

Mr. Zhong Li
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid Spain

Mechanisms for Trading Venues to effectively Manage Electronic Trading Risks and Plans for Business Continuity – Consultation Report CR03/2015

Dear Mr. Li,

The World Federation of Exchanges (“WFE”) is the global association representing the interests of 64 publicly regulated stock, futures, and options exchanges, as well as the CCPs that many of these exchanges operate. WFE’s members include the full continuum of market operators including global exchanges and developing exchanges from emerging markets. WFE works with policy makers, regulators, and government organizations to promote the development of fair, transparent, stable and efficient markets around the world. Our members daily operate orderly public markets that promote the safety and resilience of the global financial system.

The World Federation of Exchanges thanks IOSCO for conducting a thorough assessment of best practices in the area of Risk Management and Business Continuity and welcomes the opportunity to comment on the recommendations made in the report.

We also acknowledge the second consultation paper in connection with Market Intermediary Business Continuity and Recovery Planning (CR04/2015). As these recommendations are focused on market participant organisations who are members of Exchanges, we do not plan to specifically comment on the provisions in that paper. However, we are supportive of the broad aims proposed. We also take comfort in the fact that intermediaries who are regulated are required by their National Prudential Regulators to have effective Business Continuity processes in place.

IOSCO Recommendations to Regulators

The operators of exchanges and other Trading Venues subject to these recommendations (together referred to below as “Trading Venues”) are currently subjected to numerous oversight obligations. We welcome the recognition by IOSCO of the primacy of existing domestic regulatory obligations in the recommendations. We also welcome IOSCO’s acknowledgement of the value of maintaining flexibility to implement solutions that are proportionate to the business undertaken. This sensible approach will ensure that the IOSCO recommendations do not override domestic provisions and therefore prevent dual or divergent obligations.

In spirit, we support the overarching Recommendations to Regulators, as discussed below. We note that in numerous jurisdictions substantial parts of these recommendations are already in place and that the sound practices are widely utilised in whole or in part across our member community.

- 1. Recommendation 1: Regulators should require Trading Venues to have in place mechanisms to help ensure the resiliency, reliability and integrity (including security) of critical systems.*

We would like to add that whilst we aim to utilise risk mitigation strategies and processes; risks can be managed but can never be fully eradicated. Trading Venues can never give, nor should be required to give, assurance that critical systems will never face issues that impact their resiliency, reliability or integrity. Instead, Trading Venues, regulators and market participants should all understand that even with well-developed and mature mechanisms in place, a security or technological malfunction incident may still occur. If the financial community acknowledges this, we can focus on both strong preventive efforts and preparation to quickly and adequately address incidents. Having the confidence that Trading Venues are prepared, capable and well positioned to manage incidents will provide the marketplace the stability it needs.

We also appreciate IOSCO recognizing that a Trading Venues security framework must be operational. Trading Venues should adopt controls that best help it mitigate its own risks. Understanding which systems are “critical” should help the Trading Venues make the right decisions about how to protect their resiliency, reliability and integrity.

The controls necessary to support electronic trading environments cover many aspects and are shared between the financial marketplace actors. For example, Participants of Trading Venues who supply Direct Electronic Access (DEA) into venues to their clients have obligations, including full oversight and control of the activity conducted in their name. Dependent on each jurisdiction’s requirements, these controls may cover: compliance with the rules of the venue; robust systems and processes to ensure data and connectivity integrity; oversight of the use of algorithms so that they are fully tested and functionally compliant with venue trading models; and that appropriate risk controls and limits are imposed on the client to manage and mitigate risk. Flexibility in approach is important. These obligations can be fulfilled by the Market Participant itself or, if applicable, via functionality provided by the venue. Testing with participants should be optional. Testing with other venues is not necessary as venues are not necessarily linked to each other. Furthermore, it is recommended that Trading Venues should not be obliged to supervise the contractual relationship between the DEA customer and the intermediary as venues are not involved in those contracts. Regulators should place obligations on the appropriate party in the transaction chain.

2. Recommendation 2: Regulators should require Trading Venues to establish, maintain and implement as appropriate a BCP.

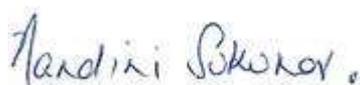
Establishing, maintaining and implementing an appropriate BCP will help maintain the reliability and resiliency of the financial systems for the benefit of the whole market. Trading Venues operate within the financial community and are interlinked within that community. All actors need to make appropriate provisions to mitigate risks associated with our businesses to ensure the full front-to-back process is adequately captured. Regulators should seek to engage market participants in testing as appropriate, taking into account the characteristics of the interconnected nature of a venue with other actors.

Flexibility in approach as Trading Venues develop their BCP plans is also important. Venues must take into account their own systems and their structure. For example, in connection with cyber security many venues operate separate technical environments for the trading platform and all of the connectivity required to support this, and the internal and external office infrastructure (email, website). Both environments would usually have appropriate security control mechanisms in place aiming to reduce threats and seeking to prevent interconnected issues bridging environments. These measures would aim to ensure that the loss of a single environment would not necessarily impact another environment. As a result, a Trading Venues BCP plans would take the structure of a venue’s systems into account.

Regarding objective system reviews we recommend to separate system reviews between frequent reviews of the critical systems and operational activity subject to audit activity. This will ensure the independence of the audit and planning process.

Finally, detailed BCP plans must remain confidential. This is to ensure that the sensitive information usually contained within them cannot be abused and result in unnecessary risks to the Trading Venue.

In conclusion, WFE and its members, including the clearinghouses they operate, are committed to ensuring the trading environments they operate are secure, stable and designed to withstand shocks. Investor confidence in public markets is crucial for Exchanges. As markets evolve with technology bringing down costs for investors and allowing them to further mitigate risk, Exchanges continue to be proactive and vigilant in ensuring these risks are actively managed.



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