Press release

Deal to regulate financial markets and products and curb high-frequency trading

Committees Committee on Economic and Monetary Affairs [14-01-2014 - 23:47]

Comprehensive rules to govern financial markets were agreed informally by negotiators for Parliament and the Council of Ministers on Tuesday. These rules are designed to close the loopholes in the existing legislation, ensuring that financial markets are safer as well as more efficient, investors are better protected, speculative commodity trading is curbed and high-frequency trading is regulated.

The new rules will apply toinvestment firms, market operators and services providing post-trade transparency information in the EU. They are set out in two pieces of legislation, a directly applicable regulation dealing *inter alia* with transparency and access to trading venues and a directive governing authorisation and organisation of trading venues and investor protection.

Market structure

All systems enabling market players to buy and sell financial instruments would have to operate as Regulated Markets (RMs) like stock exchanges, Multilateral Trading Facilities (MTFs) or Organised Trading Facilities (OTFs) designed to make sure that all trading venues are captured by the Market in Financial Instruments Directive (MiFID). Trading on OTFs would be restricted to non-equities, such as interests in bonds, structured finance products, emission allowances or derivatives.

The trading obligation would ensure that investment firms do their trades in shares on organised trading venues such as RMs or MTFs. Transactions in derivatives subject to this obligation would have to be concluded on RMs, MTFs, or OTFs.

Investor protection

Under the new rules, the duty of firms providing investment services to act in clients' best interests would also include designing investment products for specified groups of clients according to their needs, withdrawing "toxic" products from trading and ensuring that any marketing information is clearly identifiable as such and not misleading. Clients should also be informed whether the advice offered is independent or not and about the risks associated with proposed investment products and strategies.

Commodities

Parliament's negotiators ensured that for the first time, the competent authorities would be empowered to limit the size of a net position which a person may hold in commodity derivatives, given their potential impact on food and energy prices. Under the new rules, positions in commodity derivatives (traded on trading venues and over the counter), would be limited, to support orderly pricing and prevent market distorting positions and market abuse. The European Securities and Markets Authority should determine the methodology for calculating these limits, to be applied by the competent authorities.

Position limits would not apply to positions that are objectively measurable as reducing the risks directly related to the commercial activity.

High-frequency algorithmic trading

Parliament also introduced, for the first time at EU level, rules on algorithmic trading in financial instruments. As defined by these rules, such trading takes place where a computer algorithm automatically determines individual parameters of orders, such as whether to initiate the order, the timing, price or quantity. Any investment firm engaging in it would have to have effective systems and controls in place, such as “circuit breakers” that stop the trading process if price volatility gets too high. To minimize systemic risk, the algorithms used would have to be tested on venues and authorized by regulators. Moreover; records of all placed orders and cancellations of orders would have to be stored and made available to the competent authority upon request.

Third country regime

Third countries whose rules are equivalent to the new EU rules would be able to benefit from the “EU passport” when providing services to professionals.

Next Steps

The details of this deal will be now fine-tuned in technical meetings.

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