



**WFE Response to FCA: Improving Equity Secondary Markets
September 2022**

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around \$100 trillion a year and are home to some 60,000 companies, with an aggregate market capitalisation of around \$120 trillion. The 50 distinct central counterparty (CCP) clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of investors and companies wishing to invest, raise capital and manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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WFE Response to FCA CP22/12: Improving Equity Secondary Markets

Chapter 3: Post-Trade Policy

Exemptions from post-trade transparency

Q8: Do you agree with the proposal to introduce a deferral for all transactions within scope of Article 13 of RTS 1?

Strongly agree

If you agree, please explain why.

As noted in the CP:

“3.28 The exemption from post-trade transparency in Article 13 of RTS 1 relies on an empowerment from Article 20 of UK MiFIR. But Article 20 only applies to transactions executed OTC. Consequently, when a transaction of the type included in Article 13 is executed on a trading venue because, for example, the counterparties want to bring the trade under the rules of the venue to benefit from exchange default rules, the transaction is subject to reporting on a real-time basis.”

Treating these types of transactions in the same way, whether they are carried out on an exchange or OTC, levels the playing field.

Chapter 6: Improving market-wide resilience during outages

Q26: Do you agree with the proposals to be included in the FCA/industry guidance for trading venues?

Agree

If you disagree, please explain why.

We welcome the FCA’s approach to develop further guidance for the benefit of trading venues and market participants. Our members are regulated markets and already have rules and clear guidance on what will happen during outages. Bringing other venues up to this standard will level the playing field.

It should be noted that technical outages are inevitable. Regulated markets invest huge sums into their systems to minimise the risk as much as possible. However, nothing they do can guarantee there are no technical problems or that cyber-attacks will not occur. Regulated markets are already incentivised, and indeed regulated, to have the

strongest possible protections against outages so are aligned with regulators in this regard. Our members welcome guidance as a tool to improve the service for their customers. New rules would not be appropriate given the idiosyncratic nature of outages.

Whilst we are supportive of the idea of guidance, it is important that the guidance is not too prescriptive. Trading venues should be able to offer the most appropriate procedures depending upon asset classes traded and the type of market participant. Therefore, the guidance should remain high-level.

The FCA could consider current market best practices for communicating an outage as venues are already under an obligation to communicate this information as a result of SYSC 15A.8. Whilst we agree that venues should provide a root cause analysis and remedial plan to the FCA, guidance should note that this is a secondary priority to the resumption of trading. This analysis and plan should not impede the core obligation which is the re-opening of the market. The guidance should also clarify that the root cause analysis and remedial plan after all incidents would not necessarily be in the public domain as this could damage the exchanger by exposing commercially sensitive information or expose systems in a way that could lead to possible cyber-attack by nefarious actors.

Q28: Is the current arrangement for an alternative closing price on the primary market appropriate?
Agree

Any comments / remarks on your response to Q28.

Exchanges are already subject business continuity obligations and operate relevant contingency measures and back-up arrangements which aim to prevent major disruption to the maximum extent possible during any outage.

Exchanges currently provide guidance on how they set alternative closing prices on the primary markets. We agree that exchanges ought to have a clear process to determine the alternative closing price, but the exact process does not need to be further defined by the FCA. In other words, venues should be free to decide what is most appropriate considering their markets, asset classes and market participants.

As the FCA notes, liquidity reduces on other venues during periods of exchange outages. In principle, alternative venues could replace this in the event of an outage. However, there are substantial technological problems with such an approach as it is not as simple as flicking a switch. These problems are exacerbated if they do not operate full price discovery, have significant groups of members and potentially liquidity missing, or they do not operate a compatible full value chain environment limiting members ability to operate. A lack of standardisation of instruments traded across alternative venues could leave some market participants at a disadvantage while some participants may not have access to such venues in the first place. Derivatives is an even more challenging case than equities as they do not necessarily trade across multiple venues, but the same issue is also likely present for products below equity blue chips.

Q29: Is an alternative closing auction needed?
No

Any comments / remarks on your response to Q29.
