

ICI VIEWPOINTS

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Global Markets: ICI Urges Measured Policy Approaches to Reforms

By Ari Burstein

Across the globe, regulators remain active in examining possible rule changes and other initiatives to bolster the integrity of financial markets. As these efforts proceed, ICI has urged balanced policy responses that can strengthen markets while preserving and enhancing efficiency that benefits funds and their shareholders.

Advancements in technology and its role in the operation of financial markets are particular areas of concern for policymakers. A recent [consultation paper](#) from the European Securities and Markets Authority, for example, sets out draft guidelines for organizational requirements—aimed at trading platforms and investment firms—to address electronic trading systems, fair and orderly trading, and market abuse.

On the organizational requirements for electronic trading systems, [our response](#) to the consultation strongly supports establishing guidelines that address key issues such as governance, testing, recordkeeping, and cooperation with regulators. A robust compliance and risk management program, the letter adds, is critical given the prominence of automated trading. The letter also supports subjecting algorithms to appropriate rules and controls, such as requirements for policies and procedures aimed at preventing algorithms from operating in an unintended manner.

At the same time, the letter states that regulators must be careful not to impede funds' use of new and innovative trading tools. We made similar arguments in earlier comments to the [European Commission](#) (EC) and the [International Organization of Securities Commissions](#) (IOSCO). The EC and IOSCO requested input on a number of issues raised by technological developments, including high-frequency trading, trading control mechanisms, and regulators' surveillance capabilities.

On high-frequency trading, our letters strongly support an examination by regulators as to whether some trading strategies should be considered improper or manipulative, as well as action to clearly define practices that may constitute market abuse.

The practice of short selling also continues to draw heightened attention. ICI recently filed [a letter](#) on the decision by several European regulatory authorities to impose or extend existing short selling bans. While our letter strongly supports regulatory action to address abusive and manipulative short selling, it does not recommend bans or substantial restrictions on short selling as the means to address regulators' concerns. In the words of the letter:

Short selling is an integral part of an efficient and effective trading environment, playing an important role in providing market liquidity and price discovery, as well as in investment strategies and risk management activities designed to enhance fund performance and maximize returns to investors. For this reason, legitimate and lawful short selling must be allowed to continue.

You can learn more about ICI's policy work regarding U.S. and overseas financial markets at the [Financial Markets section](#) of our website and at [ICI Global](#).

Ari Burstein is senior counsel for capital markets at ICI.

