

Corporate & Financial Weekly Digest

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ESMA Releases Consultation Paper on High Frequency Trading

On July 20, the European Securities and Markets Authority (ESMA) issued a consultation paper on systems and controls relating to high frequency trading (HFT) and other forms of automated trading.

The consultation paper (entitled Consultation on the Guidelines on systems and controls in a highly automated trading environment for trading platforms, investment firms and competent authorities) sets out ESMA's proposals for detailed guidelines for trading platforms, investment firms and regulators to address HFT and other challenges of a highly automated trading environment. ESMA stated that the guidelines are intended to clarify the obligations of trading platforms and investment firms under the existing EU legislative framework and that it believes that the proposed guidelines "contribute to the efficiency, orderly functioning and resilience of trading in a highly automated environment". The Consultation follows on from certain of the issues addressed in the April 2010 call for evidence by CESR (ESMA's predecessor) on micro-structural issues of the European equity markets. This sought information on HFT, sponsored access (SA), co-location services, fee structures, tick size regimes and indications of interest as reported in the April 9, 2010 edition of Corporate and Financial Weekly Digest.

The Consultation explains the background to the draft guidelines in the context of ESMA's work on micro-structural issues. It also sets out and explains the draft guidelines on organizational requirements which are considered to be relevant in a highly automated trading environment for electronic trading systems, fair and orderly trading and dealing with market abuse (in particular markets manipulation). There are separate standards in each of these areas for trading platforms (regulated markets and multilateral trading facilities) and investment firms executing orders on behalf of clients and/or dealing on own account. The final section sets out and explains the draft guidelines covering direct market access (DMA) and sponsored access (SA). There are separate sets of standards for trading platforms and investment firms.

The draft guidelines are one part of ESMA's work on HFT and other micro-structural issues. They address issues where no legislative change is required and are separate from the work of the European Commission in related areas as part of its proposals to revise MiFID - the EU Markets in Financial Instruments Directive (the MiFID Review). ESMA has decided at this stage to concentrate on issues related to organizational requirements in a highly automated trading environment, including direct market access

and sponsored access services. So the Consultation does not propose guidelines for co-location, fee structures or tick sizes since these topics do not relate directly to systems and controls issues.

The consultation period ends on October 3 and ESMA expects to publish its final guidelines before the end of the year.

[Read more.](#)

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