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Financial trading rules: Economic Affairs Committee MEPs outline reform plan

Committees: Committee on Economic and Monetary Affairs

Investors would have to be offered financial products that are tailored to their needs, and so they should be less likely to be misled, under new uniform trading rules unanimously approved by the Economic and Monetary Affairs Committee on Wednesday. These rules, in proposed updates to the EU directive and regulation on markets in financial instruments, would apply to almost all such instruments and almost all market players.

"With this dossier the European Parliament takes a very important step towards transparent and efficient financial markets in the European Union. The main goals of the reform of the financial markets regulation are reducing systemic risk, guaranteeing financial market stability and an adequate investor protection. We now look to the Council to join us in negotiations with the Commission, so that we can bring these proposals to a successful conclusion", said lead MEP Markus Ferber (EPP, DE). He added that he hoped that Parliament could put the amendments proposed by the committee to a plenary vote in October.

The updated market in financial instruments directive and regulation (MIFID/MIFIR) would lay down uniform trading rules for firms selling investment products, investment service providers and regulated markets.

Investor protection and conflicts of interest

MEPs amended the proposed texts to ensure that firms designing investment products for sale to professional or retail clients ensure that they meet the needs of a defined category of clients. Firms would also be required to take reasonable steps to ensure that the product sold to the right kind of client.

Firms selling investment products would also be required not to remunerate their staff, or assess their performance, in ways that might create interests that conflict with those of the firms' clients. Investment advisors and sales people would be required to possess an "appropriate" level of knowledge of the products that they seek to sell.

Uniform trading rules

All market players and trading venue operators would be required to lay down clear rules and procedures for fair and orderly trading, objective criteria for executing orders efficiently and transparent criteria for determining which financial instruments may be traded via their systems. They should also be properly prepared to cope with disruptions of these systems.

These uniform trading rules would apply to bonds, structured finance products and derivatives that can be traded on regulated markets, via a multilateral trading facility (MTF) or Organised Trading Facility (OTF).

Rules on access to a trading facility should be non-discriminatory and transparent, and the same pre- and post- trade transparency should apply to different types of trading venues.

MEPs decided that the OTF, a new alternative to regulated markets and MTFs, should be reserved for non-equities (derivatives or bonds), so to bring them under MIFID rules.

Press release

High-frequency trading

MEPs tightened up the European Commission's proposal on high-frequency algorithmic trading, in which computers trade millions of orders per second, with little or no human intervention. This technology can be used to check what buyers would pay, with a view to exploiting tiny price differences. But the volumes traded are such that profits and losses may be vast.

MEPs voted provisions to ensure that all orders should be valid for at least 500 milliseconds, i.e. must not be cancelled or modified during that time. All firms and trading venues would also have to ensure that trading systems are resilient and prepared to deal with sudden increases in order flows or market stresses. These could include "circuit breakers" to suspend trading.

Commodities

MEPs also inserted amendments to regulate trade in commodities and commodity derivatives, speculation in which is commonly blamed for food price volatility. These would involve imposing thresholds, such as the maximum net positions persons can hold or enter into over specified periods of time.

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