

PRESS RELEASE

ESMA sees increased convergence in automated trading supervision

The supervision of automated trading has become more convergent across the European Union (EU), a recent review by the European Securities and Markets Authority (ESMA) has found. ESMA reviewed how the 30 national competent authorities (NCAs) across the EU have implemented ESMA guidelines on automated trading into their day-to-day supervision of trading platforms. The Guidelines set out systems and controls requirements for investment firms and trading platforms operating in an automated trading environment.

The review analysed supervisory practices across 30 NCAs, with a focus on the twelve NCAs supervising trading platforms with the most significant automated trading volumes. Overall, the majority of NCAs had integrated the guidelines into their supervisory approaches thus increasing the level of supervision of automated trading activity. Looking at the national implementations, the review identified good practices observed by some NCAs regarding the supervision of IT-standards, governance and security at trading platform level, as well as NCA consideration of cyber-security, trading halts and real-time surveillance of direct market access.

Steven Maijoor, ESMA Chair, stated:

“Ensuring that automated trading is properly controlled both by firms engaging in it and at the trading venue level is key for ensuring market integrity. The good level of compliance with ESMA’s guidelines shows that European algorithmic trading has already gotten sounder. We now have to focus on tackling those remaining challenges identified by our review in order to have a proper set of systems and controls in place governing algo trading before MiFID II will introduce these as legal provisions at Directive level by 2017.”

Main challenges

Besides identifying good practices, the review also highlights challenges associated with automated trading. The speed of technological developments, market fragmentation, increasing variety and numbers of financial instruments admitted to trading, increasing complexity, and the rise in data in conjunction with limited supervisory resources are some of the areas which will determine the future focus for supervision. The growing cross-border aspect of trading also requires a high level of cooperation among NCAs. In this regard, the report identified the following challenges:

- Market complexity – the speed and technological complexity of high frequency trading (HFT) increases the need for NCAs to further increase their IT expertise;
- IT-knowledge – sufficient IT expertise is also crucial for the boards of the trading platforms, which so far has been a challenge for some NCAs;
- Probing on-site inspections –NCAs need to have an appropriate level of engagement with trading platforms. On-site inspections and/or other tools of direct supervision should ensure that trading platforms are sufficiently challenged;

- Resourcing – NCAs need to ensure sufficient resources that allow to properly supervise automated trading activity;
- Testing of trading halts - NCAs should not only rely on trading platforms' trading halts when addressing the risks connected to automated trading but should also test trading algorithms against stressed trading environments; and
- Cyber-crime – ESMA found that there are very few programs for setting up a proper ring fence against cyber-attacks and that there is a lack of coordination amongst NCAs in this regard.

Next steps

The findings of ESMA's peer review will help to identify those areas with a need for further convergence amongst NCAs. The implementation of MiFID II/MiFIR will, once fully entered into force, incorporate the main provisions of the Guidelines at Directive level.

Further information:

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