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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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IOSCO finalises principles to address dark liquidity

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published a final report, [*Principles on 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 by generally promoting pre-trade and post-trade transparency and encouraging the priority of transparent orders;
- mitigate the effect of any potential fragmentation of information and liquidity by generally promoting pre-trade and post-trade transparency and consolidation of such information;
- help to ensure that regulators have access to adequate information to monitor the use of dark pools and dark orders for market monitoring/surveillance purposes and to enable an appropriate regulatory response to market developments; and
- help to ensure that market participants have sufficient information so that they are able to understand the manner in which orders will be handled and executed.

The Technical Committee, in developing these principles, focused on a number of areas of regulatory concern which may adversely impact the market including transparency and price discovery, market fragmentation, knowledge of trading intentions, fair access; and the ability to assess actual trading volume in dark pools.

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The principles establish that pre- and post-trade transparency are central to promoting the efficiency of the market and the integrity of the price formation process. In addition they recognise that a one size fits all approach may not be appropriate for all types of trading or platforms and therefore implementation of the principles may vary according to the type of trading and platform.

The Technical Committee recommends that regulators consider the structure of their respective markets as a whole to determine how best to implement these principles. Regulators should implement the principles in such a way as to maintain the efficiency of the market, the integrity of the price formation process and, where appropriate, to allow for the use of dark pools and dark orders for specific needs/trades.

Principles on Dark Liquidity

The principles set out below are designed to guide regulators, venues and general users of dark liquidity with respect to the following areas:

Transparency to Market Participants and Issuers

Principle 1: *The price and volume of firm orders should generally be transparent to the public. However, regulators may choose not to require pre-trade transparency for certain types of market structures and orders. In these circumstances, 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.*

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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 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, and take appropriate action as needed.*

IOSCO intends to review these principles in light of market and regulatory developments.

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NOTES FOR EDITORS

1. The Final Report [Principles for Dark Liquidity](#) is available on the IOSCO website.
2. The original Consultation Report [Issues Raised by Dark Liquidity](#) was published on 27 October 2010.
3. 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.
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.

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