consider permitting different market structures or order types that do not provide pre-trade transparency, they should consider the impact of doing so on price discovery, fragmentation, fairness and overall market quality.*

**Principle 2***: Information regarding trades, including those executed in dark pools or as a result of dark orders entered in transparent markets, should be transparent to the public. With respect to the specific information that should be made transparent, regulators should consider both the positive and negative impact of identifying a dark venue and/or the fact that the trade resulted from a dark order.*

**Priority of Transparent Orders**

**Principle 3***: In those jurisdictions where dark trading is generally permitted, regulators should take steps to support the use of transparent orders rather than dark orders executed on transparent markets or orders submitted into dark pools. Transparent orders should have priority over dark orders at the same price within a trading venue.*

**Reporting to Regulators**

**Principle 4***: Regulators should have a reporting regime and/or means of accessing information regarding orders and trade information in venues that offer trading in dark pools or dark orders.*

**Information Available to Market Participants about Dark Pools and Dark Orders**

**Principle 5***: Dark pools and transparent markets that offer dark orders should provide market participants with sufficient information so that they are able to understand the manner in which their*

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*orders are handled and executed.*

**Regulation of the Development of Dark Pools and Dark Orders**

**Principle 6***: Regulators should periodically monitor the development of dark pools and dark orders in their jurisdictions to seek to ensure that such developments do not adversely affect the efficiency of the price formation process on displayed markets, and take appropriate action as needed.*

The consultation period for response close on 28 January 2011.

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## NOTES FOR EDITORS

1. The Consultation Report *Issues Raised by Dark Liquidity* is available on the IOSCO website.

2. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's membership regulates more than 95% of the world's securities markets in over 100 jurisdictions and its membership is steadily growing.

3. 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. Ms. Hans Hoogervorst, Chairman of the Netherlands Financial Markets Authority (AFM) 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.

4. 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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